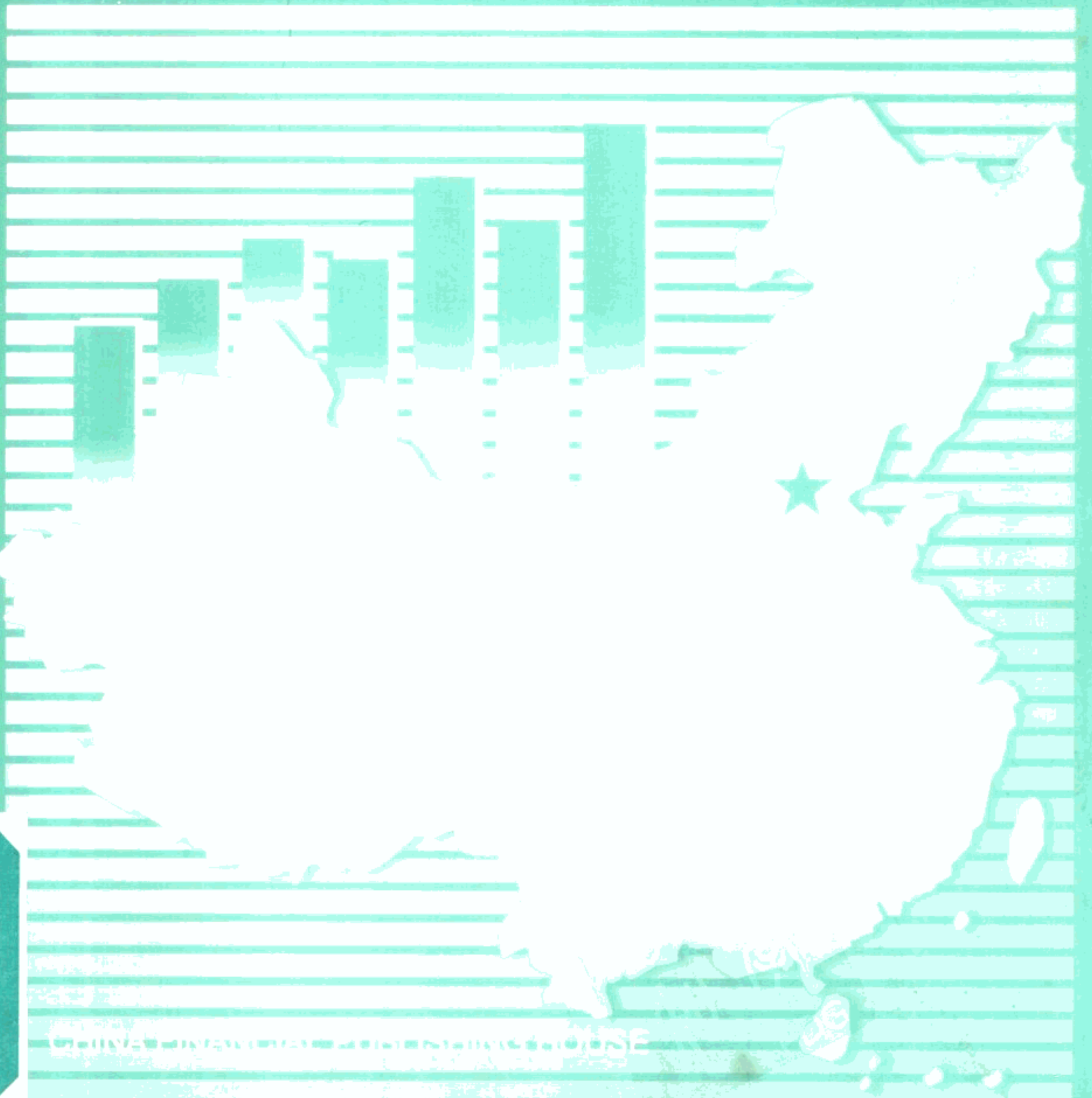
THE BANKING INDUSTRY IN CHINA

1998

中国的银行业

CHIEF EDITOR

DAI XIANGLONG



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THE CHINESE BANKING SYSTEM: DEVELOPMENT THROUGH REFORM

Dai Xianglong
Governor
The People's Bank of China

The past year has seen marked acceleration of China's banking reform, strengthening of the central bank's capacity for supervision and macroeconomic management, improvement in the management of the commercial banks, and greater openness of the banking industry.

Ⅰ.Acceleration of the Central Bank Reform

The decisions of the National Financial Work Conference in November 1997 and the Ninth National People's Congress in March 1998 have accelerated the reform of the People's Bank of China(the PBC). The reform aims at establishing a modern financial system, financial institutions system and a good financial order by the end of the century. A Key element is to restructure the central bank organization and management system. Significant restructuring has already taken place at the head office. For example, the supervisory departments have been reorganized in such a way that supervisory functions have been consolidated and each new supervisory department is responsible for licensing, routine supervision and exit of one type of financial institutions. The next item on the reform agenda is to overhaul the PBC's branch structure, which is currently based on administrative division. The PBC will replace the 31 provincial branches with a number of regional branches and close the overlapping sub-branch offices in about 150 cities where its second tier branches are located. The county-level sub-branches will mainly be responsible for supervising rural financial institutions. These measures are expected to strengthen the independence of the central bank and the effectiveness of its monetary policy and financial supervision.

Since the beginning of 1998, the PBC has taken a number of measures to increase money supply and sustain strong and healthy economic development in the context of the financial crisis in some Asian countries. These measures include removing the credit ceilings on the commercial banks,reducing the required reserve ratio from 13 percent to 8 percent, and lowering interest rates. The reductions in deposit and lending rates on five occasions from May 1996 to July 1998 added up to 4.22 percentage points and 5.17 percentage points respectively. The PBC has also called on the commercial banks to support foreign trade, promote foreign investment and assist the rehabilitation of the disaster-hit areas. In addition, the Chinese authority has maintained its commitment to non-devaluation of the Renminbi despite sharp devaluation of the yen and many other Asian currencies. The above-mentioned measures have contributed not only to the strong and healthy development of the domestic economy, but also to the financial stability in Asia and in the world.

Ⅱ.Robust Development of the Banking Sector

The role of the banking sector in the Chinese economy has increased dramatically. The 13.3 percent increase in the aggregate assets of the banking institutions in the year leading to end-1997 was accompanied by a significant improvement in their internal management and market environment.

The three policy banks,which were established in 1994, have embarked on a track of steady development. Their aggregate assets reached RMB1,300 billion yuan at the end of 1997. They are playing an important role in promoting the development of the leading industries, the agricultural sector and international trade.

The aggregate assets of commercial banks reached RMB10.75 trillion yuan at the end of 1997, up

12 percent from a year earlier. The wholly state-owned commercial banks as a group continue to have a dominant share in the commercial banking business,accounting for about 60 percent of the aggregate assets of all financial institutions. They are currently restructuring their branch network to improve efficiency and financial services. They are merging their provincal branches with the municipal branches in the provinicial capitals and closing the branch offices with chronic losses. Such changes are expected to facilitate a gradual shift in their customer base,with the exception of the Agricultural Bank of China, toward large and medium-sized cities and large and medium-sized enterprises.

The joint-equity banks are an emerging force among the commercial banks. They operate entirely on a commercial basis and mainly serve the local economic development in large and medium-sized cities.

China plans to establish city commercial banks in 300 cities and so far about 100 have been licensed. Operating within the cities where they are located, these banks are expected to facilitate the development of the local economy and small and medium-sized businesses.

Ⅲ.Increased Openness of the Banking Sector

At the end of June 1998, the number of foreign bank branches in China reached 146 and there were 13 locally established foreign banks. The total assets of foreign banking institutions exceeded US$37 billion, accounting for 16.3 percent of foreign exchange assets of all financial institutions in China while their loan and deposit balances amounted to US$27.3 billion and US$4.8 billion respectively.

After allowing nine foreign banks to conduct local currency business in the Pudong area in Shanghai on a trial basis, the PBC has recently decided to expand the experimentation. The key elements of the decision include allowing more foreign banks to do RMB business in Pudong; extending the experimentation to Shenzhen; and allowing greater RMB position of the foreign banks on a case-by-case basis.In addition, the PBC will also give such banks more flexibility in interbank operations, and when conditions permit, allow them to issue CDs and participate in syndicate RMB loans.

Ⅳ.Strengthened Banking Supervision

The following measures have been taken this year to strengthen banking supervision and enhance bank's capacity for prudential management.

- The capital of the state-owned commercial banks has been replenished with the proceeds from the RMB270 billion yuan special treasury bonds with a view to raise their capital adequacy ratio to 8 percent.
- The credit ceilings on commercial banks have been replaced by asset-liability ratio management.
- A risk-based five-category loan classification system has been introduced in certain areas on a trial basis. It is envisaged that the system will be extended nation-wide in the near future.
- Effective actions have been taken to deal with the problem institutions, including requiring them to restructure within a limited time framework and subjecting the insolvent ones to liquidation procedures.
- The responsibility for supervising the securities sector has been transferrd from the PBC to the State Securities Regulatory Commission. An independent insurance regulatory body will also be established so that banking, securities and insurance industries will be subjected to separate regulatory and supervisory authorities.

戴相龍

THE REFORM OF CHINA'S FOREIGN EXCHANGE SYSTEM

Wu Xiaoling
Director General
The State Administration of
Foreign Exchange

The Decisions on Certain Issues Concerning the Establishment of the Socialist Market Economic System adopted by the Third Plenary Session of the 14th Congress of the Chinese Communist Party in November 1993 defined the objectives of foreign exchange system reform: to establish a market-based managed floating exchange rate regime and an integrated and standardized foreign exchange market, and to gradually achieve convertibility of Renminbi (RMB). China's foreign exchange system has undergone profound changes since 1994. During that year, conditional convertibility for current account transactions was achieved, official RMB exchange rate was unified with the foreign exchange swap market rate to form a market-based managed floating rate, and an interbank foreign exchange market was established. With these achievements, further reform packages were introduced in 1995 and 1996, gradually lifting the remaining exchange restrictions under the current account. On November 27, 1996, China officially announced its acceptance of the obligations of Article VIII, Sections 2.3 and 4 of the Articles of Agreement of the IMF, realizing RMB convertibility for current account transactions.

The first phase of China's foreign exchange system reform has been completed. The current foreign exchange system is characterized by RMB convertibility for current account payments and transfers, surrender of foreign exchange earnings to designated banks and a unified market-based managed floating exchange rate. The foreign exchange market serves to balance surplus and shortage resulting from foreign exchange transactions by banks and to generate an RMB exchange rate. Certain restrictions are still enforced on capital account transactions. Applications for foreign investment are treated as encouraged, allowed or restricted in accordance with the national industrial policy. The medium-and long-term external debts are subject to aggregate ceilings while the short-term external debts are administered on the basis of outstanding balances. Securities investment in China is differentiated between residents and non-residents. Overseas investment projects by domestic residents are subject to approval on a case-by-case basis.

Since its inception, the new foreign exchange system has been functioning smoothly, reflected by a stable RMB exchange rate and the surge in foreign exchange reserves.

After achieving RMB current account convertibility , China has been forwarding the foreign exchange system reform in a dynamic and steady manner to improve its foreign exchange administration.

—Further improving exchange administration for current account transactions. On April 1, 1997, banks started experimentation for the forward sale and purchase of RMB. The ceiling for individual use of foreign exchange by domestic residents has been raised since September 10, 1997. Starting from October 15, 1997 financially sound Chinese enterprises with relatively large trade volume and capital have been allowed to keep a certain amount of their current account foreign exchange receipts. Meanwhile, efforts have been dedicated to further improvement on verification of export receipts and import payments and on the sale and purchase of foreign exchange by banks. These reform measures have served to make the country's exchange system more compatible to the international practice, thus speeding up China's economic integration with the rest of the world.

—Effectively carrying out capital account administration. China will focus on gradually relaxing capital account restrictions in its foreign exchange system reform with an aim to achieving full convertibility, which will take a relatively long time. To further improve capital account administration will remain one of the tasks for the foreign exchange system reform in China because economic transformation is a difficult process. Further reform in this area will require the implementation of other supporting measures as well as careful sequencing. In spite of the benefits of the introduction of current account convertibility, there is a strong case for caution in promoting capital account convertibility. There is a need for careful study and analysis of both the domestic situation and the international experience since neither the microeconomic infrastructure nor the macro control mechanism is adequate. Continued improvement in capital account administration will provide a favorable setting for ultimately achieving capital account convertibility. This will also help people know better about the nature of international capital flows and associated risks, liquidity and rate of return of various financial instruments, which can more appropriately advance RMB convertibility for capital account transactions.

—Strengthening the supervision and regulation on foreign exchange business of financial institutions. The increasing flow of international capital and volatility in the international financial market require greater efforts to supervise and regulate the foreign exchange business of financial institutions. In this regard, the supervisory authorities should improve the asset/liability management system, sufficiently ensure the safety and liquidity of foreign exchange assets, consolidate the self-discipline and internal control mechanism, facilitate the modernization of financial supervision and upgrade supervision performance, thus making the supervision and regulation on foreign exchange business legalized and standardized.

—Improving the balance of payments (BOP) reporting system. The BOP reporting system should be further improved to ensure that data are reported timely and accurately. China introduced a new BOP reporting system on January 1, 1996, which requires residents as well as non-residents to report their foreign exchange transactions through financial institutions. New procedures became effective at the beginning of 1997 concerning the reporting of direct investment, portfolio investment, and financial institutions' foreign assets and liabilities, profits and losses and foreign exchange transactions. These measures signified the full establishment of the BOP reporting system in China. Nevertheless, we shall devote more efforts to make the new system operate smoothly and achieve positive results.

In July 1998, in accordance with the State Council Reorganization Plan approved by the First Plenary Session of the Ninth National People's Congress and the requirements of related documents, the State Administration of Foreign Exchange (SAFE) completed its functional transformation and internal reorganization. Currently, SAFE is composed of the Comprehensive Department, Balance of Payments Department, Capital Account Administration Department, Supervision Department and the Reserve Management Department. The main functions of the SAFE cover the following: to design, formulate and implement the BOP reporting system, and to compile balance of payments; to analyze foreign exchange receipts and payments and balance of payments conditions; to supervise and nurture the foreign exchange market; to supervise current account transactions, inward and outward remittances and exchanges under the capital account in line with relative laws and regulations; to manage the foreign exchange reserves according to relevant regulations; to draft the rules and regulations of foreign exchange administration and be responsible for compliance and penalty. SAFE has branches and sub-branches, which are responsible for concretely carrying out the foreign exchange administration policy and regulations.

In conclusion, foreign exchange administration and exchange system reform are challenging and long-term tasks. We shall extensively learn from the experience and lessons of other countries and build on the achievements in foreign exchange system reform to facilitate the development of an open, market-oriented economy and sustain healthy and stable economic growth.

吴晓灵

HONG KONG AS AN INTERNATIONAL FINANCIAL CENTRE UNDER THE "ONE COUNTRY, TWO SYSTEMS" PRINCIPLE

Joseph Yam, Jp
Chief Executive
Hong Kong Monetary Authority

Introduction

Hong Kong has just celebrated its first anniversary of reunification with China a few months ago. It is a timely moment to take a look at how the" One Country, Two Systems" principle, enshrined in the Basic Law of the Hong Kong Special Administrative Region ("HKSAR"), has worked over the past year, in particular in the monetary and banking area.

During the pre-handover period, there were concerns among the international financial community whether the " One Country, Two Systems" principle would work since the two systems had so many fundamental differences. Despite the volatile external economic environment for Hong Kong over the past year due to the Asian financial turmoil, the transition turned out to be very smooth and Hong Kong has enjoyed autonomy in, among other things, the management of its economic and financial affairs.

The Banking Industry in Hong Kong

The banking sector in Hong Kong provides a good example in this regard. In brief, the implementation of the"One Country, Two Systems" principle on the monetary front can be described as"one country, two currencies, two monetary systems and two mutually independent monetary authorities". Pursuant to the concept of "two monetary systems and two mutually independent monetary authorities", the responsibilities for the bank licensing regime in Hong Kong and the application of prudential standards remain with the Hong Kong Monetary Authority ("HKMA") after the handover. Chinese banks operating in Hong Kong continue to abide by the relevant banking regulations of the HKSAR. Similarly, Mainland branches of Hong Kong banks remain subject to the supervision of the People's Bank of China ("PBOC").

Over the past year, the banking sector in Hong Kong continues to enjoy a strong presence of international financial institutions. The city remains home to 520 banking institutions from over 40 countries, including 81 of the world's top 100 banks. The banking sector's external assets are among the highest in the world, with external liabilities and claims accounting for an average of 56% and 57% respectively of the total liabilities and assets of all authorized institutions in Hong Kong in 1997.

Banks operating in Hong Kong have indeed faced a tougher business environment ever since the Asian financial turmoil broke out in mid-1997. Banks have suffered from the continuing regional upheavals as well as a slow down in local economic growth. The higher interest rate environment has rendered banks more reluctant to rely on interbank borrowing as a source of funds, in particular where the supply of longer maturity funds in the market has greatly diminished. This, together with the desire among banks to improve or at least to avoid further deterioration of their loan to deposit ratios, has translated into greater competition for customer deposits. At the same time, banks have become more cautious towards lending, which reflects their perception of the higher credit risks involved. There have also been a drop in the supply of loanable funds partly because of the decision of some foreign banks to scale down their lending in Hong Kong since this is one of the few places that it is possible for them to do so. The above factors have affected the profitability of the banking sector as demonstrated by the fact that the net interest margin of the local banks fell to 2.33% (annualized) in the first quarter of 1998, compared with 2.43% in 1997.

Despite the more difficult environment, we are relieved to see that the banking sector in Hong Kong has remained healthy, particularly in the face of the sharp adjustments in asset prices in recent months. In general, companies in Hong Kong are not highly leveraged compared with their counterparts in the region and have not involved in an indiscriminate build-up of fixed assets over the years. The banks have also tended to follow more prudent lending policies than those elsewhere in the region and are therefore better protected by their ability to take and realize good collateral. As a result, the banking sector in Hong Kong has not suffered from a collapse of asset quality that has occurred in some regional economies.

The local banks in Hong Kong also have the benefit of a high capital adequacy ratio, which averages 17.5% as at end of 1997. The high ratio has provided a strong cushion against bad loans. Thus, even if such banks have to make higher provisions for bad loans this year, it is only their profitability rather than solvency that will be affected. In the first half of 1998, there was indeed a noticeable rise in loans overdue for more than three months. But as a percentage of total loans, the figure for the local banks approximated 2.5%, which remains low by international standards.

The current situation should also be put in the proper perspective. It is important to note that local banks in Hong Kong are still recording profits so far despite the more difficult operating environment, although the level of profits may be lower than that for 1997. The key issue is that a lower profitability will not affect the general stability of the Hong Kong banking system, which remains prudently run and properly supervised.

Hong Kong as an International Financial Centre

Despite the external shocks that the Hong Kong financial markets have faced over the year, we have not lost sight of the importance in keeping up our efforts in maintaining and further enhancing Hong Kong's international financial centre status.

To enhance our competitiveness in this regard, Hong Kong has taken a number of initiatives to further improve the market infrastructure. A major initiative is the setting up of the Hong Kong Mortgage Corporation ("HKMC"), which is wholly owned by the HKSAR Government through the Exchange Fund and commenced operations in October 1997. One of the key objectives of the HKMC is to develop the debt market in Hong Kong through the issue of high quality unsecured debt securities and mortgage-backed securities. Other initiatives in relation to market infrastructure development include the establishment of cross-border linkages with other central securities depositories in the region; the implementation of the Securities Lending Program to enhance the liquidity of private sector debt securities in Hong Kong; the establishment of the Delivery versus Payment facility for shares transactions in Hong Kong; and the introduction of a joint clearing facility for Hong Kong dollar cheques issued by Hong Kong banks and presented in Shenzhen for clearing.

On the external front, Hong Kong has actively participated in the activities of various international organizations for promoting regional/international monetary cooperation. The World Bank Group/International Monetary Fund Annual Meetings successfully organized in Hong Kong in September 1997 is a good example. This was the first major international event held in Hong Kong after the handover on 1 July 1997. The occasion not only reflected the international confidence in the continued stability of Hong Kong but also gave a worldwide recognition of Hong Kong as a major international financial centre.

As one of the leading financial centres in the region, Hong Kong has also participated in various international/regional fora to discuss strategies to deal with the problems faced by Asian economies which were hard hit by the financial turmoil in the region and to address the intermediation problems arising from the incident. More notably, in early 1998, the Willard Group of 22 economies (comprising the G7 nations and 15 other economies including China and the HKSAR) established three working parties to examine various aspects of dealing with international financial crises. The HKMA has since been co-chairing with the Bank of England one of the three working parties aimed at reviewing measures to promote transparency and accountability in the financial sector.

Another important landmark came on 11 July 1998, when the Bank for International Settlements ("BIS") opened in Hong Kong a Representative Office for Asia and the Pacific. This is the first BIS overseas office, and the choice of Hong Kong for this purpose is a major landmark underlining the strategic position of Hong Kong in the region. The establishment of this office, which serves as a regional centre for the activities of the BIS in Asia, is particularly timely in the light of the imminent need to foster stronger cooperation among the Asian economics.

Another crucial factor underpinning Hong Kong's position as an international financial centre is our currency stability, which is backed up by the substantial foreign currency reserves that the HKSAR holds. The foreign currency reserves held in the Exchange Fund and the Land Fund totaled US$96.5 billion as at end of June 1998, which puts Hong Kong as the third largest foreign currency reserves holder in the world. This, together with a sound banking sector and an unswerving policy resolve towards maintaining the linked exchange rate system, has enabled the Hong Kong dollar exchange rate to withstand very well the contagion effect of the Asian financial turmoil. With other regional currencies having experienced different degree of devaluation during the past year, the stable exchange rate of the Hong Kong dollar, together with that of the Renminbi, has also become an important anchor for the maintenance of stability in the region.

Conclusion

The facts and figures mentioned above clearly underline the successful implementation of the "One Country, Two Systems" principle and its contributions towards maintaining and further enhancing Hong Kong's status as an international financial centre since 1 July 1997. The continued preservation of the principle will be instrumental for the future economic and financial market development in Hong Kong.

While I have emphasized the importance of maintaining two separate systems, one should not overlook the fact that Hong Kong and the Mainland can also complement each other in a wide range of aspects. For instance, the Central People's Government has promulgated in late 1997 that mainland enterprises could raise debt financing directly in the international financial markets subject to the prior approval of the State Administration of Foreign Exchange. Hong Kong can definitely play an important role in this process of financial intermediation, given the abundant supply of expertise and the efficient market infrastructure in Hong Kong as well as our extensive knowledge of the Mainland economic and financial environment. At the same time, the Mainland economy will continue to provide a strong and strategic backing for Hong Kong. For example, foreign banks will surely continue to retain a substantial presence in Hong Kong due to its unique edge as the key centre for banks to do business with the Mainland of China. To derive the maximum benefits from such kind of synergy, it is necessary to maintain Hong Kong's status as an international financial centre under the framework of "One Country, Two Systems".

Notwithstanding that Hong Kong is undergoing a period of economic adjustments at present, I firmly believe that it has the requisite qualities and fundamentals to be among the first economies in the region to recover once the regional environment improves. Hong Kong will also continue to contribute towards the economic and financial market development of the nation. And in this process, the"One Country, Two Systems" principle will serve as an important foundation for both the international and local financial community to remain confident in the future viability of the territory.

Chen Yuan
President

The State Development Bank of China (SDB), a national policy-oriented bank, was established in March 1994 with the headquarters located in Beijing. It has a branch in Wuhan and representative offices in Chengdu, Xi'an, Shenzhen and etc. SDB's registered capital is RMB50 billion yuan, which is provided by the state budget.

SDB's major tasks include: implementing state macroeconomic policies, industrial and regional development policies in line with the national economic development objectives; providing long-term and stable sources of funding for infrastructure projects (e.g. railways, highways, airports, ports, etc.), basic industries (e.g. coal, electric power, petro oil, steel, chemical, etc.) as well as emerging high-tech industries; fostering the efficiency of investment so as to promote healthy and sustainable economic development of the country.

Primary business of SDB includes:

—Bond issuing on domestic market

—Bond issuing on international market

—International commercial loans

—Export credit

—Loans and onlend of loans from foreign government sources and multilateral financial institutions, and other foreign exchange business

—Financing of large and medium-sized projects in infrastructure, basic industry and other pillar industries

—Management and use of fiscal subsidies for interest

—Deposits and disbursement of special accounts of key construction projects

—Credit analysis, consulting, evaluation, and witness for construction projects

—Consulting service for key construction projects in the area of domestic and international partnership, investment opportunities and other information.

SDB conducts its business according to banking practice. It operates under autonomous management, self-responsibility for risks and self-discipline. Business is targeted at a profit level reasonably above the break-even point. Operations of SDB are under the supervision of the People's Bank of China.

With the approval of the State Council, the Board of Supervisors has been established consisting of representatives from the State Development Planning Commission, the State Economic and Trade Commission, the Ministry of Finance, the People's Bank of China, the State Auditing Administration and the Ministry of Foreign Trade and Economic Cooperation.

As one of the three policy-oriented banks, SDB plays a very important role in the development of China's financial market. Since its establishment, SDB has raised RMB360 billion yuan for the key projects through issuing financial bonds to commercial banks and the postal savings system. SDB's loans outstanding accounts for 20% of the total fixed assets loans and 50% of the loans to capital construction projects in China. International financial operations have achieved progress. In the past four years, SDB has issued US$630 million of financial bonds abroad. Onlending during this period has included export credit, foreign commercial loans and loans from foreign government. By the end of 1997, the total contractual amount of onlending operation was US$6.74 billion, of which, US$1.25 billion has been disbursed.

SDB has gradually expanded its business strictly according to the state industrial policy. In the past four years, SDB has funded 650 large and medium-sized state-owned investment projects, including the Three Gorges Project, Xiaolangdi Multi-Purpose Dam Project, Wanjiazhai Water Conservation Project, Qinshan Nuclear Power Project, Beijing-Kowloon Railway, Nanning-Kunming Railway, Beijing Capital Airport Expansion Project, Grain Production Projects in Heilongjiang and Inner Mongolia and etc. Among the state key capital investment projects, over 80% have been financed by SDB. These projects have played a significant role in promoting the national economic development, especially regional development in the central and western regions of China, alleviating the bottleneck restraint in basic industries and infrastructure in the country.

The year 1998 is important in China's reform development. Confronted with rapidly changing domestic and international economic conditions, SDB has made greater effort in financing the projects in agriculture, water conservation, transportation, communication, environmental protection, technical innovation and emerging high-tech industries so as to facilitate the achievement of the 8% economic growth target.

In the future, SDB will stay committed to implementing the state industrial and regional development policies. It will continue the financial support to key construction projects with priorities shifting towards new sources of economic growth that benefit both the optimization of the economic structure and the upgrade of industries. At the same time, SDB will improve credit and risk management, strengthen internal control and improve services. The Bank will also devote efforts to the expansion of investment banking activities. In doing so, it will explore the use of modern financial tools and techniques in providing service to key industries and large enterprises. The purpose is to bring key construction financing into the market and make new contribution to the economic development of the country.

Zhou Keren
President

The Export-Import Bank of China was officially established in April 1994, with the approval of the State Council, as a policy-oriented financial institution under the direct leadership of the State Council. The Export-Import Bank of China (hereinafter referred to as"the Bank") adheres to the independent and non-profit operating principle and is managed as a business entity. The headquarters of the Bank is located in Beijing, and it has six domestic representative offices in Dalian, Shanghai, Guangzhou, Wuhan, Xi'an and Chengdu, and an overseas Representative Office for Central and Western Africa in Aabidjan, Cote D'Ivoire. At present the Bank has 319 staff members.

The Bank is to serve the purpose of executing the industrial, foreign trade and financial policies of the State, and providing policy-oriented financial support for increasing the export of capital goods such as mechanical and electronic products (MEP) and complete sets of equipment, which, as a result, helps readjust and optimize the composition of China's export and have the Chinese enterprises better positioned in international competition.

The business scope of the Bank can be outlined as the provision of export credit (including Buyer's Credit and Seller's Credit) for export of capital goods such as MEP and complete sets of equipment; the onlending of loans from foreign government (LFFG), mixed loans and export credits; the executing of the Chinese Concessional Loan for foreign countries (CCLFCC); the leading of or participating in international or domestic syndicated loans; the export credit insurance, the export credit guarantee, the import and export insurance and factoring; the domestic issuing of financial bonds and the offshore issuing of securities (excluding stocks); the operating of approved foreign exchange business; the consulting of import and export business and the appraisal and evaluation of projects, plus the rendering of services for external economic and technical cooperation and trade; and other business approved or entrusted by the State.

Since its establishment, the Bank has been following conscientiously the state industrial, foreign trade and financial policies, employing all the policy-oriented export financial instruments including export credit, export credit insurance and foreign exchange guarantee. The Bank focuses on financing the export of large amount of high-tech and high value-added MEP and complete sets of equipment, which are characterized by a promising international market and strong forex-earning capability and good economic results. The Bank has made a positive contribution to the sustained, rapid and healthy development of the national economy especially to the export promotion.

Until the end of 1997, the Bank had committed an aggregate amount of RMB40.016 billion yuan plus US$130 million in seller's credit and US$93.77 million in buyer's credit, and underwritten export credit insurance policies totaling US$1.116 billion, and foreign exchange guarantee totaling US$1.156 billion.

While the policy-oriented export financing business is ensured to be conducted well, quick progress was made in onlending the CCLFC. The Bank approved to onlend US$64 billion to 197 new projects, with the LFFG outstanding totaling US$13.25 billion, mainly to railway, airport, harbor projects and agriculture development and environment protection characterized with comparatively good social and economic results. The Bank committed an aggregated amount of RMB1.534 billion yuan in CCLFC supporting 24 projects, pushing forward considerably the reform and implementation of aid to foreign countries, and facilitating the economic and technical cooperation and exchange between the Chinese and foreign enterprises.

With several years of endeavors, the Bank has forged and strengthened relations with many overseas banks, international organizations and foreign governmental institutions, and conducted extensive cooperation in the fields of financing, staff training, information exchange and etc. To date, the Bank's correspondence network covers 390 branches of 120 banks in 86 countries and regions.

In terms of credit rating, the Moody's Investor's Service Co. of the USA and the Bonds Research Institute of Japan come to the same conclusion that the Bank's rating be compatible to the sovereign rating of China.

With the development of each line of business, the internal risk control mechanism has been perfected. A risk control system has been basically set up with the separation of project evaluation from loan provision and internal auditing as its core. A series of measures, which include the strengthening of the credit assets management, the regulating of position responsibility system and the upgrading of staff quality, have helped in improving management and services of the Bank.

The Bank will continue to adhere to the principle and purpose of policy bank, and promote all lines of policy-oriented financing business, with focus on the export credit.

The export finance including export credit, export credit insurance and foreign exchange guarantee will aim at optimizing the composition of export and the growth mode of foreign trade and economic cooperation. The Bank will give priority to financing MEP export such as ships, complete sets of equipment, telecommunication and electronic products and etc., to contribute to China's export market diversification.

While giving full support to the state-owned large and medium-sized enterprises, the Bank will gradually expand its client base. It will flexibly employ such policy-oriented financial instruments as seller's credit, buyer's credit, forfeiting, CCLFC and foreign exchange guarantee to better support the growth of the MEP export. The Bank will actively finance CKD or SKD plants and encourage Chinese enterprises' contracting for projects or investing overseas to expand their MEP export and pioneer the global market.

The Bank will, in accordance with the general requirement of active, reasonable and effective utilization of foreign funds, expedite onlending process of the LFFG focusing on projects of infrastructure and basic industries such as agriculture and environment protection, giving more support to the economic development of China's mid and western regions.

In the aspect of the CCLFC business, the Bank will explore and adopt flexible financing means to accelerate the loan projects to push the reform of aid to foreign countries and upgrade the utilization efficiency and management of the CCLFC.

Above all these, the Bank will further strengthen its internal control mechanism, improve the operating rules and procedures, and standardize the management procedures to ensure that financial risks are kept at a distance.

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Xie Xuren
President

AGRICULTURAL DEVELOPMENT BANK OF CHINA

The Agricultural Development Bank of China (ADBC) was established on April 19, 1994 with the approval of the State Council. From July 1, 1994 to the end of 1996, ADBCs business was mainly entrusted to the Agricultural Bank of China. In July 1996, the State Council decided to increase ADBC's branches under the provincial level. So far, ADBC has already established 35 branches in various provinces, autonomous regions, municipalities and cities designated for independent planning, 294 branches at prefecture (city) level and 1617 sub-branches at county (city) level. Banking departments have been set up in the ADBC Head Office, provincial branches and branches at prefecture (city) level. By the end of 1997, ADBC has a total staff of 50211.

ADBC is an agricultural policy-oriented bank directly under the leadership of the State Council. Its Head Office is a legal entity. Business of ADBC is subject to the guidance and supervision of the People's Bank of China.

ADBC has a registered capital of RMB20 billion yuan. Sources of funds: deposits of enterprises and institutions that have legitimate accounts with the bank, issuance of financial bonds, fiscal aid to the agricultural sector and borrowings from the central bank. A total amount of RMB10 billion yuan of financial bonds was issued to domestic financial institutions in 1996, RMB16 billion yuan in 1997, and RMB20 billion yuan has been planned for 1998.

Major functions of ADBC. Pursuant to national laws, principles and policies, ADBC is authorized to raise funds for agricultural policy credit based on the State credibility, undertake agricultural policy financial business, acts as an agent for the Ministry of Finance to disburse agricultural funds; and serves the agriculture and rural economic development.

Business scope. Extend and manage loans for procuring, storing, marketing and importing grain, cotton and edible oil; provide loans for State reserves of pork, beef, mutton, sugar, wool and tobacco; disburse financial aid to the agricultural sector on behalf of the central and provincial governments; open special accounts for the grain risk fund established by the government at various levels and disburse funds on their behalf; issue financial bonds; provide deposits and services for corporate customers; and conduct other business approved by the State Council and the People's Bank of China.

Operational management of ADBC. Funds management is based on the principle of unified planning, multi-level regulation, no diversion of special funds and closed circulation. Accounting practice is characterized by planning management, accounting at different levels, consolidated profits and losses, interest subsidization and cost-covering operation.ADBC does not handle any business in competition with commercial banking institutions and is not profit-oriented. It conducts its business independently on a break-even basis and interest loss resulted from lending activities is subsidized by the Ministry of Finance.

Since its inception four years ago, ADBC has conscientiously carried out the state policy for the procurement and marketing of grain, cotton and edible