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CONTENTS

OVERSEAS BULLETIN

Citigroup to close mainland private banking unit ............................................................................................................................... 1
Bank of America sells shares of CCB .................................................................................................................................................... 1
Foreign banks may face compliance pressure in China .................................................................................................................... 1
Foreign banks allowed to trade, underwrite corporate bonds ....................................................................................................... 2
Renminbi deposits, loans slow down at foreign banks .................................................................................................................... 3
RBS confirms sale of stake in Bank of China .................................................................................................................................. 3
KBC delays China expansion amid global financial crisis ............................................................................................................. 4
HSBC issues CSR report in China ....................................................................................................................................................... 4
HSBC: China business not hit by financial crisis ............................................................................................................................ 4

BANKING EVENTS

Pudong bank 2008 net profit up 128% .................................................................................................................................................. 5
Agricultural Development Bank to auction 12b yuan of bonds ..................................................................................................... 5
ICBC to provide M&A loans to Beijing Capital ................................................................................................................................ 5
Central bank appoints two new assistant governors ....................................................................................................................... 5
S&P: Chinese banking sector to remain stable in 2009 ..................................................................................................................... 5
Credit card crunch tightens for would-be users .............................................................................................................................. 6
BoCom says HSBC won't cut shareholding ................................................................................................................................. 7
Central bank rallies fight against counterfeit money ................................................................................................................ 7
BOC starts private banking service in Fujian ................................................................................................................................ 8
Agricultural Bank of China Ltd established ................................................................................................................................... 8
Agricultural Bank: Preparations needed before dual listing ........................................................................................................ 8
Construction Bank to issue up to 80b yuan of bonds ....................................................................................................................... 9
Agricultural Bank says 2008 profit up 19.1% .................................................................................................................................. 9
Banks urged to boost loan provisions .......................................................................................................................................... 9
Export-Import Bank 2008 new yuan loans up 51% .......................................................................................................................... 9
Central bank to sell 30b yuan of finance ministry deposits .................................................................................................... 10
BoCom to issue 80b yuan subordinated bonds ............................................................................................................................. 10
Industrial Bank net profit up 32% in 2008 ...................................................................................................................................... 10
Shanghai banks expect steady profit .............................................................................................................................................. 10
ICBC reports 14% rise in 2008 loans .............................................................................................................................................. 10
CITIC Bank expects 60% rise in profits ......................................................................................................................................... 11
CDB to lend 120b yuan for Qinghai infrastructure ..................................................................................................................... 11
China's retail banking expects fast growth ........................................................................................................................................ 12

CAPITAL MARKET

Mainland IPOs set to bloom ............................................................................................................................................................. 13
China all alone in Asian M&A growth ........................................................................................................................................... 14
China bank shares seen volatile over 2008 reporting season ..................................................................................................... 14
More firms set to issue bleak data .................................................................................................................................................. 15
Regulator to roll out second board norms soon ............................................................................................................................... 16
QFIs underperform local equities in volatile market ....................................................................................................................... 16
Negative outlook for securities brokers in 2009 .......................................................................................................................... 17
China wealth fund says investing in domestic banks .................................................................................................................. 17
PE fund buys stake in Bank of China ............................................................................................................................................... 18
Regulator mulls reforming IPO mechanism ................................................................................................................................... 18
Taiwan stocks may get mainland access soon ............................................................................................................................... 18
Chinese mainland, HK sign currency swap agreement ................................................................................................................ 19
Brokerages post 2008 net of 48.2b yuan ...................................................................................................................................... 19
Investor sentiment index for China rises in Q4 of 2008 .................................................................................................................... 19
Pension fund increases stock-buying .............................................................................................................................................. 20
Mainland ETFs to debut on Hong Kong bourse ............................................................................................................................... 20
Mutual funds increase 281.9b shares amid bearish market ......................................................................................................... 21
Bond funds excel in 2008 as stocks plunge, rates drop ................................................................................................................ 21
Citigroup to close mainland private banking unit

Citigroup will close its three-year-old private banking unit in the Chinese mainland, sources familiar with the situation said on Jan 5.

In principle, the closure of Citigroup's private banking unit will not affect its existing high-end individual clients in the Chinese mainland as they will be automatically folded into Citigroup's consumer banking arm, which serves less wealthy customers, said the sources.

Several dozen employees who are currently working for the Chinese mainland unit will be internally transferred to other positions, in particular to its consumer banking business, said the sources.

So far, Citigroup's private banking businesses in Singapore and China's Hong Kong are operating normally and it is unclear whether the decision to close the Chinese mainland operation would herald similar restructuring in other locations, said the sources.

Bank of America sells shares of CCB

Bank of America Corp is selling part of its stake in China Construction Bank (CCB), China's second-largest State-owned lender, in a deal that could be worth up to $3 billion as the US institution raises money to cope with troubles at home.

Bank of America will sell 5.62 billion CCB shares, the Chinese bank said in a statement on Jan 7. It gave no financial details but CCB shares were trading around HK$4.24 (54 US cents) on Jan 7 in Hong Kong, which could make the deal worth up to $3 billion.

The sale would represent about 12 percent of Bank of America's holdings of 44.7 billion CCB shares.

"Bank of America is reducing its China Construction Bank shares due to its consideration of its own financial conditions under the current severe turbulence of the international financial crisis," the Chinese bank's statement said.

It described the relationship between the two banks as fruitful. Bank of America's status as an important shareholder will not change, CCB said, and the two will continue to cooperate in various areas.

Bank of America bought 9 percent of the Chinese bank in 2005 for $3 billion and the two launched a strategic partnership amid a flurry of tie-ups between Chinese lenders and foreign partners. It paid $1.9 billion in May 2008 to increase its stake in CCB to 11 percent and raised its holdings to 19.1 percent in November.

Foreign banks may face compliance pressure in China

KPMG, one of the world's leading auditing firms, warned in a recent report that many foreign lenders have still not developed sufficient local control over their business. Relying too heavily on the parent bank to supervise compliance can result in overlooking certain local compliance requirements, it said.

Foreign banks seeking to incorporate in China are entering the market at an extremely challenging time in the country's development. Even before the worst of the current crisis, according to KPMG, some banks underestimated the financial commitment involved in incorporating in China, or struggled to get the necessary commitment from their head offices. Now, securing such necessary approvals and resources may be even more of a challenge, as rising prices and market volatility influence the direction of regulatory policy.

Over the last two years, 30 foreign banks have incorporated in China, competing directly with Chinese banks in a number of services.
As the financial crisis gets worse, banks are likely to see more regulation. And the implications will be felt strongly by foreign lenders.

"On the regulatory front, rising prices and market volatility are driving the direction of government policies. After the credit crunch, regulatory bodies will opt for greater transparency and stricter regulations," said Edwina Li, financial services partner at KPMG China.

"China has been following the world’s best practices and foreign banks seeking to incorporate locally will face rising compliance pressures."

The current financial crisis is not the only concern cited in the report. For instance, while foreign banks are seen as attractive places to work, they often suffer a high staff turnover rate.

Senior management, compliance specialists and wealth management experts at overseas banks are all highly sought after and efforts to incorporate can be jeopardized if key management leave or additional human resources cannot be found.

KPMG also highlighted risk management and local IT systems as two major challenges.

As risk management is a relatively new concept in China, experienced risk control managers and analysts can be hard to find, the reports said. Importing foreign expertise is one option, but banks may find it more beneficial to have predominantly local staff run risk management in the long term.

Also, banks face problems given that customer credit records will take time to assemble. "Banks can find that there are insufficient credit records for both corporate and retail customers, and localization issues related to risk management procedures and policies," Li said.

Foreign banks need to adjust their own credit and operational risk frameworks to the relevant Chinese regulations.

In areas such as anti-money laundering, overseas lenders might assume their parent banks’ policies are sufficient, but in some areas, China’s restrictions and requirements may be more stringent than those of their home markets.

The report also noted the increased cost of employing IT managers. "A critical factor is the need for foreign banks to build up a local IT team, as they will be under pressure to adapt to the local market and business requirements in the course of network expansion in the country," said Simon Gleave, partner in charge at financial services department of KPMG China.

The report, which features several case studies, also views private banking, renminbi retail banking and derivatives as three strong areas of potential growth for foreign lenders in China.

Foreign banks allowed to trade, underwrite corporate bonds

The China Banking Regulatory Commission (CBRC) has allowed foreign banks to trade and underwrite corporate bonds in the country’s inter-bank market.

Foreign banks won’t need approval from the CBRC for corporate bond trading or underwriting but will have to report any deals to the regulator’s local branches, according to an internally circulated CBRC notice.

Two people familiar with the situation said the notice, dated Dec 26, 2008, was sent to foreign banks on Jan 8 and took immediate effect.

Previously, foreign banks were only allowed to trade government bonds, central bank bills, bonds issued by financial institutions and some derivative instruments on the local bond market.

Foreign banks’ bond holdings rose 23 percent year on year to 117.8 billion yuan ($17.22 billion) at the end of December 2008, accounting for less than 1 percent in the inter-bank market. Analysts said they expect the proportion to grow gradually in the coming years given China’s efforts to ease restrictions on foreign banks’ bond investments.
"Some experienced foreign banks are likely to start investing in corporate bonds imminently, as the returns are relatively higher than government bonds," said Mo Fan, a bond analyst at Soochow Asset Management Co.

A Beijing-based bond trader with a local bank said the expansion in corporate bond investors will help local banks find trading counterparties more easily, as liquidity has been a problem in the local corporate bond market, especially for some small-sized corporate bonds.

Outstanding corporate debt in China totaled 1.268 trillion yuan at the end of 2008, up 66.3 percent from the previous year. Corporate bonds account for 8 percent of the China's total outstanding bonds, well below approximately 20 percent in the US.

Renminbi deposits, loans slow down at foreign banks

(2009-01-14)

The growth of foreign banks' renminbi deposits and loans slowed in 2008 in contrast to the sharp increases at domestic banks, according to data from the People's Bank of China.

As of December 2008, the outstanding renminbi and foreign currency loans of all financial institutions totaled 32.01 trillion yuan ($4.68 trillion), up 17.95 percent from the year before, while total deposits in all currencies climbed 19.3 percent to reach 47.84 trillion yuan.

Renminbi deposits at foreign banks rose by only 30.18 billion yuan in 2008 compared to an increase of 55 billion yuan in 2007. In the fourth quarter of 2008, renminbi deposits at foreign banks fell by 2.27 billion yuan.

Foreign banks' renminbi lending rose by 26.08 billion yuan in 2008, down from an increase of 83.27 billion yuan in 2007. Lending in the fourth quarter dropped by 11.8 billion yuan.

Analysts attributed the slowdown in renminbi deposits and loans at foreign banks to the poor performance of foreign joint ventures and private sector enterprises, which accounted for the majority of the foreign banks' clientele.

"At a time when the economy is troubled by deepening uncertainties, many private enterprises have less money to keep in banks, resulting in the declining deposit growth rate," said Cai Rong, a banking industry analyst at China Everbright Securities Co in Shanghai.

The depressed exports and domestic demand have further dampened industrial output in the past several months, which in turn has prompted most enterprises to further reduce production and investment. As a result, their demand for bank loans has also shrunk.

RBS confirms sale of stake in Bank of China

(2009-01-15)

Royal Bank of Scotland PLC (RBS) said on Jan 14 it has sold its 1.6 billion pound ($2.31 billion) stake in Bank of China, a move analysts say is meant to shore up its balance sheet.

RBS said in a statement it sold its 4.3 percent stake, about 10.8 billion shares, at HK$1.71 per share, and that the sale came as a result of a strategic review. The impact of the sale on capital ratios is expected to be broadly neutral.

The move comes weeks after the bank was taken over by the British government with a majority stake of about 60 percent.

"While the bank will be booking a profit on the deal, having paid 1 billion pounds for the stake in 2005, the sale may have been somewhat forced on RBS by circumstances," said Richard Hunter, an analyst at Hargreaves Lansdown Stockbrokers.
KBC delays China expansion amid global financial crisis

Belgian financial group KBC said on Jan 15 that its banking arm has shelved an expansion plan in China that included setting up a locally incorporated bank, due to the global financial crisis and economic uncertainty.

Last May, KBC said it had decided to establish a domestically incorporated China subsidiary to start retail banking operations and expand aggressively in the country. But that plan has been put on hold, KBC spokeswoman Viviane Huybrecht said.

"While it is true that KBC applied for and obtained a license giving it the opportunity to geographically expand, it is also true that the implementation of those plans did not start ... The main reason was the turbulent and uncertain economic environment," Huybrecht said in a statement.

She added that it would be premature at this point to comment regarding the bank's near- and mid-term plans in China.

KBC's banking operation in China currently offers corporate and commercial banking services through three local branches, with a client focus on Belgian companies and Chinese firms seeking to expand business in Europe.

Despite the shelving of the banking expansion, KBC's two-year-old China fund venture, KBC Goldstate Fund Management Co, will go ahead as planned with the launch of a new bond fund as early as January 2009, the venture's chief investment officer Lode Vermeersch said.

HSBC issues CSR report in China

HSBC Bank (China) Co Ltd recently issued its 2008 corporate social responsibility (CSR) report that highlighted HSBC's continued efforts towards sustainable banking and consumer financial education.

HSBC China's 2008 CSR report highlights the bank's CSR activities in a wide range of areas, including ethical banking, environmental protection, support of education and social development, and the well-being of the bank's staff.

HSBC has been publishing CSR reports on the Chinese mainland since 2006 and in April 2007 the Shanghai Banking Regulatory Bureau in Shanghai issued CSR guidelines encouraging financial institutions in the city to report their CSR performance.

HSBC China was the first foreign bank to initiate such a program in response to the opening of China's financial market.

HSBC: China business not hit by financial crisis

HSBC business in China has not been hit by the financial crisis, said Stephen Green, chairman of HSBC Group said at the World Economic Forum on Jan 30.

He said that he was confident over the development prospect of China's economy and was satisfied with the reform of China's capital market. China's fiscal stimulus package will play an important role in pushing Chinese economy forward.

At a press conference held in Davos, Switzerland, on Jan 30, HSBC called for the creation of a new set of principles and rules that promote international trade by increasing transparency and simplicity in the financial system, and proposed a forum to enable global businesses to engage with governments and regulators as this new marketplace is constructed.
**Pudong bank 2008 net profit up 128%**

(2009-01-07)

Shanghai Pudong Development Bank said on Jan 6 its full year net profit rose 128 percent on higher interest income and lower taxes.

The Shanghai-based lender in a preliminary earnings statement said it expects to report a full year net profit of 12.5 billion yuan ($1.83 billion), or 2.21 yuan a share, compared with 5.5 billion yuan in 2007. The bank is scheduled to publish its final results on Feb 28.

Analysts said most of the other banks are also expected to report satisfactory earnings. The 2008 earnings has been largely unaffected by the economic crisis. However, they expect lenders to allocate additional funds to cover for the anticipated rise in non-performing loans.

The real impact of the interest rate cut will show up this year, especially in the second half, said Changjiang Securities analyst Liu Jun. "Although the Chinese government encourages banks to lend, they will be cautious in doing so," he said.

Liu said he expects banks' bad debt numbers to be small this year, as most of the domestic lenders have strengthened their risk control mechanisms.

**Agricultural Development Bank to auction 12b yuan of bonds**

(2009-01-07)

Agricultural Development Bank of China said on Jan 7 that it would auction up to 12 billion yuan ($1.75 billion) of five-year bonds in the interbank market on Jan 9.

Agricultural Development Bank, one of three policy banks lending in line with government initiatives, has the option of increasing the issue by as much as 6 billion yuan if demand proves strong. Payment of the bonds will occur on Jan. 16.

**ICBC to provide M&A loans to Beijing Capital**

(2009-01-07)

The Beijing branch of Industrial and Commercial Bank of China (ICBC) will provide merger and acquisition (M&A) funding to Beijing Capital Co Ltd, according to a statement on the website of Beijing Equity Exchange, a signatory to the funding deal.

The equity exchange said it will offer merger consulting services to Beijing Capital. Financial details were not given in the statement. Beijing Capital is controlled by Beijing Capital Group and invests in public infrastructure projects.

**Central bank appoints two new assistant governors**

(2009-01-07)

The People's Bank of China, the central bank, said on Jan 7 that it had appointed Li Dongrong and Guo Qingping as assistant governors. The central bank now has four deputy governors and three assistant governors.

Li is a vice director of the State Administration of Foreign Exchange (SAFE). Guo is head of the Tianjin branches of both the central bank and the SAFE.

**S&P: Chinese banking sector to remain stable in 2009**

(2009-01-08)

Standard & Poor's Ratings Services believes that the Chinese banking sector will remain stable in 2009, even though it expects the NPL (non-performing loan) ratio to rise by 204 basis points.

Speaking in a teleconference on Jan 7, S&P primary credit analyst Liao Qiang noted that the central bank has made a dramatic U-turn in recent months to shift its monetary stance toward an expansionary policy.
"The measures could undermine underwriting standards, and reduce profitability and capitalization (to the lenders)," he said.

However, he noted that the moves could mitigate growing challenges for the corporate sector, and believes the problems are not severe enough to result in negative actions on major mainland lenders.

As a result, the organization revised its outlook on the banking sector to "stable" from "cautiously positive". But the remark was made on condition that the government doesn't interfere too much in lending processes.

S&P said mainland lenders will see a drastic rise in NPL as a result of the potential decline in revenue and margins for mainland companies. Deteriorating exports are also expected to trigger a rise in the default rate for mainland corporations.

The organization added that the 4-trillion-yuan ($586 billion) economic stimulus package will generate borrowing opportunities for lenders, but it can't fully compensate for the reduction in quality private borrowing resulted from the worsening global economy.

Despite the pressure on profitability, the Chinese lenders should be able to register a notable gain from domestic debt investments in the first half of the year in anticipation of a benchmark deposit rate decline and the remaining excess liquidity in the interbank market that will push up bond prices.

Liao said the overall liquidity profile of mainland banks remains strong because of local regulatory ceilings on their loan-to-deposit ratio, which currently stands at 75 percent, plus the country's high saving rate.

Although the reserve requirement of the Chinese lenders saw high fluctuation between June and December in 2008, it doesn't pose a real threat to their liquidity profile, he added.

Overall, the capitalization of the Chinese lenders should provide a cushion against the expected pressure on credit quality and earning over the coming one to two years, he said. The organization believes that maintaining credit quality will be a key challenge for the banking sector.

Credit card crunch tightens for would-be users

Both overseas and Chinese economists and bankers alike have started to consider the possibilities that may lead to another crisis in the global economies in 2009.

Guangdong Development Bank, a Guangdong based commercial bank that took the pioneering step among its domestic counterparts to design the first credit card for undergraduate students in 2004 is now refusing the students' applications for credit cards, according to its new policy effective December 2008.

Guangdong Development Bank is not the only commercial bank that is backing away from the once sizzling market. China Merchants Bank, the leading credit card issuer, began saying "no" to undergraduates applying for credit cards in October 2008 and China CITIC Bank stopped marketing credit cards to students at the beginning of 2008.

Chinese banks began to back off the business largely because the undergraduates have been blacklisted as high-risk cardholders after more borrowers defaulted on their payments in the wake of the financial crisis. Accordingly banks have begun to tighten the standards for applicants.

Compared with such a credit-hooked country as the US, China is still an emerging credit card market.

Xu Luode, president of China UnionPay, a national bank card association, said currently there are 47 banks that are allowed to issue credit cards and these banks have issued over 150 million credit cards till the end of 2008.
However, analysts forecast the financial crisis will raise the bad loan rate for credit cards to 3 or 4 percent, tripling the previous 1 percent level of the past two years.

Large amounts of cash withdrawn from credit cards through irregular means have also greatly contributed to the sharp rise in default rates.

In one such operation hucksters hand out cards with a "credit card service phone number" at subways. People who dial the number are directed to a private apartment where they can withdraw cash from their credit card through a Point of Service (POS) machine at a lower rate than banks.

The POS machines are easily obtained from banks, no matter it is true or false, under a pretense of being used for a business.

Under the circumstance, the China Banking Regulatory Commission warned banks in June 2008 that they should be alert to fraud and credit risk posed by cardholders without stable incomes, including undergraduates.

Regulators were also urged to take action against the illegal use of credit cards, says Guo Tianyong, chairman of China Banking Research Center at Central University of Finance and Economics.

Banks such as China Merchants Bank and China CITIC Bank have also found that after four or five years of credit card expansion, it's more profitable to maintain and cultivate customers with good credit than simply enlarging the number of users.

An anonymous sales manager at China CITIC Bank said that in 2009 it would focus on promoting its after-sale services and developing high-level customers who are more creditworthy and profitable, especially in light of the financial crisis.

"After five years of rapid expansion, the financial crisis gives us a chance to slow down and maintain our customers," the manager said. "Then we will be prepared to set out for another stage."

BoCom says HSBC won’t cut shareholding

(2009-01-10)

China’s Bank of Communications (BoCom) said on Jan 8 that HSBC, which owns about 19 percent of China's fifth-biggest lender, has told the bank it will not reduce its stake but rather will increase it under appropriate conditions. BoCom also said it reaffirmed its long-term strategic relationship with HSBC.

Central bank rallies fight against counterfeit money

(2009-01-13)

China's central bank has stepped up efforts to crack down on counterfeit currency to ensure order during the Spring Festival holiday.

Fake 100-yuan notes, most starting with the serial number "HD90," have been reported in more than ten Chinese provinces and cities. The case has aroused public attention with reports saying the quality of some fake banknotes is so high that they can even cheat low-quality counterfeit money detectors.

The Shanghai Headquarters of the People’s Bank of China (PBOC) said Jan 12 it has strengthened cooperation with the public security and commerce authorities in the fight against crimes on counterfeit renminbi notes. The headquarters also ordered commercial banks to upgrade their counterfeit detection system.

In addition, it called on non-banking businesses to check for loopholes and upgrade detectors. It also urged counterfeit detector manufacturers to develop upgraded versions of their products.
BOC starts private banking service in Fujian

Bank of China (BOC), the nation's third largest commercial bank by market value, opened its first private banking service in Fuzhou, Fujian province on Jan 15.

Only those who own at least 8 million yuan ($1.17 million) are qualified to become a private banking client. BOC has, however, lowered the threshold to 5 million yuan during the trial operation period. The first batch of clients will be chosen from former VIP members of the bank.

According to a senior bank official, this is the ninth private banking division that BOC has opened across China, with another division coming up in Xiamen later this year. In business metropolises like Beijing, Shanghai, Guangzhou and Shenzhen, private banking is no longer the buzz word with some banks setting the entry threshold at 10 million yuan for wealth planning.

The BOC official said each private banking client would have a designated personal banking manager, an investment consultant and a financial assistant. These experts will help clients in planning children's education, property investment, taxation, life planning for after retirement, investment advice on art collection, health consultancy etc.

Sources said currently around 5 percent of BOC's VIP clients have a wealth of more than 3 million yuan.

Agricultural Bank of China Ltd established

Agricultural Bank of China Limited is incorporated on Jan 16 in Beijing, giving the final touch to its restructuring from a State-owned enterprise to a State-controlled commercial bank.

The bank, with a registered capital of 260 billion yuan ($38.01 billion), is equally owned by the Ministry of Finance and Central Huijin, a subsidiary of China's sovereign wealth fund. As reported, the bank is considering a dual listing in Shanghai and Hong Kong, and is now seeking strategic overseas investors.

The bank's former president, Xiang Junbo, has been appointed as chairman of the stockholding bank, and Zhang Yun, former executive vice president, has been named as president.

Zhang will also become president of the bank's rural business, a relatively independently run operation that focuses on boosting lending and other services to the countryside.

Agricultural Bank: Preparations needed before dual listing

Agricultural Bank of China (ABC), the country's third largest lender by assets, said on Jan 16 it would take at least 12 more months to complete the "technical" preparation for a share listing, adding that it is unrealistic to give a specific timetable in these uncertain times.

Pan Gongsheng, executive vice president of ABC, said the bank would consider following the example set by the other three State-owned commercial lenders to seek a dual listing in Shanghai and Hong Kong.

Pan said the bank has not held any formal talks with potential strategic investors, although some overseas financial institutions have indicated their interests in investing in the newly established holding company. "We are still studying the idea of introducing strategic investors in the future," said Pan.

The bank said it would make it a priority to expand its businesses in rural areas, which have an increasingly diversified demand for financial services.

Pan also said the bank would increase financial services for agricultural development by expanding the scope and scale of its businesses in rural areas, including the establishment of insurance companies, financial leasing companies and pension fund management companies in those regions.
Construction Bank to issue up to 80b yuan of bonds

China Construction Bank said on Jan 16 it plans to issue subordinated bonds to raise up to 80 billion yuan to replenish its capital.

The bank said in a statement the subordinated bonds will have a maturity of not less than 10 years. The interest rate hasn't been set, it said.

As of end-September 2008, the bank's capital adequacy ratio stood at 12.10 percent, above the regulatory minimum requirement of 8 percent.

Agricultural Bank says 2008 profit up 19.1%

Agricultural Bank of China recorded a 51.1 billion yuan ($7.48 billion) profit in 2008, up 19.1 percent from a year earlier, the bank said on Jan 18.

The lender saw "a great improvement in profitability last year", bank president Zhang Yun said at an annual work conference.

The banks return on assets (ROA) was 0.79 percent last year, while its return on equity (ROE) was 19.1 percent, it said without providing comparative figures.

It had added 807.8 billion yuan, or 15 percent, in new deposits last year, while lending out 135.3 billion yuan more in agriculture-related loans. The bank planned to lend 160 billion yuan in 2009, according to Zhang.

Banks urged to boost loan provisions

China's banking regulator ordered banks to set aside more provisions to cover potential losses from loans, as it warned that the global financial crisis is far from over.

Local banks must set aside provisions equivalent to at least 130 percent of loans that are likely to turn sour, Liu Mingkang, chairman of the China Banking Regulatory Commission (CBRC), said in a statement posted on the government Web site over the weekend.

Banks that have more operational risks should keep their credit provision ratio above 150 percent, he added, without elaborating.

"The liquidity in the US and European markets has improved after massive bailout programs by governments around the world, but the financial crisis has yet to run its course and we are still facing great uncertainties," said Liu.

The CBRC previously allowed banks to set their own targets for loan-loss provisions. Liu's directive reflects growing concerns among Chinese authorities that the slowing domestic economy will raise default risk in the banking sector, and set back reform efforts that have cost the government trillions of yuan in the past years.

Export-Import Bank 2008 new yuan loans up 51%

Export-Import Bank of China, one of the country's three policy lenders, issued 296.1 billion yuan ($43.27 billion) new loans in 2008, up 51 percent from a year earlier, the Financial News reported on Jan 19, citing the latest data from the bank.

The bank's outstanding loans exceeded 600 billion yuan at the end of last year, the central bank-backed newspaper added. Its nonperforming loan ratio declined to 1.52 percent at end-2008 from 2.45 percent at the end of 2007, the newspaper said.
Central bank to sell 30b yuan of finance ministry deposits

China's central bank said on Jan 19 that it would auction 30 billion yuan ($4.41 billion) of three-month finance ministry deposits to commercial banks on Jan 21.

Banks will bid for the right to take the deposits. The sale, like previous such exercises, is part of the finance ministry's cash management program.

BoCom to issue 80b yuan subordinated bonds

Bank of Communications (BoCom) said it will issue up to 80 billion yuan ($11.69 billion) of 10-year subordinated bonds in the 24 months from March 26 to improve its capital adequacy ratio.

BoCom has reported a capital adequacy ratio of 13.77 percent as of Sept 30, 2008, which was above the regulatory requirements. But its core capital adequacy ratio stood at 9.79 percent, which was comparatively lower than other State-owned banks.

Xi Junyang, a professor at the Shanghai University of Finance and Economics, said: "Bank bonds should be attractive to investors because of the yield that will be pushed up by the large number of issues."

Industrial Bank net profit up 32% in 2008

Industrial Bank, a joint stock commercial bank in Fujian, said on Jan 19 its full year net profit rose 32.34 percent to 11.36 billion yuan ($1.66 billion), while earnings per share (EPS) rose 29.71 percent to 2.27 yuan.

In a statement to the Shanghai Stock Exchange, the bank said net asset value (NAV) per share at the end of 2008 was 9.8 yuan, up 25.96 percent from a year earlier.

Some analysts partially attributed the profit growth to the fast increasing pace of new loans in 2008, especially in November and December.

But analysts also warned of the mounting pressure placed on bank earnings in 2009, arising from the narrowing interest rate spread, shrinking income from intermediary businesses and higher risks involved in overseas investment.

Shanghai banks expect steady profit

Over 70 percent of the banks in Shanghai said their profits will not slide in 2009, according to a survey.

About 30 percent of the banks surveyed said they expected their business performance for 2009 "will move on a sound track" with rising profits, while another 40 percent said their profitability "will maintain the same level as 2008", said the survey on Shanghai banks' Q4, 2008 performance, unveiled by the Shanghai Bureau of the China Banking Regulatory Commission (CBRC) over the weekend.

For banks, premium on interest rates between borrowing and lending still remains the biggest contributor for their future profit rise, followed by intermediary businesses and portfolio securities investment. And over 70 percent of the Chinese banks and 60 percent of foreign banks said they expect interest rate premium to be the major source for their 2009 profit rise.

About 60 percent of the banks regarded the central bank's adjustments in the benchmark interest rate as the "major policy risk".

The survey showed over 70 percent of Shanghai banks have a sound outlook for their property credit business in 2009, much higher than the result in Q3.
Statistics from the Shanghai bureau showed that by the end of December last year, overall asset of all banks in Shanghai reached 5.23 trillion yuan ($765 billion), a rise of 11.1 percent over a year ago. Among those, foreign banks' assets in Shanghai reached 760.7 billion yuan, accounting for 56.57 percent of the overall foreign banks in China.

**ICBC reports 14% rise in 2008 loans**

Lending by Industrial and Commercial Bank of China (ICBC) rose 14.2 percent year-on-year in 2008 to a record high of 530 billion yuan ($77.49 billion), the bank said at a work meeting on Jan 19.

About half of the total went to small and medium-sized companies and individuals, in line with a government call to boost domestic demand by supporting smaller companies and private consumption.

Lending to smaller companies stood at 175.9 billion yuan, while loans to individuals reached 77.3 billion yuan, according to ICBC. The bank didn't provide comparable figures for the previous year.

The bank also lent 28.8 billion yuan for reconstruction following the May 12 quake in southwest China.

ICBC said most of the loan increase came in the fourth quarter, in line with the national policy to relax credit conditions.

The bank said its provision ratio, a measure of risk management, stood at more than 120 percent of total non-performing loans last year, exceeding the 100 percent standard for "good" risk management established by China's bank regulators.

ICBC said it reduced holdings of bonds issued by US mortgage agencies Fannie Mae and Freddie Mac by "a remarkable amount" last year and "successfully avoided huge losses by selling the bonds". It didn't disclose specific figures.

**CITIC Bank expects 60% rise in profits**

Dual-listed China CITIC Bank said its full-year net profit in 2008 is expected to rise 60 percent on higher interest income and lower taxes.

In a preliminary earnings statement released on Jan 19, the bank said the bad-loan coverage ratio is above 150 percent and the ratio of non-performing loans is below 1.4 percent.

In 2007, the bank reported a full-year net profit of 8.29 billion yuan, or 0.23 yuan a share. Based on the 60-percent growth forecast, the bank's net profit in 2008 is estimated to reach 13.26 billion yuan.

In the first three quarters of 2008, the bank's net profit totaled 12.45 billion yuan, so its profit in the fourth quarter is only about 810 million yuan, roughly 20 percent of the average profit (4.15 billion yuan) in the first three quarters.

**CDB to lend 120b yuan for Qinghai infrastructure**

China Development Bank (CDB) signed an agreement with Qinghai province to provide at least 120 billion yuan ($17.65 billion) in loans to the province before 2015.

The funds will be used to support infrastructure projects such as highways, airports, railroads and power facilities, the bank said on Jan 19.

Loans will also go to industrial projects that draw on the province's local advantages, such as coal and salt lake, and programs involving living standards such as settlement projects and environmental protection, CDB said.
As of December 2008, CDB had lent 60.6 billion yuan to Qinghai province, of which 32.4 billion yuan was still outstanding.

**China’s retail banking expects fast growth**

(2009-01-23)

The size of China’s retail banking is expected to exceed that of wholesale banking in five years, said a report from Celent, a research and consulting firm focused on the financial services industry.

Latest government figures showed that retail banking income of all mainland banks in 2007 increased by 46.9 percent from a year before to $84 billion, or 33 percent of total revenue and 27 percent of aggregate profits.

The rapid increase in per capita income and investment channels, continuous improvement of the payment system, and relaxation of regulations regarding separate operations all contributed to the rapid growth in retail banking business, said Zhang Hua, a Celent analyst.

According to the Celent report, the deposit and lending business trends will include: the renminbi deposit-taking business maintaining a 10 percent growth rate; foreign currency deposits dropping; the proportion of demand deposits continuing to grow; mortgages experiencing slow growth; and credit card loans having rapid growth, reaching $200 billion in 2010 to become the second largest loan business after mortgages.
Mainland IPOs set to bloom

(2009-01-04)

Total funds raised through initial public offerings (IPOs) in China are expected to rise nearly 47 percent to 152 billion yuan ($22.22 billion) this year from 103.5 billion yuan in 2008, according to a report from PricewaterhouseCoopers.

The report, released on Jan 5, goes on to add that it expects the capital markets to recover later this year and the bulk of the listings to happen in the second half.

The total number of new listings this year is expected to touch 88, with 80 of them on the Shenzhen SME Board, said the report.

"In particular, we expect companies related to infrastructure, financial institutions, industrial and consumer products and retail to benefit from China's 4 trillion yuan economic stimulus plan. New issues in these sectors would also pick up gradually," said Frank Lyn, China markets leader of PricewaterhouseCoopers.

The unfavorable fund-raising environment for large enterprises is expected to continue into 2009, but financing activities on Shenzhen's SME Board would continue to remain active, said Lyn.

"Given the growing uncertainties in the economy and capital market, individual investors now prefer speculative buying rather than being long-term holders," he said.

The average P/E ratio of new listings this year would be around 20 to 30, compared with the current 15 P/E ratio of A shares, the report said.

"Market sentiment is expected to remain weak in the first half of this year, and we expect most of the new listings in the second half," said Charles Feng, lead partner in the Beijing office of PricewaterhouseCoopers.

In a significant stock adjustment last year, the combined total IPO funds raised in Shanghai and Shenzhen stock exchanges fell 78 percent from the 2007 levels of 477.1 billion yuan. The total number of IPOs in the two stock exchanges was 77 including 6 in Shanghai and 71 in Shenzhen, falling 39 percent from 2007.

Out of the 77 IPOs in 2008, there were only three A-shares issued by H-share companies listed on the Hong Kong Stock Exchange, while there were 12 in 2007.

"But we are still expecting three or four domestic enterprises to adopt a dual listing mode (A+H shares) this year," said Feng. "But many of the Chinese companies which are registered and listed in Hong Kong may not return to the Shanghai bourse this year as the mainland market may not be as attractive as it used to be in 2007."
China all alone in Asian M&A growth

China's merger and acquisition (M&A) activity remained resilient in 2008 despite the global financial meltdown, making it the best performer in the Asia region, according to information company Thomson Reuters.

M&A activity in the country was at an all-time high of $159.6 billion worth of deals last year, 44 percent more than in 2007, compared with the year-on-year 11.1 percent fall in Asia, excluding Japan, Thomson Reuters said in a report.

"China was the only country in the region to experience growth in such a tumultuous environment, and it's also the most targeted nation in Asia with a 26.9 percent market share," the report said.

"The market's better performance is mainly due to the fact that the impact of the economic crunch started in the US is delayed when passing down to the domestic transaction activities, and the Beijing Olympics in August helped bolster the strong spirit of the market," said Xie Tao, PricewaterhouseCoopers (PwC) transactions partner based in Beijing.

Xie added that unlike in other markets, Chinese companies are not in dearth of cash, which is crucial for M&A activity.

The largest transaction of the year was Aluminum Corp of China and Alcoa's stake purchase in Rio Tinto for $14.3 billion through their Singapore-based joint venture Shining Prospect Pte Ltd.

The country's inbound activity posted a 34.2 percent year-on-year increase, and made China a global investment haven. Cross-boarder M&A activity rose 51.1 percent from a year ago to $78.4 billion worth of deals in 2008.

"Protection policies to set barriers for cross-boarder M&As have been partly pared when facing the economic meltdown, which helped boost the outbound M&A deals for Chinese companies," said Xu Wenfei, an analyst at Beijing-based investment research and consulting firm China Venture.

However, transactions were unsurprisingly caught up in the second half of the year when the worst financial woes unfolded in September.

With 543 announced deals between July and November, transaction activity in domestic M&A dropped by a staggering 47 percent compared to the same period in 2007, although it followed a strong growth in the first half to reach 920 announced transactions, according to PwC's report.

"Activity levels dropped dramatically in the second half, largely as a result of regulatory policies to cool the economy in early 2008 amid the fallout from the global economic crisis, and a valuation gap arising from the unwillingness of domestic sellers to meet lower bids for buyers also contributed to the drop," Xie noted.

Looking to 2009, Xie predicts that overall M&A activity in China will remain slow in the first half of the year, but will pick up in the second half as pricing expectations align.

"We expect domestic M&A activity to recover quicker than other regions of the world mainly due to the government's 4 trillion yuan ($586 billion) stimulus package, and regulators having room to lower interest rates. Private equity deals may be the first to recover," said Christopher Chan, PwC's transactions partner.

China bank shares seen volatile over 2008 reporting season

Swiss investment bank UBS said Chinese bank shares are likely to be volatile over the next couple of months during the reporting season for 2008 results and investors should look for buying opportunities after the first quarter.
The brokerage also said there is a growing likelihood that banks' 2008 earnings will be disappointing as they adopt more aggressive provisioning policies to raise their non-performing loan (NPL) coverage ratio.

"Though we regard this as prudent action to counter the challenging credit cycle, banks with large NPL balances and low coverage ratios by the third quarter 2008 could post very small or even negative fourth quarter earnings," UBS said in a note.

The annual results season for mainland-listed Chinese banks will last for two months, with Minsheng Banking Corp due to be the first to report its 2008 figures on Feb 27 and Bank of Nanjing the last, on Apr 30.

More firms set to issue bleak data

Only weeks before the reporting season begins, many Chinese publicly traded companies have issued earnings warnings not only of lower-than-projected profits, but also of worsening expectations for 2009.

To be sure, there are bright spots, like the pharmaceutical sector, in the corporate gloom. But companies in most other sectors are sounding the alarm.

Among the more than 500 listed companies that had posted their preliminary earnings reports, 40 percent are projecting profit declines or losses in 2008. Around this time last year, only 45 companies delivered such bad news.

Earnings alerts were issued by companies in a wide range of sectors, including energy, power generation and raw material processing, which are facing unprecedented difficulties amid the global economic downturn.

So far, more than 18 companies in the petrochemical sector have disclosed loss estimates for 2008, the first time these companies were in the red since they went public. Another 16 companies in the same sector lowered their profit projections and another five said they expected losses for 2008.

Statistics from China Steel Industry Association show that 15 percent of nation's steel processors posted an aggregate 12.7 billion yuan ($1.86 billion) loss in November 2008. "It was a larger-than-expected loss for so many companies in the industry," said Zhang Ping, a specialist on steel at Umetals, a domestic metal information consultancy firm. He predicted even harder times for China's steel mills in the first quarter of 2009.

"Despite a possible demand increase thanks to the coming peak season, prices of steel and other metals would continue to fluctuate at low levels, which may largely affect corporate earnings in the first half of 2009," Zhang said.

Industry experts said the weak performance of most listed companies would at least last for another one or two quarters in 2009, because it will take longer-than-expected to unload their large inventories, which they must dispose of at lower and lower prices.

"Listed companies' earnings would remain depressed before an economic recovery and a pick-up in domestic consumption," said Zhang.

The earnings of listed companies began to decline sharply from the third quarter of 2008, when both external and internal demands were depressed by the worsening global economic outlook.

Although companies in the banking and property sectors have not issued any preliminary reports, analysts predict they were hit just as hard.

The latest disposal by foreign financial institutions of their holdings of Chinese commercial banks is seen as an indication of lowering confidence in the prospects of the domestic banking sector, which is clouded by narrowing interest rate spreads and a possible rise in non-performing loan ratio.
There are some bright spots among the bleak earning data. For example, companies in the pharmaceutical sector, including medical services providers, are expected to post an average 25 percent increase in profit in 2008.

Analysts said companies in this sector are largely shielded from the economic cycles because of the inelastic demand of their products and services.

**Regulator to roll out second board norms soon**

China is expected to soon launch its Growth Enterprises Board (GEB), modeled along the lines of Nasdaq, to help small companies raise capital and restore investor confidence, the securities regulator said on Jan 14.

"The administrative rules governing the initial public offering (IPO) of the GEB will be launched soon and a set of specified regulations will come out gradually," Shang Fulin, chairman of the China Securities Regulatory Commission (CSRC), said at the annual national securities and futures conference in Beijing.

Shang said regulators would set up the proper listing threshold for GEB and strengthen supervision mechanisms to avoid excessive speculation.

Shang, without elaborating on the timetable, also called upon the officials who are drafting the modalities to "do a good job on pilot units for margin trading and short selling".

Shang said the corporate bond market is expected to be well-developed this year, while regulators would also take steps to actively spur mergers and acquisitions.

He also advocated a four-pronged strategy for market revival this year. They are: favorable policies to encourage capital market investments by social security funds, insurance capital and public pension funds; administrative rules to govern share repurchases by listed companies and to encourage cash dividend payments along with an optimized tax policy for dividend payouts; steps to enhance block trading to offer a proper platform for unlocking nontradable shares; and effective mechanisms to control, warn and monitor systematic risks.

**QFIIs underperform local equities in volatile market**

China's qualified foreign institutional investor (QFII) scheme trading A-shares underperformed domestic equity funds in 2008, posting an average loss of 65.05 percent, according to fund research firm Thomson Reuters Lipper.

However, the funds on average still beat the benchmark index, which fell 65.95 percent over the past year.

Data from Lipper also showed that in December 2008, the eight QFII A-share funds that have released their figures, bucking the downtrend, advanced 0.11 percent on average, but still performed weaker than the local equity funds' 2-percent gains.

"If compared with equity fund which allocates 60 percent of its portfolio into the stock market, QFII poured larger capital of over 80 percent into the market. Therefore, when the market crashed, the latter would suffer more," said Xav Feng, head of research for China at Lipper.

The study also found that passive funds tracking CSI 300 Index lost 66.67 percent in 2008, while active funds investing in some of the same blue-chip stocks slid 63.46 percent.

"During a volatile market like 2008, actively managed funds that picked a quality portfolio are more likely to win out than the time when the market is flat or surging," Feng said.

By the end of 2008, authorities had approved 72 QFIIs since the funds were introduced in 2003, among which 20 were granted last year.
But foreign investors have never stopped clamoring for more, even as the State Administration of Foreign Exchange increased the total QFII quota from $10 billion to $30 billion in December 2007.

Swiss investment bank UBS, which holds the largest QFII quota of $800 million, said the bank is waiting for regulatory approval to hike its investment quota.

"We have increased our purchase of A shares heavily last November and December, when the central government released a 4 trillion yuan (economic) stimulus package," said Nicole Yuen, head of China equities at UBS, on Jan 12.

But she added that the proportion of QFII transactions in the secondary market remained low, only accounting for less than 5 percent of the total capitalization on A-share market, which reached capitalization of 9.96 trillion yuan as of Jan 12.

Industry experts said foreign investors started turning positive after a dramatic market adjustment in 2008.

"Investment demands in A share markets are always there as the proportion of China's economic aggregate in the world keeps mounting," Echo Hu, a fund manager from a Shanghai-based asset management advisory, said.

"Sectors such as insurance, banks, and infrastructure constructions are more likely to be picked up by fund managers," Feng said.

Negative outlook for securities brokers in 2009

(2009-01-15)

A leading domestic credit rating agency gave a "negative" rating for the outlook of China's securities brokers in 2009.

In a report released on Jan 13, China Chengxin International Credit Rating Co (CCXI) said the nagging market uncertainties will continue to cloud stock brokers' business prospects in the coming one or two years. What's more, the potential new businesses, such as margin financing and securities lending, are not expected to generate much profit anytime soon, the report said.

"Initial public offerings in 2009 will be affected by the securities market and government regulations," said Li Li, a senior analyst with CCXI.

The well capitalized brokers with a large client base are expected to do better than the smaller ones, the report said.

China wealth fund says investing in domestic banks

(2009-01-16)

China's sovereign wealth fund has been buying shares in the country's three largest commercial banks, the fund's chairman Lou Jiwei said on Jan 16.


Central Huijin bought 2 million Shanghai-listed A-shares in each of the lenders in September. Lou said on Jan 16 that it had been continuously buying shares in the three banks.

About two-thirds of China Investment Corp (CIC), the country's $200 billion sovereign wealth fund, consists of money under the umbrella of Central Huijin, a vehicle long used to recapitalize State-owned banks and other financial institutions.

CIC was closely watching the selling of the Chinese banks' Hong Kong-listed shares by foreign investors, Lou added.
Lou also said that CIC would continue to invest abroad, but he declined to name any specific assets or targets.

**PE fund buys stake in Bank of China**

(2009-01-17)

A private-equity fund run by Fang Fenglei, Goldman Sachs Group Inc's China partner, purchased about $400 million of shares in Bank of China Ltd from Royal Bank of Scotland Group PLC, according to a person familiar with the situation.

Hopu Investment Management Co, a $2.5 billion fund that Mr. Fang raised last year, bought the shares when RBS sold its entire stake in the Chinese lender for $2.4 billion in the past week.

Hopu invested as part of a group it arranged that bought roughly $700 million of the UK bank's shares, according to the person. The person declined to disclose the other members of that investor group.

**Regulator mulls reforming IPO mechanism**

(2009-01-19)

China plans to reform its mechanism for initial public offerings (IPOs) of shares, the official Shanghai Securities News reported on Jan 19, citing China Securities Regulatory Commission Chairman Shang Fulin.

Shang told an internal meeting of the commission that the watchdog was committed to more market-oriented mechanisms for IPO price-setting and share underwriting and had been soliciting opinions from institutional investors, the newspaper said.

Some brokerages have suggested changes to the existing mechanism that would enable IPO prices to better reflect actual supply and demand, and that would allow new shares to be allocated more fairly through subscription, it said.

IPO activity has come to a virtual standstill in the mainland due to a prolonged slump in the stock market.

Under the current IPO system, companies' shares have typically soared on their debut, while institutions often enjoy an advantage over individuals during the subscription process.

**Taiwan stocks may get mainland access soon**

(2009-01-20)

Mainland investors will be able to access Taiwanese stocks after the respective bourses iron out the modalities for cross-listing exchange traded funds (ETFs), according to leading market experts.

Taiwan Stock Exchange Chairman Schive Chi said that the Shanghai and Taiwan bourses would start talks on cross-listing ETFs and indicated that a memorandum of understanding would be signed soon.

Taiwan-based securities house Polaris Securities said because of their diversity, ETF products carry lesser risks for mainland investors, especially for those who have little knowledge about the Taiwan market.

Polaris Securities Managing Director of Research Odie Ou welcomed the cross-listing moves and said ETFs are the ideal introductory vehicles.

"Many overseas investors know only one or two large Taiwanese brands, such as Foxconn," he said. "Mainland investors can avoid blindly investing in Taiwan stocks with a balanced investment portfolio of ETFs."

Ou said the brokerage plans to introduce an ETF, which tracks the performance of the Top-50 Taiwan enterprises, in the Hong Kong market in the first quarter. Similar products would also be available on the mainland after listing hurdles are removed, he said.
Taiwan ETF products underwent a rapid growth over the past few years. Between 2003 and 2008, there were 10 Taiwan ETFs listed in overseas markets and they had raised funds of NT$3.9 billion.

China Merchants Securities (HK) Managing Director Ronald Wan said he believes the mainland and Taiwan can reach an agreement within a year to allow mainland investors to purchase Taiwan stocks. But mainland investors are still not that enthusiastic about the Taiwan market, he said.

"Many mainland investors are not familiar with the market," he said. "With its immature financial system and unstable political environment, they might take a wait-and-see investment strategy toward the emerging market."

**Chinese mainland, HK sign currency swap agreement**

(The 2009-01-20)

The Chinese mainland and Hong Kong signed a three-year currency swap deal worth 200 billion yuan ($29.29 billion) on Jan 20.

The move, made by the central government, is aimed at helping to stabilize Hong Kong’s economy and its currency.

Zhou Xiaochuan, governor of the People's Bank of China (PBOC), and Joseph Yam, Chief Executive of Hong Kong Monetary Authority (HKMA), signed the deal in Beijing on behalf of both sides.

Zhou said it was another area of monetary cooperation between the PBOC and the HKMA in addition to existing collaborative work. With the agreement, short-term liquidity support can be provided to mainland operations of Hong Kong banks and Hong Kong operations of mainland banks in case of need.

The term of the swap agreement can be extended upon agreement by both parties. It provides liquidity support of up to 200 billion yuan or HK$227 billion in both directions.

Yam said the establishment of a currency swap arrangement would help to address contingent needs and maintain financial stability in the region.

The deal is one of the 14 support measures Premier Wen Jiabao promised the special administrative region when he met Hong Kong’s Chief Executive Donald Tsang in Beijing on December 19, 2008.

**Brokerages post 2008 net of 48.2b yuan**

(The 2009-01-20)

China’s 107 brokerages reported a combined net profit of 48.2 billion yuan ($7.05 billion) for 2008, the Securities Association of China, an industry trade group, said on Jan 19.

Last year’s earnings fell from the net profit of 130.66 billion yuan in 2007, when China had a total of 106 brokerages, according to figures earlier reported by the association.

Of the 107 brokerages, 95 reported a net profit for 2008, the association said. The brokers’ combined 2008 revenue was 125.1 billion yuan, including 88.2 billion yuan in income from securities dealing for clients and 7.7 billion yuan from their underwriting business, the association said.

**Investor sentiment index for China rises in Q4 of 2008**

(The 2009-01-21)

Chinese investors are getting more optimistic in the domestic equity market, boosted by the 4-trillion-yuan ($586 billion) economic stimulus package, according to a survey released in Beijing on Jan 20.
The investor sentiment index for China rose to 103 in the fourth quarter of 2008, up from 88 in the third quarter, according to the survey by the ING, an international financial service provider based in the Netherlands. This made China the second "optimistic" market in Asia after Indonesia, according to the report.

The survey, through online interviews, covered more than 1,300 Chinese investors above the age of 30 and with assets of at least $100,000.

About 50 percent of the investors surveyed believe the country's economy would go better in the first quarter this year, compared with 38 percent for the fourth quarter in 2008.

The ING survey considered the 4-trillion-yuan economic stimulus package announced in November as the key factor to boost up the investor sentiment.

China's key Shanghai index has gained 6.4 percent since the central government announced the package in November 2008.

Seventy-eight percent of the investors surveyed hold that the package would have a positive influence on the economy, while 67 percent said they would make more investments in the first quarter of 2009 because of the package.

According to the survey, 29 percent of the Chinese investors planned to increase investment in the domestic equity market in the first quarter. In a previous survey, 13 percent of the investors said they would invest more in the fourth quarter stock market of 2008.

**Pension fund increases stock-buying**

The National Council for Social Security Fund (NCSSF), one of China's largest institutional investors, opened another eight accounts in the Shenzhen and Shanghai bourses in December 2008, showing their growing confidence in the country's capital market. It was the third time the NCSSF opened new accounts last year.

According to statistics from China Securities Depository and Clearing Cooperation Limited, the NCSSF opened four accounts each in the Shenzhen and Shanghai bourses in December, increasing its total to 132.

"The NCSSF's latest move indicates that they may increase their investment into the capital market, as the current P/E ratio of the market has been reasonable and attractive in the long run," said Chen Wei, analyst with China Minzu Securities.

**Mainland ETFs to debut on Hong Kong bourse**

The Hong Kong Exchanges and Clearing Limited (HKEx) plans to introduce trading in A-shares exchange-traded funds (ETF) derivatives in the second half of this year.

"Products including ETF futures and options will also be launched later this year," the exchange's chief executive Paul Chow said on Jan 21. He added that the bourse would also explore the possibility of launching gold options contracts.

HKEx, in partnership with the Shanghai Stock Exchange (SSE), will propel the process of simultaneous A- and H-share offerings and other cross-border cooperation, Chow said.

Zhang Yujun, general manager of SSE, said that the Shanghai-based bourse will launch Shanghai-Shenzhen 300 index ETF, industry and bond ETFs, and real estate investment trust products this year to drive financial innovation.

Zhang said the unfolding economic meltdown would in no way deter the SSE from coming out with more innovative financial tools.

The SSE has completed the preliminary work for the long-awaited margin trading and short selling, Zhang added.
Chow said the initial public offering (IPO) market suffered last year as many companies delayed their plans due to the market volatility. The IPO market will, however, become more active in the second half, he added.

**Mutual funds increase 281.9b shares amid bearish market**

Figures from the China Securities Regulatory Commission (CSRC) show that in 2008 China's mutual funds enjoyed an increase of 281.9 billion shares despite the bearish market that dampened investment throughout the year.

According to statistics ending December 31, 2008, China had 464 mutual funds, with a combined net value of 1.89 trillion yuan ($277 billion) and a total shares of 2.464 trillion shares. Of all the mutual funds, 89 were newly founded in 2008.

The net value of 31 closed-end funds stood at 68.55 billion yuan, accounting for 3.63 percent of the total; while that of 433 open-end funds valued at 1.82 trillion yuan, accounting for 96.37 percent.

**Bond funds excel in 2008 as stocks plunge, rates drop**

China's bond funds achieved higher returns than most stock-invested funds last year, as investors sought safer tools when the global financial crisis resulted in stock plunges and interest rate cuts.

Altogether 25 bond funds calculated by China Galaxy Securities Company Ltd fund research center enjoyed an average earning rate of 6.52 percent in 2008, according to a report the center issued earlier this month.

In contrast, 124 stock funds suffered heavy losses as their average return rate stood at -50.6 percent, according to the report.

In 2008, China's stock market saw the worst performance in history, with the benchmark Shanghai composite index plummeting nearly 70 percent.

The report said 16 index funds, which tracked the movements of stock indices in buying and selling securities, saw the lowest average return rate of -62.6 percent in 2008.

Losses were also recorded for most of hybrid funds, whose return rates ranged from -24.8 percent to -49.8 percent.

More investors turned to the bond market to avoid risks while lower interest rates drove bond demand even stronger, leading to relatively high returns for bond investment, said analysts.

As of the end of 2008, China had 464 mutual funds, with a combined net value of 1.89 trillion yuan (about $277 billion).
Additional stimulus in the pipeline

On top of the announced 4-trillion-yuan package, the Chinese government will roll out more industry-specific policies, Premier Wen Jiabao said on Jan 2. The government is refining and augmenting the package, because it was "rather preliminary" when announced on Nov 9, he said.

During his visit to Qingdao, a manufacturing and export hub in Shandong province, the premier said that the government is working on a package of measures to prevent the economy from an excessive slowdown.

A number of industry-specific policies are in the making, and two of them, for the auto and steel industries, have already been drafted, Wen said without elaborating.

The 21st Century Business Herald reported earlier that the government was drafting measures to bolster nine industries which account for one-third of GDP. They include the auto, steel, textile, equipment machinery and shipbuilding sectors.

Wen also called for early implementation of medium- and long-term plans related to science and technology. "All such plans, if strongly related to economic development, should be expedited," he said.

Striking a note of confidence, Wen said the country's vast market, abundant labor resources, sound financial system and adequate liquidity would help it tide over the global financial crisis.

Rules eased on processing trade

In a bid to stabilize its slumping foreign trade, China removed 1,757 items from its lists of product categories that have been either restricted or banned from foreign investment in processing trade.

A total of 1,730 items will no longer be restricted from foreign investment. These products, ranging from textiles to plastic goods, account for 77 percent of the products formerly designated as restricted and may involve $30 billion in foreign trade, according to a notice jointly released by the Ministry of Commerce and China Customs on Dec 31, 2008.

Another 27 product items, mainly in the metal and non-ferrous sectors, will no longer be banned from foreign investment in processing trade.

China sets 2009 M2 growth target of 17%

The central bank said it has set an M2 growth target of 17 percent for 2009. In a statement on its website, the People's Bank of China said this year's money supply growth target is 3 to 4 percentage points higher than the combined rates of GDP and CPI growth.

The central bank also reiterated that it will maintain an "appropriately loose" monetary policy stance this year.

The statement came after the conclusion of a two-day work meeting where the bank's main tasks for the year were identified.

China intends to stabilize the stock market and expand bond issuance, while increasing the flexibility of the yuan, it added.

China lowers threshold for bond market entry

Companies in China now can issue bonds below 500 million yuan ($73.09 million) in the country's inter-bank bond market. The central bank lowered the threshold for market entry, which was set up in 2004, in an online statement on Jan 9.
The abolishment will make it easier for small- and medium-sized companies (SMEs) to raise capital. It also reflects the central bank's decision to help these companies, a bond trader said.

Capital shortage has long been a bottleneck in the development of Chinese SMEs, as lenders tend to be reluctant to grant loans over risk concerns.

The central bank announced at a recent work meeting it would carry out short-term trial bonds for the country's SMEs in 2009. It was also considering the issue of high-yield bonds and united bonds for SMEs in the inter-bank bond market.

Zhao Xijun, professor of finance with Beijing-based China Renmin University, also saw it as good news for companies wishing to raise capital through bond issuing. "To scrape the regulation on the minimum fund amount is necessary to create a favorable environment to encourage enterprises to issue bonds," he said.

**More loans allowed from small-, mid-sized banks**

China's small- and medium-sized commercial banks will be allowed bigger room in lending, the country's banking regulator said on Jan 10 in its latest effort to ease credit for the slowing economy.

The loan-deposit ratio of small- and medium-sized lenders can exceed the required level "by a proper margin", said the China Banking Regulatory Commission (CBRC) in a statement on its website.

The CBRC prohibits Chinese commercial banks from lending out more than 75 percent of their total deposit to avoid liquidity crises. The statement didn't reveal whether the ceiling will be moved up for large lenders too.

The CBRC also urged Chinese banks to boost credit support for small enterprises and rural sectors.

Lenders will be encouraged to lend to company mergers and to offer loan restructuring to enterprises with financial or managerial problems caused by the global downturn, said the CBRC.

Through loan structuring, banks can cut the burden of borrowers by extending loan maturities, reducing or remitting debts and other favorable adjustments.

**Central bank gives a lift to car financing**

The People's Bank of China, the central bank, said on Jan 16 that it would support the establishment of more auto financing companies and the expansion of their business scope to help boost vehicle consumption.

In a statement, the central bank also said it would encourage commercial banks and auto financing firms to "gradually develop" the auto credit business in China.

"The central bank will support the issuing of new auto financing company licenses if necessary, " the bank said. The bank said it would encourage the development a "long-term and stable financing" structure for the automobile industry.

Auto loans of all financial institutions nationwide amounted to 158.3 billion yuan ($23.14 billion) in 2008, the central bank said in the statement.

**Pudong may take lead for local government bonds**

Shanghai's Pudong District may pioneer the issue of the long-anticipated local government bonds once the central government gives a green light for the release.
"We had been actively discussing with related parties about issuing local bonds before the State Council announced 30 measures to strengthen financial stability last December," said an anonymous source from the Pudong Financial Service Office. "We'll make public the proposal once we get a nod from the top policymakers," the source said.

"Local authorities are short of cash at hand as the slumping property sales have eaten into their revenues amid the financial meltdown. Therefore, they have to seek alternative financing measures, and the municipal bond is a choice," said bond analyst Jiang Nan from a Shanghai-based securities company.

The central government is mulling the permission of the issue, and it is likely to put it into practice as early as this February, according to a source familiar with the matter. "But the Ministry of Finance, rather than the local entities, will exercise the obligation to issue the bonds"

"Local governments’ increasing spending on medical system, pension insurance, and infrastructure construction has led to a large gap between its spending and public revenue," said Li Junsheng, vice chancellor of Central University of Finance & Economics.

It appears that the local authorities have reached a tapping point to increase their fiscal revenues through the municipal bonds, Li said.

Shanghai, in particular the booming new district of Pudong, is a preference. "It's highly likely that cities in eastern China, like Shanghai, will pilot the bonds issue, given their adequate regulatory system and sufficient fiscal revenues," Jiang said.

However, experts remained skeptical on the feasibility of the controversial bonds because of supervision concerns.

"Many cities have a budget deficit, and the issuance of municipal bonds may result in financial crisis in local governments if under inappropriate supervision," Li said.

"The issue is highly likely to be discussed at the annual sessions of the national congress in March. And the first trial place may be approved afterwards," Jiang said.

Banks get approval for bond trading

China has allowed listed commercial banks to participate in bond transactions on bourses, the securities regulator said on Jan 19.

Listed commercial banks can submit the applications to the Shanghai Stock Exchange or Shenzhen Stock Exchange after getting approval from the China Banking Regulatory Commission (CBRC), according to the website of the China Securities Regulatory Commission (CSRC). The government move is expected to spur the bond markets.

During the test period, commercial banks can trade bonds on the fixed-income platform of the stock exchanges, including treasury bonds, corporate bonds and enterprise bonds.

The bourses have been asked to provide a special place for commercial banks to trade bonds and give corresponding technical support. The participating banks are allowed to use only their own accounts for bond transactions.

The CBRC and the CSRC will set up joint supervision systems to oversee the bond transactions of commercial banks, the announcement said.

The regulators will gradually enlarge the scope of the pilot units in commercial banks and perfect related regulations, the CSRC said, without elaborating on the detail of the pilot units.
Central bank restates policy of ample money, credit
(2009-01-20)

China's central bank will keep enough liquidity in the banking system this year for banks to increase their lending to companies, Vice-Governor Yi Gang said in comments published on Jan 20.

Yi, in a restatement of existing policy, made the comments during a visit to manufacturers based in southern Guangdong province, which are struggling amid the global economic downturn, according to the People's Bank of China website.

Yi said the economic situation in 2009 would be grim. The central bank would push banks in particular to lend in support of small firms, innovation and technology upgrading, Yi said.

Administrative spending tightened amid fiscal pressure
(2009-01-29)

China's central and local governments will be required to keep some administrative fees this year no higher than last year as the global financial crisis builds fiscal pressure in the country.

Zero-growth must be maintained in government spending on car purchases, meetings, receptions and overseas travels this year, the Ministry of Finance said on Jan 29.

The ministry said it would strengthen oversight on government funds and investment and fight resolutely against illegal behaviors such as embezzlement.
Chinese banks grant 740b yuan of loans in Dec 2008

(2009-01-12)

Chinese banks granted 740 billion yuan ($108.03 billion) in loans in December 2008, the biggest monthly number after last January's 803.6 billion yuan, the Shanghai Securities News reported on Jan 12.

This was a result of the country's "moderately easy monetary policy" and central government's incentives to encourage lenders to increase credit supplies to boost economic growth, the paper said.

Outstanding loans topped 30 trillion yuan at the end of December, up 19 percent year-on-year, according to the report.

Financial institutions nationwide extended more than 4.9 trillion yuan of loans last year, an increase of about 1.3 trillion yuan compared with 2007, the newspaper reported.

China’s exports see 2nd straight monthly fall

(2009-01-13)

China's exports fell two months in a row for the first time in a decade, reflecting the impact of the global financial crisis on the "workshop of the world".

According to the Customs figures released on Jan 13, exports in December 2008 dropped 2.8 percent year-on-year, after falling 2.2 percent in November.

Imports in December dropped, too, to 21.3 percent year-on-year, after having fallen 17.9 percent the previous month.

But since the drops took place in November and December only, the country will still see an impressive 17.2 percent rise in exports and 18.2 percent increase in imports for the whole of last year. The previous year's records were much more impressive, though, with exports and imports both recording a 20-plus percent growth.

In December 2008, the exports and imports volumes were $111.2 billion and $72.2 billion - and in November, they were $114.9 billion and $74.9 billion.

Su Chang, macroeconomic analyst with China Economic Business Monitor, said foreign trade could decline further and would pick up when the US economy showed signs of recovery.

The country is likely to see "almost zero growth" in exports in the first quarter of this year, and perhaps "a fall of 6 percent" in the second quarter, Su said.

The drop in exports has been attributed to falling demand in the European Union (EU) and the US, the country's top two trade partners.
### Breakdown of China’s key exports

(2009-01-13)

China's General Administration of Customs on Jan 13 issued the following partial breakdown of key exports in December and all of 2008. (Volumes expressed in tons, units or cubic meters; values expressed in millions of dollars; percent changes are from a year earlier)

<table>
<thead>
<tr>
<th>IN TONS</th>
<th>DEC LEVEL</th>
<th>JAN DEC LEVEL</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Val ue</td>
<td>Volume</td>
</tr>
<tr>
<td>Rice</td>
<td>40,000</td>
<td>21.6</td>
<td>970,000</td>
</tr>
<tr>
<td>Corn</td>
<td>40,000</td>
<td>11.5</td>
<td>270,000</td>
</tr>
<tr>
<td>Sugar</td>
<td>7,817</td>
<td>3.6</td>
<td>58,403</td>
</tr>
<tr>
<td>Coal</td>
<td>3,630,000</td>
<td>663.7</td>
<td>45,430,000</td>
</tr>
<tr>
<td>Coke &amp; semi-coke</td>
<td>2,203,000</td>
<td>99.3</td>
<td>12,130,000</td>
</tr>
<tr>
<td>Crude oil</td>
<td>420,000</td>
<td>223.5</td>
<td>4,160,000</td>
</tr>
<tr>
<td>Refined oil</td>
<td>2,010,000</td>
<td>1,204.3</td>
<td>17,030,000</td>
</tr>
<tr>
<td>Plastic products</td>
<td>629,038</td>
<td>1,869.1</td>
<td>7,296,270</td>
</tr>
<tr>
<td>Raw silk</td>
<td>902</td>
<td>19.5</td>
<td>13,431</td>
</tr>
<tr>
<td>Precious metals and</td>
<td>59.6</td>
<td>311.4</td>
<td>659.3</td>
</tr>
<tr>
<td>Jewellery</td>
<td>20,000</td>
<td>14.1</td>
<td>129,000</td>
</tr>
<tr>
<td>Steel billets</td>
<td>3,170,000</td>
<td>3,933.3</td>
<td>59,230,000</td>
</tr>
<tr>
<td>Steel products</td>
<td>77,442</td>
<td>154.1</td>
<td>841,292</td>
</tr>
</tbody>
</table>

| IN CUBIC METERS |         |         |         |         |         |         |         |         |
| Cut timber      | 63,429  | 37.2    | 685,322 | 401.4   | -8.3    | 2.9     |         |         |

| IN UNITS |         |         |         |         |         |         |         |         |
| Live hogs     | 230,000 | 47.9    | 1,640,000 | 382.7   | 2.2    | 46.4   |         |         |
| Textile yarn & fabrics | 4,968.6 | ~       | 65,375.0 | ~       | 16.6   |         |         |         |
| Handbags      | 1,454.3 | ~       | 13,939.6 | ~       | 28.9   |         |         |         |
| Garments & accessories | 11,097.6 | ~   | 119,790.3 | ~       | 4.1    |         |         |         |
| Footwear      | 2,886.6 | ~       | 29,656.0 | ~       | 17.2   |         |         |         |
| Wireless handset phones & parts | 3,978.7 | ~       | 56,527.4 | ~       | 9.1    |         |         |         |
| Colour televisions | 2,990,000 | 654.6 | 4,955,000 | 10,553.1 | 3.5    | 17.2   |         |         |
| Integrated circuits | 1,819.4 | 24.32 bln | 11,618.4 | 19.1    | 3.3    |         |         |         |
| Shipping containers | 80,000  | 347.3   | 303,000    | 9,092.1   | -3.3   | 3.6    |         |         |
| Motorcycles & mopeds | 550,000 | 252.2  | 11,600,000 | 4,810.1 | 5.7    | 25.7   |         |         |
| Bicycles      | 3,330,000 | 188.4 | 56,590,000 | 2,554.8 | -4.5   | 18.0   |         |         |
| Watches       | 44,290,000 | 98.8 | 550,360,000 | 1,253.3 | -13.7  | 7.4    |         |         |
| Toys          | 594.1    | ~       | 8,634.6    | ~       | 1.8    |         |         |         |
| Data processing machines & parts | 9,831.0 | 1.4 bln  | 315,019.1 | -1.2   | 9.1    |         |         |         |
| Electrical motors & generators | 218,980,000 | 480.5 | 3.7 bln | 3,293.4 | -5.1   | 17.4   |         |         |
| Furniture     | 2,789.8  | ~       | 26,911.2   | ~       | 21.5   |         |         |         |
| Light fixtures | 866.6    | ~       | 9,241.9    | ~       | 19.7   |         |         |         |
| Machinery & electronics | 61,596.3 | ~   | 822,929.7 | ~       | 17.3   |         |         |         |
| High-tech products | 29,946.8 | ~       | 415,611.0 | ~       | 13.1   |         |         |         |

~ Unavailable

### Forex reserve growth drops first time in decade

(2009-01-13)

China’s foreign exchange reserve increased $417.8 billion in 2008, $44.1 billion less than the increase in 2007, the People’s Bank of China, the central bank, announced on Jan 13. This is the first time China has seen a decline in the growth of its foreign exchange reserve since 1998.

The foreign exchange reserve increased nearly $45 billion in the fourth quarter to $1.95 trillion by the end of 2008, the central bank said in a report.

The reserve growth had been slowing in 2008. The total foreign exchange reserve at the end of 2008 was up 27.34 percent from the end of 2007. The growth rate from January to September 2008 was 32.92 percent and that from January to June 35.37 percent.
The marked growth slowdown was a result of a shrinking trade surplus and a possible slowdown in "hot money" flow, analysts said.

Despite the slowdown of foreign exchange reserve growth for the whole year, the monthly reserves for December 2008 increased by $61.3 billion, $30 billion more than the same month of 2007, according to the central bank.

"The reserves decreased in October and November as the increased amount in December outnumbers that in the last quarter," said Guo Tianyong, professor with the Central University of Finance and Economics.

According to Guo, expectation for a weaker yuan and extraction of capital from the Chinese market to ease capital supply pressure in the West were major factors leading to the decrease of foreign exchange reserves in the fourth quarter.

December saw a sharp rise in foreign exchange reserves as the Central Economic Work Conference pledged to keep the renminbi stable based on a reasonable and balanced level, which reversed the expectation for a weaker yuan, he said.

China’s M2 growth accelerates in December

(2009-01-13)

The pace of growth in China's money supply accelerated in December 2008, reflecting the impact of recent cuts in interest rates and bank reserve requirements, analysts said.

The indicator, which measures cash bills in circulation, bank deposits, money-market funds, and checking deposits and other types of deposits, grew 17.8 percent in December from a year earlier, the People's Bank of China said on Jan 13. M2 expanded 14.8 percent in November.

The annual growth of money supply including cash in circulation and demand deposits, or M1, was 9.06 percent in December compared to a 6.8 percent in November.

The growth suggests the recent aggressive cuts in banks' reserve requirement ratios have helped improve liquidity, said Jing Ulrich, chairman of China equities at JPMorgan.
China’s money supply in 2008

<table>
<thead>
<tr>
<th>Item</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money &amp; Quasi-money (M2)</td>
<td>41,784.62</td>
<td>42,103.79</td>
<td>42,305.45</td>
<td>42,931.37</td>
<td>43,622.16</td>
<td>44,314.10</td>
</tr>
<tr>
<td>Money (M1)</td>
<td>15,487.26</td>
<td>15,017.79</td>
<td>15,086.75</td>
<td>15,169.49</td>
<td>15,334.48</td>
<td>15,482.02</td>
</tr>
<tr>
<td>Currency in Circulation (M0)</td>
<td>3,667.32</td>
<td>3,245.45</td>
<td>3,043.31</td>
<td>3,078.96</td>
<td>3,016.93</td>
<td>3,018.13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money &amp; Quasi-money (M2)</td>
<td>44,636.22</td>
<td>44,884.67</td>
<td>45,289.87</td>
<td>45,313.33</td>
<td>45,864.47</td>
<td>47,516.66</td>
</tr>
<tr>
<td>Money (M1)</td>
<td>15,499.24</td>
<td>15,688.99</td>
<td>15,574.90</td>
<td>15,719.44</td>
<td>15,782.66</td>
<td>16,621.71</td>
</tr>
<tr>
<td>Currency in Circulation (M0)</td>
<td>3,068.72</td>
<td>3,085.16</td>
<td>3,172.49</td>
<td>3,131.78</td>
<td>3,160.74</td>
<td>3,421.90</td>
</tr>
</tbody>
</table>

Source: www.pbc.gov.cn

China revises 2007 GDP growth rate up to 13%

China revised the growth rate of its gross domestic product (GDP) for 2007 to 13.0 percent from 11.9 percent, the National Bureau of Statistics (NBS) said on Jan 14. The pace was the fastest since 1994 when the GDP expanded by 13.1 percent, according to the NBS data.

Final verification showed the GDP totaled 25.7306 trillion yuan ($3.76 trillion), an increase of 777.6 billion yuan over the initial verification data which was released in April 2008.

The figure for the agriculture sector was 2.8627 trillion yuan, 53.2 billion yuan larger than previous verification. The data for the industry and service sectors were 12.4799 trillion and 10.388 trillion yuan respectively or 341.8 billion and 382.6 billion yuan larger than previous figures.

The bureau reformed its GDP reporting mechanism in 2003. It is now divided into three steps: initial calculation, initial verification and final verification. The final figure is often larger because it takes time to collect complete economic data from millions of small private and service businesses, said an expert, who declined to be named.

Customs revenue rises 21% to record high in 2008

China’s customs revenue hit a record high of 916.11 billion yuan ($134.03 billion) in 2008, up 20.8 percent year-on-year, the General Administration of Customs said on Jan 14.

Revenue from exports totaled 177 billion yuan, up 23.6 percent, while that from imports hit 739.11 billion yuan, up 20.1 percent. The total exceeded the target of 845.5 billion yuan. Much of the improvement came during the first nine months of the year, before global financial and economic turmoil significantly affected trade.

Exports and imports fell in November and December 2008, reflecting weakening external and domestic demand.

Exports fell 2.2 percent year-on-year in November and 2.8 percent in December. Imports fell 17.9 percent year-on-year in November and 21.3 percent in December.
The first nine months, however, saw steady development in trade, with total imports up 29 percent year-on-year to $893.07 billion.

Imports of products for final use in China, a category that excludes components and other material imported for use in export products, rose 47.3 percent to $455.79 billion, boosted by strong domestic demand and consumption.

Customs export revenue also surged in the first nine months of 2008, exceeding 36 billion yuan, up 210.2 percent. The General Administration of Customs said the jump reflected tariff hikes on energy-intensive, polluting and resource-based products. Exports for the first nine months totaled $1.074 trillion, up 22.3 percent.

China cut import tariffs on soybeans, pork, edible oil and nuts to boost imports as agricultural product prices and consumer prices soared. As a result, imports of such products rose 80 percent and customs revenue from those imports increased 61.5 percent.

**China’s FDI up 23.6% in 2008**

Foreign direct investment (FDI) in China jumped 23.58 percent annually to $92.4 billion in 2008, Ministry of Commerce spokesman Yao Jian said on Jan 15. The gain, however, was lower than the 26.3 percent increase for the first 11 months of 2008 and 35 percent for the first 10 months.

According to Yao, the increase in foreign investment mainly flew to the service sector, which attracted $38.12 billion of FDI last year, up 24.23 percent.

FDI fell 5.73 percent in December 2008 from a year earlier to $5.98 billion, according to the ministry. November's decline was 36.5 percent. December's FDI rose 12.3 percent from November. It was the first month-on-month rise since July last year.

China approved the establishment of 2,562 overseas-funded enterprises in December, down 25.78 percent year on year.
Last year, foreign companies invested more money in western and central China, instead of the comparatively-developed eastern region, Yao said. FDI surged nearly 80 percent last year from 2007 in western China, while that in central China rose 36.44 percent.

Outbound investment of Chinese companies, excluding investment in the financial sector, surged 63.6 percent year on year in 2008 to $40.65 billion, he said.

China’s income growth slows, urban-rural gap widens

Chinese income growth slowed in 2008 as the economy weakened, with average incomes in cities outpacing those in the countryside for the eleventh year in a row, the National Bureau of Statistics said on Jan 15.

Per-capita disposable income of urban residents in all of 2008 reached 15,781 yuan ($2,307), showing inflation-adjusted growth of 8.4 percent from a year earlier, the agency said in a statement.

Per-capita cash incomes of rural residents reached 4,761 yuan for the year as a whole, up 8.0 percent in real terms. That compared with inflation-adjusted growth in 2007 of 12.2 percent for urban incomes and 9.5 percent for rural ones.

Real income growth in cities was helped to some extent towards the end of the year by a slowdown in consumer inflation, but falling prices for some agricultural goods weighed on farmers’ incomes. A wave of factory shutdowns in the wake of falling exports also left millions of migrant workers unemployed and put downward pressure on the wages of those who have hung on to their jobs.

Banks report big decline in non-performing loans

All Chinese commercial banks achieved a significant drop in non-performing loan ratio in 2008, according to data released on Jan 16 by the China Banking Regulatory Commission (CBRC).

The other major indicators commonly applied to test the strength of the Chinese banking system also exceeded all regulatory requirements, the CBRC said.

Non-performing loans of the country's major commercial banks at the end of 2008 dropped by 706.5 billion yuan ($103.29 billion) from a year earlier to 494.4 billion yuan, bringing the average non-performing loan ratio down 4.24 percentage points to 2.49 percent, the CBRC figures showed.

The capital adequacy ratio of all Chinese commercial banks remained above the regulatory level, with the average provision coverage ratio reaching 115.3 percent, up 74.1 percentage points from the year before.

As an additional safeguard against a possible increase in risks stemming from an unexpected steep economic decline, the CBRC has further raised the 2009 target for risk control on commercial banks. The average provision coverage ratio has now been increased to no less than 130 percent and the capital adequacy ratio to above 8 percent.

The banking regulator warned of the increased pressure placed on banks' earnings in 2009, arising from the narrowing of interest rate spread, shrinking income from intermediary businesses and higher risks involved in overseas investment.

The commission said it was in discussions with the Ministry of Finance to lower the sales tax on small banks to lessen their burden in a downward economic cycle.

In addition to urging banks to observe the stricter risk control requirements, the regulator reiterated the importance of the contributions they could make in promoting economic growth, especially in the expansion of credit support to small and medium-sized firms and agriculture related projects.
China’s urban unemployment rate rises to 4.2%

China's urban unemployment rate was 4.2 percent at the end of 2008, up 0.2 percentage points year-on-year, the Ministry of Human Resources and Social Security said on Jan 20.

As of Dec 31, 2008, there were 8.86 million urban residents registered as jobless, up 560,000 from the end of the third quarter, ministry spokesman Yin Chengji told a press conference. Yin said 11.13 million urban jobs were created last year, 11 percent above the government target.

The slight rise in the jobless rate reflected a slowing economy amid the global financial crisis, said Tang Min, deputy secretary of the China Development Research Foundation. "The figure looks all right, but the real situation could be much more serious, as migrant workers and newly graduated college students were not included in the government count," said Tang.

The urban jobless rate fell for five consecutive years, from a high of 4.3 percent in 2003 to 4 percent in 2007.

"The 4.2 percent rate was already a sharp increase, given that widespread job cuts only surfaced in the second half of last year," Yuan said. "The unemployment situation was grimmer than shown by the latest figure," he said, noting that migrant workers were not included in the count.

Statistics from the ministry showed that 10 million, or 10 percent of a total of 130 million migrant workers, had returned to their rural homes jobless as of December. Starting in the second half of 2008, weakening foreign demand has hit companies in the coastal industrial belts where most migrant workers had been employed.

The government will focus on jobs for college graduates, migrant rural workers and urban residents this year, said Yin.

China aims to keep its registered jobless rate below 4.6 percent and provide 9 million new urban jobs this year. Yuan estimated that the urban unemployment figure could worsen in the first half of this year.

In 2008, the average pension for retired workers climbed to 1,080 yuan (about $158) per month, representing an increase of 110 yuan from the previous year, said Yin. He said the country's social security fund increased 27.7 percent to 1.38 trillion yuan last year.

China’s 2008 energy use per unit of GDP down 4.21%

China's energy consumption per unit of GDP fell by 4.21 percent in 2008, but fell short of a more than 5 percent reduction that its energy efficiency authority earlier identified as crucial to meeting the government's goal of cutting energy use by 20 percent in the 2006-2010 period.

The figure for 2008 disclosed by Ma Jiantang, head of China's National Bureau of Statistics, represents an improvement over the decline of 3.66 percent in energy use achieved the previous year.

However, Xie Zhenhua, vice-chairman of the National Development and Reform Commission, said in March last year that the country would need to reduce energy consumption by more than 5 percent in 2008 and the following two years if it is to meet the five-year goal.

China wants to raise energy efficiency to reduce its reliance on imported crude oil, and to lower the amount of coal burnt in power stations, which is contributing to environmental problems.

Strategies adopted by the government include making consumers of coal and petroleum face pay taxes than users of renewable energy, while offering tax breaks on a range of energy-efficient equipment.
China’s push to meet its target of a 20-percent reduction in energy use may be assisted by the economic slowdown if inefficient heavy industry and manufacturing companies are forced out of business.

**China’s 2008 retail sales up 21.6% but slow in 2H**

China’s retail sales grew 21.6 percent in 2008, although growth decelerated during the second half amid the economic downturn, the National Bureau of Statistics (NBS) said on Jan 22. The full-year growth rate was 4.8 percentage points higher than in 2007 but down from 21.9 percent for the January-to-November period.

As consumer sentiment weakened and inflation eased, year-on-year retail sales growth decelerated continuously during the second half, down from 23.3 percent in July to 20.8 percent in November and further to 19 percent in December.

NBS spokesman Ma Jiantang said real (inflation-adjusted) retail sales growth was 17.4 percent in December, or 0.8 percentage point more than in November.

Ma cited the December sales data as an indication of positive economic change. "Domestic sales growth remained relatively fast and consumption in urban and rural areas remained robust," Ma told a press conference in Beijing.

Peng Wensheng, head of China Research at Barclays Capital, also noted that year-on-year retail sales growth had been "surprisingly resilient" in the face of a sharp slowdown in overall economic growth.

He attributed the strength in retail sales to the government’s efforts to raise rural incomes and expand social security coverage over the past couple of years. But he also said the continued fast growth could be a result of the "carry-over effect" of strong growth in the earlier months of the year.

**China’s CPI rises 5.9% in 2008**

China’s consumer price index (CPI), the main gauge of inflation, rose 5.9 percent in 2008 after price pressures began to ease in May, the National Bureau of Statistics (NBS) said on Jan 22. The CPI was 1.1 percentage points higher than the level in 2007, which was also the official target for 2008.

The CPI for December 2008 was up just 1.2 percent, the eighth consecutive month of deceleration and the slowest rise since July 2006, NBS director Ma Jiantang told a press conference. The CPI was 2.4 percent last November, and it hit a 12-year-high of 8.7 percent last February.
The producer price index (PPI), a measure of inflation at the wholesale level, fell 1.1 percent in December after rising 2 percent in November.

Early in the year, when world commodity prices were high and China was in the final stage of preparing for the Olympics, the PPI was rising at rapid rates. Therefore, despite the deceleration in the final third of the year, the full-year PPI increase was 6.9 percent, 3.8 percentage points higher than a year earlier, according to the NBS.

The sharp fall in commodity prices and weaker demand led to the drop in the PPI, Peng Wensheng, head of China Research at Barclays Capital, wrote in a research note. "We expect CPI inflation to ease further," Peng said, adding that consumer prices might even fall in the first half of 2009, before rebounding later in the year.

"The effective control of price hikes not only helps raise living standards, but more importantly, gives us room for macro-economic controls," Ma noted.

**China’s fixed-asset investment up 25.5% in 2008**

China's fixed-asset investment rose 25.5 percent year-on-year to 17.23 trillion yuan ($2.52 trillion) in 2008, the National Bureau of Statistics (NBS) said on Jan 22. The growth rate was 0.7 percentage point higher than the previous year.

Urban fixed-asset investment was 14.82 trillion yuan, representing an annual increase of 26.1 percent and up 0.3 percentage point from the previous year, and rural fixed-asset investment stood at 2.41 trillion yuan, up 21.5 percent.

NBS statistics showed that in urban areas, investments in primary industry increased by 54.5 percent to 225.6 billion yuan.

Secondary industry attracted 6.5 trillion yuan and tertiary 8.09 trillion yuan of investment, up 28 percent and 24.1 percent, respectively.

Urban fixed asset investment rose 21.3 percent in China's eastern areas, 33.5 percent in the central areas and 26.7 percent in the western regions.

NBS head Ma Jiantang said fixed-asset investment in December grew by 21.9 percent year on year. It represented a slower growth rate compared with an average of 26.8 percent growth in the first 11 months of 2008.
China’s industrial output rises 12.9% in 2008

(2009-01-22)

China’s industrial output rose 12.9 percent year on year in 2008, 5.6 percentage points lower than the previous year, the National Bureau of Statistics (NBS) said on Jan 22. Industrial output increased 5.7 percent in December 2008, compared with the 5.4 percent growth in November.

Among industrial enterprises each with an annual sales income of at least 5 million yuan ($731,283), industrial output of the state-owned enterprises and share-holding companies went up 9.1 percent and 15 percent respectively.

That of the companies funded by foreign investors or investors from Hong Kong, Macao and Taiwan was up 9.9 percent. By sector, industrial output rose 13.2 percent for the heavy industry and 12.3 percent for the light industry.

NBS statistics showed total profits of the country’s industrial enterprises reached 2.4 trillion yuan in the first 11 months last year, up 4.9 percent compared with the same period in 2007.

Of the total 39 industries, 31 of them reported year-on-year profit growth. Five industries took the lead, including petroleum and natural gas exploitation, mining and washing of coal, manufacturing of transportation equipment, manufacturing of raw chemical materials and chemical products as well as smelting and pressing of ferrous metals.

Banks issue nearly 900b yuan new loans in early Jan

(2009-01-23)

Chinese banks’ new loans in the first two weeks of January totaled nearly 900 billion yuan, China Business News reported on Jan 23, citing an unnamed official at a State-owned bank’s treasury department.

The figure includes about 170 billion yuan in new loans issued by Industrial and Commercial Bank of China from Jan 1 to 16.

Over the same period, China Construction Bank lent 140 billion yuan, Bank of China 70 billion yuan, and Agricultural Bank of China 40 billion yuan, the unnamed bank official told the paper.

The paper didn’t provide new loan data for other banks, but it said new loans of shareholding and regional banks also grew rapidly in January.

Quarterly economic growth lowest in 7 years

(2009-01-23)

The country’s economic growth in the fourth quarter of 2008 slowed to 6.8 percent year-on-year, the lowest in seven years, the National Bureau of Statistics (NBS) said on Jan 22. And the GDP growth for the whole of last year dropped to 9 percent, down from 13 percent in 2007, the bureau said.

"The global financial crisis is deepening, and continues to hurt China's economy," NBS chief Ma Jiantang told a press briefing.

The economy has been losing steam because of a slump in the domestic property market and the shrinking of overseas demand, which caused last year's exports growth to fall to 18.5 percent from 26 percent in 2007.

"The economic slowdown was felt most seriously among second and tertiary industries, on which the trade collapse and weakening demand had the greatest impact," said Ken Peng, a Citigroup economist based in Shanghai. Economic growth could sink further in the first quarter of this year, he said.

Despite the slowdown, analysts said December figures offer some hope of a recovery. "While the news from the rest of the world seems to be bad, there is still quite a bit going on here (in China) which is positive," said Stephen Green, Standard Chartered Bank's head of China research. "There are signs of a mild recovery in 2009."
“The country will definitely be able to achieve 8 percent growth this year as long as the central government’s policies to boost domestic investment are carried out properly,” Ma said.

The government's proactive fiscal policy and moderately relaxed monetary policy are yielding results, the analysts said, because the growth of loans in December jumped 18.8 percent year-on-year and that of money supply picked up after months of decline.

China’s SOEs profits drop in 2008

The combined profit of China's State-owned enterprises (SOEs), excluding financial institutions, totaled 1.184 trillion yuan ($269 billion) in 2008, down 25.2 percent from a year earlier, the Ministry of Finance said.

The ministry said enterprises in the power generation and airline sectors have posted big losses in 2008. Corporate earnings in industries such as transportation, oil, petrochemical, steel, nonferrous metal and auto, also fell sharply. Coal producers, however, had maintained a high level of profitability last year, the ministry said.

Four fifths Chinese confident of economic prospect

The majority of Chinese people are still confident of the country's development prospect in spite of the global economic downturn, a survey by the National Bureau of Statistics said.

More than 80 percent of the 10,000 people polled in 18 cities and 20 counties said they expect the country to maintain a steady and fairly fast economic growth despite the global financial crisis which has already started to affect China.

The survey, conducted in November, covered 500 urban residential communities and 100 townships and villages across the country.

Over 90 percent of the respondents said they are "very confident" or "fairly confident" of the country's development orientation and prospect on the road of building socialism with Chinese characteristics.

About five sixths of the surveyed said they expect the country to have built a well-off society by the end of 2020. Only five percent said they either do not have enough faith in the country's future development, or do not have any faith at all.

Central bank’s open market operations in January 2009

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Sales Volume (billion yuan)</th>
<th>Maturity</th>
<th>Yield (%)</th>
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</table>

Source: www.pbc.gov.cn
Growth of fiscal income to slow down

The fiscal income growth is projected to slow further this year, adding further pressure to the State exchequer, the finance minister said on Jan 5.

"The slowing trend, which began in the second half of 2008, will continue this year," Xie Xuren told a working conference. "The conflict between unbalanced income and spending will be prominent this year."

Last year's fiscal revenue might have crossed 6 trillion yuan ($878 billion), up 19 percent over 2007, Xie said. The growth rate was 33.3 percent for the first half, when the global financial crisis broke out.

Government expenditure on rural development, education, healthcare and social security last year could have risen 38 percent, 47 percent, 25.2 percent and 19.9 percent, he said.

The figures are statistical estimates because the official data for 2008 are yet to be released.

The fiscal income growth has slowed since the second half as the worsening economic climate hurt corporate profitability and investment, he said.

Analysts said a weaker fiscal prospect meant the country's budget deficit would balloon further this year, proving critical for financing the government's $586-billion stimulus package.

"The weaker economy calls for a heftier fiscal move to spur growth," said Zhao Quanhou, an economist with the Ministry of Finance's Research Institute for Fiscal Science. "The budget deficit is likely to cross 600 billion yuan in 2009."

But there is plenty of room for deficit this year, provided it stays below 3 percent of the country's GDP, analysts said. Last year's 180-billion-yuan deficit was only about 0.6 percent of the GDP.

"The government may cut taxes further this year to ease the burdens of individuals and enterprises," Zhao said.

Central bank adviser sees room for more monetary steps

China's central bank still has room to take many monetary policy steps to support the economy, if the economic situation makes them necessary, an adviser to the central bank said on Jan 7.

"I believe decision-makers are ready to take big steps when necessary to prevent the economy from deteriorating rapidly," Fan Gang, who holds the academic seat on the central bank's monetary policy committee, said in a speech to a financial forum.

However, Fan added that China's benchmark interest rates should already be considered low, and that official cuts in Chinese benchmark rates tended to have a bigger impact on market rates than equivalent cuts in the United States had on US market rates.

China has cut interest rates five times since September 2008 to fend off a deepening economic slowdown. It cut the benchmark one-year lending rate to 5.31 percent and the one-year deposit rate to 2.25 percent.

Fan also said that in addition to monetary policy steps and fiscal spending, China needed to aid its economy with tax reforms. Consumer spending has been restrained by the fact that big state firms have been taking a large share of national income in the form of profits, leaving less money for consumers, he said.

He said China's economy was expected to achieve the government's minimum growth target of 8 percent this year, helped by fiscal stimulus measures.
Credit Suisse: Indicators bode well for GDP

(2009-01-07)

Despite its growth rate slowing by a third, the Chinese economy has the potential to grow by 8 percent this year, as the manufacturing sector recovers and energy consumption showed signs of increasing, according to economists with investment bank Credit Suisse.

"We saw a sudden collapse in investor confidence in China, especially in the fourth quarter of last year, but we recognize that the Chinese economy could reach the turning point," said Dong Tao, chief regional economist, Credit Suisse. He cited the central government's stimulus measures as key support for economic recovery.

Credit Suisse predicts the economy will remain gloomy in the first half of this year, with GDP growth reaching 7.1 and 7.6 percent in the first and second quarters, respectively.

But that growth is expected to hit 8.3 percent in the third quarter and 8.6 percent in the fourth, the bank forecasts.

China’s business confidence remains weak

(2009-01-09)

Business confidence among Chinese enterprises is expected to remain weak until 2010, according to a survey conducted by UK-based L.E.K. Consulting, indicating that the global financial turmoil is taking a firmer grip than previously expected on the Chinese economy.

The survey, based on interviews with over 30 business owners and executives of Chinese enterprises, showed that the majority of respondents view the current commercial environment as "unfavorable" or "strongly unfavorable" and their confidence is to fall further in the coming months.

Over 56 percent of the respondents surveyed felt that the negative impact of the global economic downturn will persist for one to two years while 44 percent thought that the effects would last for a longer time.

Not surprisingly, exporters continued to maintain a grim outlook for their businesses. "In addition to factors like dwindling overseas demand and yuan appreciation, China's strict control on credit and financing to small-sized exporters along with rising manufacturing costs have dampened sentiment," said Carol Wingard, managing director, L.E.K. China.

"As the prognosis of the global economic situation remains unclear, domestic companies typically expect pressures on their businesses to continue or even increase in the coming six months, indicating a flagging business confidence for 2009," the report said.

"China's economy is no longer decoupled from rest of the world. The impact from the global crisis on many Chinese businesses is tremendous and not expected to wane in 2009," Wingard said.

Chinese enterprises with sharper competitive edge and stronger financial clout are taking the lead in market consolidation to further strengthen their position, the report said.

"In spite of the gloom, we are now seeing leading Chinese companies with solid financials looking for opportunities to enhance their position in the domestic market and to buy overseas strategic assets at a good value," Wingard said.

Less hiring expected in first quarter of 2009

(2009-01-09)

Affected by the global financial crisis, hiring expectations have weakened in seven cities and five industrial sectors in the Chinese mainland for the first quarter of 2009.

In addition, employers in Shanghai, Beijing and Guangzhou reported their weakest hiring intentions since the first quarter of 2007, a report conducted by Manpower showed.
The Manpower Employment Outlook Survey is conducted quarterly to measure employers' intentions to increase or decrease the number of employees in their workforce during the quarter.

The new report shows that the Net Employment Outlook (NEO) for China stands at positive 10 percent in the first quarter of 2009, a decline of 2 percentage points quarter-over-quarter and 5 percentage points year-over-year.

The NEO figure is derived by taking the percentage of employers anticipating total employment to increase, and subtracting the percentage expecting to see a decrease in employment.

For China, the survey for the first quarter was conducted by interviewing a representative sample of 3,727 employers from the cities of Beijing, Shanghai, Guangzhou, Shenzhen, Dalian, Chongqing, Chengdu, Wuhan, Qingdao and Xi'an.

Survey participants were asked: "How do you anticipate total employment at your location to change in the three months to the end of March as compared to the previous quarter?"

Managing Director of Manpower Greater China Lucille Wu attributed the less optimistic hiring activity to the impact of the global financial crisis.

"The current financial tsunami has impacts on the job prospects in the financial and banking industry. Nevertheless, the government's 4 trillion yuan ($586 billion) package to revitalize the country's slowing economy will greatly stimulate domestic consumption and growth, and increase employment," Wu said. "The vast majority of employers are telling us that they will take a 'wait and see' approach before hiring or further reducing staff.

"Thus, we are not anticipating any major fluctuations in the labor market in the first quarter of 2009. We believe hiring intentions will revive in the near future," Wu added.

Quarter-over-quarter, hiring prospects have weakened in seven of the 10 cities, but the forecasts for headcount growth have strengthened in Xi'an and Chongqing.

The weakest hiring activity was reported by employers in Shanghai, with NEO of positive 1 percent, down by 8 percentage points from the fourth quarter of 2008. Employers in Qingdao reported an upbeat NEO of 17 percent for the first quarter.

After the removal of seasonal variations from the survey data, NEO is declining in five of the six industrial sectors quarter-over-quarter. The most pronounced change was in the finance, insurance and real estate sectors, with a decline of 6 percentage points from the fourth quarter of 2008 to a positive 13 percent this quarter.

Employers in the wholesale and retail trade industrial sector continued to predict weaker hiring plans this quarter, with NEO of positive 6 percent, the weakest for the sector since the second quarter of 2005.

China's financial system generally steady and safe

China's financial system is steady and safe in general, said Chinese Vice Premier Wang Qishan on Jan 12, adding the country would stick to the reform and opening-up of its financial sector.

Wang made the remarks in his meeting with Honorary Chairman Andre Desmarais of the Canada-China Business Council.

He said countries could hardly avoid impacts from the global financial crisis along with the rapid development of economic globalization and informationization.

He said currently the most urgent things needed to do were to implement the consensus reached at the G20 summit on financial crisis, fight against protectionism in any form, and prevent the escalation and expansion of financial crisis, so as to maintain the stability of world economy and finance.
The Chinese government had set down a series of measures to maintain economic growth, boost domestic consumption and adjust industrial structure, he said.

A country with fast industrialization and urbanization, China has both advantages and the condition for transforming development mode and expand domestic demand, he said.

Deutsche Bank: China to see worst deflation in a decade

(2009-01-14)

China may witness the worst deflation in a decade, with the consumer price index (CPI), a key indicator for inflation, falling to negative one percent in February, Deutsche Bank's chief economist for Greater China Ma Jun said on Jan 13.

"Our research team forecasts that CPI will likely fall below minus 1 percent in February and producer price index (PPI) could decline to minus 7 percent in the third quarter of this year," he said.

"We forecast that China's GDP growth will decelerate further from 9 percent in 2008 to 7 percent in 2009 on significantly weaker external demand and rapid deceleration in investments in the real estate, manufacturing and mining sectors," he said, adding China's GDP will have a “double dip”, finally reaching its low point in the first half of 2010.

The bank predicted that the average earnings per share (EPS) for Hong Kong-listed H shares will likely decline by 10 to 15 percent in 2009. And the A-share index would also be heading lower before stabilizing in the second half being more positive.

Deutsche Bank highlighted several themes which could provide investment opportunities during 2009. Counter-cyclical sectors will include healthcare, education, and online gaming could demonstrate significant resilience to the economic slowdown; government-sponsored investment related stocks, cement and railway construction; and ongoing industrial consolidation, steel, non-ferrous, and property companies.

The effect of deflation is expected to be negative for many sectors of the economy. But some sectors, including food & beverage, power producers, and oil refining companies could benefit from lower cost of materials.

China’s five-year infrastructure spending may be $1.3 trillion

(2009-01-15)

China’s spending on building and expanding railways, highways, ports and airports may more than double to about $1.3 trillion in the next five years as it makes efforts to boost the economy and create new jobs.

Of the money, about $150 billion to $300 billion will come from private and foreign investors in the five years until 2013, McKinsey & Co Associate Partner Evan Auyang said on Jan 15 in Hong Kong. That's more than the $70 billion spent in 2004-08, he said.

China needs growth of at least 8 percent to create enough jobs for the 20 million workers entering the urban workforce annually to ensure social stability, he noted.

"About 230 million jobs will be created from infrastructure spending over the next five years," Auyang said in a presentation to reporters. 130 million of the jobs will be directly involved in infrastructure construction, and spending on these projects will generate opportunities for equipment, construction and related industries, he said.

China’s property prices to continue falling until 2011

(2009-01-15)

Home prices and sales in China, which fell last year for the first time in a decade, will continue dropping until they reach a "reasonable" level and will rebound in 2011, property agency DTZ said.
Prices in Beijing, Shanghai, Guangzhou and Shenzhen, the "first tier" cities, fell 17 percent last year and will drop 10 percent this year and 5 percent in 2010 before rising in 2011, Alan Chiang, head of DTZ's China residential business, said on Jan 15.

"We are hoping prices will adjust as soon as possible so they can reach bottom and rebound sooner," Chiang said, "if we drag on, the damage will be worse."

Government policies to prop up the real estate market may instead delay its rebound, because some developers aren't cutting prices on speculation there will be more measures to encourage buying, Chiang said.

Prices and sales will rebound first in the first-tier cities, which are more sensitive to policy changes, Chiang said. Home sales in the first-tier cities, down 40 percent last year, will likely rise 22 percent this year and 21 percent in 2010, he said.

Sales in first-tier cities rose 19.7 percent in the fourth quarter from the preceding three months, while in the second-tier cities, they fell 14.7 percent, he said. DTZ categorizes Tianjin, Shenyang, Wuhan, Chengdu, Xiamen and Changsha as second-tier.

UN: Global recession may drag China’s growth to 7% in 2009

China's economic growth may fall to 7 percent in pessimistic scenario that the US and Europe continue slow actions in fighting against deepening financial crisis, a UN report warned on Jan 16.

It also forecasted that the economy can still maintain a high rate of 8.9 percent if the international community adopts united efforts as soon as possible, the UN said in its regional analysis of its annual economic report released in Beijing.

The writing team of UN's World Economic Situation and Prospects 2009 said Chinese authorities face a major challenge in stimulating their economy to invigorate domestic consumption, in the face of a severe drop-off in demand for Chinese exports.

The report projects a continuing deceleration of economic activity in East Asia, with the region's 2009 growth of gross domestic product (GDP) expected to drop to 6.0 percent, down from 6.9 percent in 2008 and 9.0 percent in 2007. The weakened trade with Europe and the United States will curtail growth in most economies in Asia led by China.

But it said China remains the region's locomotive for economic growth, as well as an engine for global growth UN economists say. China contributed about 22 percent of the global growth in 2008, and will likely contribute more in 2009, as most developed economies are falling into a recession.

Capital flows out at faster pace

China experienced continuous capital outflow in the fourth quarter of 2008, with the scale expanding in a "larger-than-expected" pace in December 2008, said a report released by the Chinese Academy of Social Sciences (CASS).

"The capital outflow was much severe in December," said Zhang Ming, a CASS economist and the report's author. More than $25 billion fled China in December, up from $17.5 billion two months ago, said Zhang.

A report released by Morgan Stanley Asia estimated that the capital outflow could be as large as $73.2 billion in the fourth quarter last year.

"This is consistent with the much slower pace of renminbi appreciation over the past few months," said Wang Qing, chief economist with Morgan Stanley Asia.

The yuan has appreciated more than 20 percent against the US dollar since China scrapped its peg to the greenback. Analysts say that has attracted an inflow of speculative capital over the past three years, as investors try to cash in on the currency's revaluation.
The nation’s forex reserve increased $45 billion in the fourth quarter, totaling $1.95 trillion by the end of 2008. But the increase fell short of many analysts’ forecasts, due to the decline in trade surplus and foreign direct investment last December.

Looking toward 2009, Zhang said the capital exit is not likely to reverse in the first two quarters, but the nation may lure more capital in the second half of 2009, as overseas investors will face increasing pressure to make a profit.

"The move may boost the Chinese stock market and push up the price of real estate in China once again in late 2009," he said.

**HSBC: Government-backed investment key to China’s growth**

(2009-01-16)

The Chinese economy is likely to record a relatively weak growth in the first quarter of 2009, but thanks to an unprecedented stimulus package announced earlier, it will be followed by a GDP growth of well over 8 percent in the second quarter, HSBC said on Jan 16 in its projection for 2009 and 2010.

Speaking at a news briefing, HSBC Chief Economist for China Qu Hongbin said new spending in the 4 trillion yuan ($586 billion) stimulus package, which was announced on November 9 last year, were likely to contribute an annual GDP growth of 2 to 4 percent over the next two years. "Government-supported investment will replace exports as the key growth driver," Qu said.

The Chinese economy will face heavy pressure in terms of exports for quite some time to come, as the Euro zone, the United States and Japan experience recession while signs showed that growth in Chinese exports to other emerging markets began to be affected.

But China still had a few unique strengths such as its cheap and adequately literate labor, convenient infrastructure and established regional supply chains, he said.

"The Chinese policy of embracing globalization remains intact," Qu said in the report named China’s New Deal: Priming the Domestic Pump.

The banks in China had not experienced any systematic losses or credit crunch that their Western counterparts suffered in the recent financial tsunami, he added.

The central government and the local governments were also trying to stimulate the economy by investing heavily in construction, while making efforts to widen social security coverage, which has been regarded as the key to cracking consumption growth.

Qu said a growth of around 8 percent for China will generate some 3 trillion yuan ($439 billion) additional demand through 2010, with both commodity and advanced machinery exporters expected to benefit from China’s growth.

**BOC: China to see more interest cuts in 2009**

(2009-01-19)

China will continue to see more interest cuts throughout 2009 to enhance market fluidity, according to an economic outlook released by Bank of China (BOC) in Beijing on Jan 19.

The country’s major lender expected the People’s Bank of China (PBOC), or the central bank, to lower the benchmark interest rates of both deposit and credit to 1.44 percent and 4.5 percent respectively.

The benchmark deposit and credit rates now stand at 2.25 percent and 5.31 percent respectively after five cuts within three consecutive months from last September.

The PBOC is also expected to further lower the required reserve ratio to 10 percent this year from the current 14.5 percent. The central bank has already conducted four similar cuts since last October to encourage more bank lending for industries thirst for capital.
Despite the four-trillion yuan stimulus package initiated by the government to boost domestic demand, the BOC report said China would not be immune to a global recession. The country would suffer further economic downturn before seeing signs of recovery in 2010.

The bank expected the economic growth to slow to about 8 percent this year, compared with the 13 percent historical peak in 2007.

**Think tank forecasts 8.3% GDP growth in 2009**

China's GDP growth is expected to drop to 8.3 percent in 2009, the country's major think tank said on Jan 19 in a report.

The report, issued by the Chinese Academy of Sciences (CAS), predicted China's economy would slowdown in the first half year due to the unfavorable international economic environment.

The report also said that the unprecedented stimulus package of 4 trillion yuan ($586 billion) will poise China for an early recovery in the third quarter.

The CAS report also predicted that the primary, secondary and tertiary industries will expand at 5 percent, 9.8 percent and 9.5 percent, respectively.

The Chinese economy will face heavy pressure in terms of exports this year due to the recession, the report said. The growth rate of exports and imports is expected to drop to 6.5 percent and 4.6 percent respectively.

**Premier calls for steps to counter slowdown**

Chinese Premier Wen Jiabao on Jan 19 called for prompt action in the first three months of the year to stop the slowdown in the economy as quickly as possible.

Wen made the comments at a meeting of the State Council, or cabinet, in discussing the government's work report for 2009.

"This year will be the most difficult year for China's economic development so far this century," Wen said, reiterating a message on the need for vigilance in confronting the current slowdown.

"Getting economic work done well in the first quarter will win us time and lay the basis for us to achieve the economic and social development targets for the whole year," Wen said.

Wen said the country's 4 trillion yuan ($586 billion) stimulus package and other measures to expand domestic demand should be implemented as quickly as possible, and that the government should work to maintain stable growth in trade.

Wen urged local governments to highlight employment in their own working agendas for this year. "The employment situation will be very serious this year," Wen said, stressing the importance of providing jobs for migrant workers and graduates.

**Economist: China has little room for further rate cuts**

China does not have much room to further cut interest rates as it would trim banks' overall interest income and therefore their ability to deal with bad loans, a senior government economist said on Jan 19.

Ba Shusong, with the Development Research Center under the State Council, or cabinet, refuted the argument that China still has considerable room to cut rates because its benchmark rates are well above those of the United States.
The two benchmarks are not comparable, Ba said, as that in the United States is for overnight lending, while in China it is for one-year loans.

Actual Chinese lending rates are close to or even lower than US ones, Ba said, citing the example of the 30-year Chinese mortgage rate, which after a maximum 30 percent discount is now 4.158 percent, compared with 5.33 percent for the same term in the United States.

Ba pointed to the failure of Japan's low rates in driving up growth in the past decade as another reason why China should not go for extremely low interest rates.

"The zero interest rate policy did not reverse Japan's long-time stagnant growth. But its commercial banks had to rely on other service-related fees to maintain profitability, as the net interest margin was narrow," he said.

Since interest income accounts for more than half of Chinese banks' revenues, the five interest rate cuts in 2008 had already resulted in a narrower net interest margin, slashing banks' revenues and eroding their ability to deal with non-performing loans in the future.

"Excessively low interest rates and a small net interest margin will harm the banking system, " Ba said. "It's important to maintain a stable banking system while addressing the crisis."

### China’s property investment may fall in 2009

(2009-01-19)

Real estate investment growth in China is likely to slow substantially this year, and total investment may even fall from last year's level, an industry association said on Jan 19.

Real estate investment contributed approximately 1.8 percentage points to China's gross domestic product growth in 2008, said Liu Lin, a researcher at the industry association. If real estate investment shrinks this year, its contribution to GDP growth will be negative, she added.

Property prices are likely to keep falling in the first half but will likely stabilize in the third quarter as macroeconomic conditions improve, the China Real Estate Chamber of Commerce said in an annual report.

"We don't see a rebound in the property market in the short term," the agency's vice director Ren Zhiqiang, who is also president of property developer Beijing Hua Yuan Group, told reporters at a press briefing. "It will be six to nine months or even longer before the market rebounds."

Property prices in 70 of China’s large and medium cities fell 0.4 percent in December from a year earlier, the first decline since the government started issuing the data in 2005, according to the National Development and Reform Commission.

The property market is increasingly seen as a crucial area for China's attempts to stimulate domestic growth. In a note over the weekend, Morgan Stanley economist Wang Qing said "the biggest swing factor in gauging the 2009 growth outlook is real estate investment in China."

Wang said he expects private real estate investment to fall by 12 percent in 2009. This will contribute to a slowdown in GDP growth to 5.5 percent this year, he said.

If real estate investment were to fall by 30 percent, it would overwhelm China's fiscal stimulus package and growth could fall to 3.5 percent, Wang said, though he said the probability of such an outcome is low.

### China sees difficulty balancing budget

(2009-01-26)

Minister of Finance Xie Xuren said on Jan 26 there would be growing difficulty balancing China's budget this year, and he urged officials to avoid unnecessary spending.

In a Lunar New Year greeting on the ministry's homepage, Xie said that the external and internal conditions affecting China's social and economic development in 2009 were "very
severe” and more difficulties had to be overcome to achieve “steady and relatively fast” economic growth.

Xie said government funds should be used efficiently as the government carried out an active fiscal policy to support public investment while cutting taxes.

To stimulate the economy, the government has raised export tax rebates three times since July, increased farm subsidies and ended the value-added tax for equipment purchases -- a move that's expected to reduce companies’ tax bills by 120 billion yuan ($17.41 billion) a year.

Moreover, the threshold for individual income tax, which now stands at 2,000 yuan per month, is likely to rise.

Although 2008 fiscal revenue grew an estimated 19 percent from 2007 to some 6 trillion yuan, the economic slowdown, falling corporate profits and tax cuts drove down fiscal revenue in the second half of last year.

Merrill Lynch: China’s economy likely to rebound in Q2

China’s economy may start to rebound in the second quarter of the year as an increase in domestic demand outpaces the fall in exports, Merrill Lynch said in a recent research report.

The economy slowed sharply in the second half of 2008 because of weaker demands for Chinese goods from the US and Europe and a slower investment growth in domestic property sector.

The economic growth is likely to bottom out between the fourth quarter of 2008 and the first quarter of 2009, the US bank said.

In the first quarter, export growth could fall further, but domestic demand is likely to gain some momentum, it said, adding that the two forces will offset each other and lead to a GDP growth similar to the fourth quarter.

"After that, rise in domestic demand will likely outpace the fall in external demand, and we expect growth to pick up from the second quarter and we are quite confident about an 8 percent GDP growth in 2009," the bank said.

Merrill Lynch said almost all major monthly indicators, including industrial production, power output and retail sales, point to a recovery.

Premier: Chinese economy to continue fast, steady growth

Chinese Premier Wen Jiabao on Jan 28 expressed optimism that China's economy will continue to grow fast and steadily, and he called for confidence, cooperation and responsibility in overcoming the current global financial crisis.

China is facing severe challenges, including shrinking external demand, rising unemployment in urban areas and greater downward pressure on economic growth as the current financial crisis has had a rather big impact on China's economy, Wen told participants at the World Economic Forum (WEF) annual meeting in Davos.

China has made timely adjustment to the direction of its macroeconomic policy, swiftly adopted a proactive fiscal policy and a moderatelyeasy monetary policy, introduced 10 measures to shore up domestic demand and put in place a series of related policies, he said.

"China's economy is in good shape on the whole. We managed to maintain steady and relatively fast economic growth in 2008 despite two unexpected massive natural disasters," he said.
The steady and fast growth of the Chinese economy is in itself an important contribution to global financial stability and world economic growth, he added.

"We are full of confidence" as the fundamentals of the Chinese economy, the long-term trend of China's economic development and the advantages contributing to China's economic growth remain unchanged, Wen said.

The Chinese premier said the global financial crisis is a challenge for the whole world, and the pressing task for the international community is "to take further measures to restore market confidence as soon as possible."

In tackling the crisis, confidence is the source of strength, practical cooperation the effective way and accepting responsibilities the prerequisite, he told the forum.

"We should not only take more forceful and effective steps to tide over the current difficulties, but also push for the establishment of a new world economic order that is just, equitable, sound and stable," Wen said.

To this end, international economic cooperation and a sound multilateral trading regime should be promoted, and the reform of the international financial system should be advanced, he said.

It is also necessary to strengthen international cooperation in financial supervision and regulation to guard against the build-up and spread of financial risks, the Chinese premier said.

"No country can be insulated from these challenges or meet them on its own. The international community should intensify cooperation and respond to these challenges together," Wen said.

**UBS: China may cut rates by 81 bps in 2009**

China may lower the benchmark interest rates by 54-81 basis points (bps) in 2009 in an effort to ease deflationary pressure and spur growth, UBS said in a recent note.

Deflation is by far the bigger threat in China this year although many have voiced concerns of a rapid return to inflation due to the massive liquidity injection, a surge in bank lending and the fiscal stimulus, the bank said.

It forecasted that China's consumer prices will fall in the first few months of 2009, partly due to the high base effect.

The retreat in inflation has prompted some economists to call for more government measures to avert a coming deflation, as it could raise real interest rates and discourage business investment to make the economic situation worse.

To support the weakening economy, China has cut the lending rates five times, or by 216 basis points, since mid-September. A basis point is 0.01 percentage points.

UBS said the year of 2009 provides a good opportunity to reform the pricing mechanism of energy and resources to help usher in a more balanced economic growth.

"We think there is a good chance that the government would raise the prices of certain utilities and resources, and procurement prices of agricultural products," the bank noted.

The measures will help the CPI growth to stay positive for the whole year, it said, adding it expected a 0.2 percent consumer inflation for 2009.

**Morgan Stanley: China economy to rebound in 2010**

China's economy is to witness a robust rebound in 2010, with its GDP growth topping 8 percent, said Stephen S. Roach, chairman of Morgan Stanley Asia Limited, on Jan 29.
He predicted that in the first half of this year, China’s GDP growth would be below 8 percent, but China’s economy was expected to pick up in the second half.

That is because China has been tied closely with the global economy and does not get special relief from the global shock, he explained.

The main driving force of China’s rapid GDP growth in recent years is export, but now China’s export is sliding, Roach said.

Even though Chinese companies are improving their positions and maintaining their competitiveness, there is nothing they could do to stimulate the demand of such countries as the United States, European countries and Japan, he said. So it is the negative foreign environment that has impacted China’s GDP growth, he added.

Roach believes that this year is the worst year for the global economy since the end of World War II, but China’s economy will be much better than those of many other countries in the world.

In addition to increasing spending on infrastructure, he suggested that China expand dramatically investment in social security, pensions, unemployment insurance and health care.

As of banking bailout plans taken by many governments, he said China’s banking system was in a better shape, because the banks did not invest a lot in illiquid assets and subprime mortgage. Chinese banks, however, still face challenges because of the business cycle, he warned.