

**FOR  
AGENDA**

SM/08/294  
Supplement 1

CONFIDENTIAL

September 8, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **People's Republic of China—Staff Report for the 2008 Article IV  
Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with the People's Republic of China (SM/08/294, 9/8/08), which is tentatively scheduled for discussion on **Friday, September 26, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the People's Republic of China indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Papi (ext. 36894) and Mr. Porter (ext. 37316) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, September 16, 2008; and to the Asian Development Bank, the European Commission, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found

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INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

**Staff Report for the 2008 Article IV Consultation—Informational Annex**

Prepared by the Asia and Pacific Department

September 5, 2008

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**ANNEX I: CHINA—FUND RELATIONS**

(As of July 31, 2008)

**I. Membership Status:** Joined 12/27/45; Article VIII (December 1, 1996)**II. General Resources Account:**

	<b>SDR Million</b>	<b>% Quota</b>
Quota	8,090.10	100.00
Fund holdings of currency	7,492.19	92.61
Reserve position in Fund	597.96	7.39

**III. SDR Department:**

	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	236.80	100.00
Holdings	772.02	326.02

**IV. Outstanding Purchases and Loans:** None**V. Financial Arrangements:**

<b>Type</b>	<b>Approval Date</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR million)</b>	<b>Amount Drawn (SDR million)</b>
Stand-by	11/12/86	11/11/87	597.73	597.73

**VI. Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	<b>Forthcoming</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Principal	0.00	0.00	0.00	0.00
Charges/interest	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02

**VII. Exchange Arrangements:**

1. China's exchange rate regime is currently classified as a crawling peg. On July 21, 2005, the People's Bank of China (PBC) announced that the exchange rate of the renminbi against the U.S. dollar would be revalued upward by about 2.1 percent (from RMB 8.28/US\$ to RMB 8.11/US\$) and the exchange rate regime would move to a

managed float in which renminbi's value is set with reference to a basket of currencies. The stated intention of the Chinese authorities was to increase the flexibility of the renminbi's exchange rate. The authorities indicated that they will not publish the currencies in the reference basket and their relative weights, and many of the operational details regarding the new arrangement remained unclear at that time. The PBC indicated that it would adjust the exchange rate trading band as necessary to reflect market developments and financial and economic conditions. Under the new regime, the band around the daily trading price of the U.S. dollar against the renminbi was kept at  $\pm 0.3$  percent around the central parity published by the PBC while the trade prices of the non-U.S. dollar currencies against the renminbi were allowed to move within a certain band announced by PBC, which was initially set at  $\pm 1.5$  percent and increased to  $\pm 3$  percent in September 2005. In August 2005, the governor of PBC revealed that U.S. dollars, Euro, Japanese yen, and Korean won were the main currencies included in the basket, and U.K. pound, the Thai baht, and the Russian ruble were among other currencies included in the basket. The weights were not disclosed. In May 2007, the band around the daily trading price of the U.S. dollar against the renminbi was widened to  $\pm 0.5$  percent.

2. On January 4, 2006, over-the-counter (OTC) trading of spot foreign exchange was introduced with 13 banks initially designated as market makers and the number of market makers has since risen to 22. The centralized spot foreign exchange trading system (CFETS) remains operative, but its central parity rate (renminbi against the U.S. dollar) is now based on a weighted average of CFETS and OTC transactions. Under the new system, CFETS first inquires prices from all market makers before the opening of the market on each business day, exclude the highest and lowest offers, and then calculate the weighted average of the remaining prices in the sample as the central rate of the renminbi against the U.S. dollar for the day. This is in contrast to the previous arrangement where the central parity rate was the closing price of the previous day in the CFETS. The weights for the market makers, which remain undisclosed, are determined by the CFETS in line with the transaction volumes of the respective market makers in the market. On March 31, 2008 the RMB/US\$ rate stood at RMB 7.0122; since July 20, 2005, the renminbi has appreciated by about 15.8 percent against the U.S. dollar.

3. China accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on December 1, 1996. There are repatriation and surrender requirements on proceeds from exports and from invisible transactions and current transfers. Starting on August 13, 2007, all enterprises (domestic institutions) having foreign exchange revenue from foreign operation or from current accounts may keep foreign exchange receipts according to their operational needs in their current account foreign exchange accounts. Domestic institutions that had no current account foreign exchange revenue in the previous year are allowed to retain an initial limit of foreign exchange revenue equivalent to \$500,000. Current account foreign exchange accounts with special sources and designated uses have limits of 100 percent of actual foreign currency income. In the case of export-import and

manufacturing enterprises that, because of actual operating needs, must retain all current account foreign exchange revenues, SAFE may determine their limits as 100 percent of actual foreign exchange revenue and actual needs. From invisible transaction, balances, if any, beyond operational needs must be sold to foreign exchange banks, with amount exceeding \$50,000 requiring documents be submitted to SAFE. There are no measures currently in force that have been determined to be exchange restrictions subject to Fund jurisdiction. However, China has notified measures to the Fund, pursuant to procedures under the Executive Board Decision 144-(52/51), which apply to measures imposed solely for national or international security reasons.

4. Exchange controls continue to apply to most capital transactions, but are being relaxed. Effective on July 1, 2006, quotas on foreign exchange purchases for foreign direct investment (FDI) were abolished, and domestic investors were allowed to purchase foreign exchange to finance pre-FDI activities. Since December 1, 2002, qualified foreign institutional investors (QFIIs) have been allowed to invest domestically in A shares, subject to certain restrictions, and all nonresidents have been allowed to purchase B shares, which are denominated in U.S. dollars or Hong Kong dollars. The overall QFII quota was increased to \$30 billion in December 2007 from \$10 million. The Qualified Domestic Institutional Investor (QDII) scheme was introduced in 2004, and measures have since been taken to promote its development. Since May 1, 2006, residents can purchase up to \$20,000 foreign exchange for depositing in banks or for current account transactions and this limit was raised to \$50,000 in September 2006. Beyond the quota, purchases require relevant documents. In May 2007, the QDII scheme was expanded to allow qualified banks to invest retail funds in foreign equities. Effective July 5, 2007 the China Securities and Regulatory Commission extended QDII to securities and fund-management companies. The firms have to meet certain capital and other requirements. From April 2006, qualified insurance companies were also allowed to invest their own foreign exchange externally under the QDII scheme. In 2004, international financial institutions were approved to raise funds domestically in renminbi for use offshore, while in December 2007, it was announced that foreign-funded enterprises would be allowed to issue renminbi bonds. Other nonresidents are still not permitted to issue capital or money market securities in the domestic market. An annual foreign borrowing plan sets mandatory ceilings for all medium- and long-term borrowing by government departments and enterprises (except FFEs which are subject to individual limits negotiated in the investment approval process).

#### **VIII. Article IV Consultation:**

5. China is on the standard 12-month consultation cycle. The 2006 Article IV mission was concluded on May 26, 2006, and the 2006 Article IV consultation was concluded by the Executive Board on July 31, 2006. The staff report was published on October 31, 2006.

#### **IX. Technical Assistance:**

6. Technical assistance provided in 2000 through June 2007 is summarized in Annex V.

#### **X. Other Visits:**

7. Staff visits took place during November 30–December 6, 2006 and December 12–18, 2007. The Managing Director met with Governor Zhou in Shanghai on March 18, 2005 and in Washington, D.C. on August 22, 2005. On September 3, 2005, Mr. Carstens had a dinner meeting with Deputy Governor Hu in Beijing. The Managing Director visited China, meeting with the Premier Wen Jiabao and other senior officials during February 14–15, 2008.

8. A joint World Bank-IMF workshop with Chinese agencies on LIC debt sustainability issues took place in Beijing on May 18, 2007.

#### **XI. Resident Representative:**

9. The resident representative office in Beijing was opened in October 1991. Mr. Vivek Arora is the Senior Resident Representative and Mr. Tarhan Feyzioğlu is the Resident Representative.

## **ANNEX II: CHINA—RELATIONS WITH THE WORLD BANK GROUP<sup>1</sup>**

1. The World Bank has been active in China since 1980. World Bank commitments to China as of end-FY 2007 will total about \$42.18 billion for 284 projects. About 66 of these projects are still under implementation, as well as some 49 trust funds, making China's portfolio one of the largest in the Bank. World Bank-supported projects are found in almost all parts of China and in many sectors of the economy, with infrastructure (transport, energy, urban development) accounting for more than half of the total portfolio, and rural development, social sectors (health, education, social protection), and direct poverty reduction programs comprising the remainder. Roughly 75 percent of Bank supported activities have environmental objectives and a strong environment focus runs across sectors with environment-related projects in energy, urban wastewater, water supply and sanitation, and rural development.

2. The nature of the China-World Bank partnership has also changed over time. Initially, China looked to the Bank for technical assistance to introduce basic economic reforms, modern project management methodologies, and new technologies. With time, the partnership increasingly focused on institutional strengthening and knowledge transfer. As China has successfully adopted new practices and registered unprecedented development achievements, the remaining development challenges have become less amenable to standard solutions. Instead, China has engaged the Bank in a two-way exchange to tailor unique approaches that match local realities and capacity with global experiences. The Bank has also increasingly sought to support China in sharing its own important development experiences and knowledge with the rest of the world. Going forward, China is placing an increasing emphasis on growth that is balanced with social and environmental concerns. Given the resources constraint and difficult reform challenges, innovative approaches, ideas, and system reforms will be critical to China's achieving its goal of a well off society by 2020.

3. The World Bank Group Country Partnership Strategy (CPS), endorsed by the WB Board in May 2006, covers both lending and nonlending activities and is designed to support the five strategic themes consistent with China's 11<sup>th</sup> Five Year Program: integrating China into the world economy, reducing poverty and inequality, addressing resource scarcities and environmental challenges, strengthening the financial sector, and improving market and public institutions.<sup>2</sup> At an early stage in the preparation of the CPS, the Bank engaged in wide consultations around the country with government, academia, and civil society. Two questions put to these groups were whether the Bank still has a useful role in China at this stage of its development and what this role is. While there was a range of views, a clear majority felt that China continues to face daunting institutional and policy challenges and that

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<sup>1</sup> Prepared by World Bank staff.

<sup>2</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,contentMDK:20583507~pagePK:1497618~piPK:217854~theSitePK:318950,00.html>



the Bank could still help in developing innovative solutions through a combination of lending, studies, and training. However, there also was a sense that addressing the remaining key challenges, which are increasingly more complex and difficult, requires both top-quality technical skills as well as deep knowledge of China.

4. In FY 2008, lending is projected to total about \$1.5 billion in IBRD loans for 12 projects. By sector, these projects include two for urban environment improvement (wastewater and solid waste treatment), three targeting energy efficiency and/or reduced air pollutant emissions, four targeting transportation (urban and railways and provincial highways), a rural health and a migrant skills project, and a cultural and natural heritage project. A summary of Bank commitments and disbursement to China is given in Table II.1. Details of the sectoral breakdown of past lending can be found in Table II.2. Over the next two years, lending is expected to range from \$2.0–3.0 billion with support provided to energy efficiency, cultural heritage, urban environment, rural health reforms, migrant worker support, and transport projects.

5. In addition to financial assistance, the provision of technical assistance, policy advice, seminars and training is an essential part of the partnership program. The Bank is responding to the country's evolving needs, by having a better balance between detailed studies of issues requiring detailed technical analysis and more demand-driven rapid delivery brief policy notes, supplemented by other forms of collaboration such as senior-level workshops and focused study tours. Recent and upcoming outputs include: Quarterly Economic Updates, a Poverty Assessment, a Rural Health Reform report, a 120-city Investment Climate Assessment, and a report documenting the role of innovation in China's past and ongoing partnership with World Bank.<sup>3</sup> A Country Economic Memorandum (CEM) is also under preparation at this time. In FY 2007, the World Bank has been assisting, *inter alia*, on the following areas: (i) *poverty and vulnerability*, including a poverty assessment, a major study on rural health care reform, an analysis of social protection pilots, labor markets, and pensions; (ii) *managing resource scarcity and environment*, including studies on land policy, sustainable energy, urban water utilities, and metropolitan area management; (iii) *financing rapid growth*, including a financial sector program focused on access to finance, financial stability, and capital markets; (iv) *improving public and market institutions*, including a Northeast Revitalization strategy, and studies on sub-national fiscal reforms, rural finance, and public service delivery.

6. The Bank has also signed nine Clean Development Mechanism (CDM) carbon purchase agreements in China worth \$1.1 billion.

**Representation:** The People's Republic of China assumed China's representation in the World Bank on May 15, 1980.

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<sup>3</sup> The China Quarterly Update and several of these notes can be found on the website of the Bank's China Office: [www.worldbank.org/china](http://www.worldbank.org/china).

**Capital Subscription:** China holds 4,480 million shares or 2.85 percent of the total authorized capital of the IBRD. Currently, China is fully subscribed.

**Technical Assistance:** A technical assistance loan to the People's Bank of China to enhance the central bank's supervision, research, and clearing capabilities was approved in FY 1993. A second technical assistance project, approved in the same year, is financing reform-supportive studies and economic research, the strengthening of core agencies responsible for macroeconomic management and local training institutions, and preinvestment support. Technical assistance for economic law reform was approved in FY 1995. Fiscal technical assistance, also approved in FY 1995, supported the implementation of a broad range of public sector reforms. Assistance in bond market development has also been provided. In FY 1999, technical assistance projects were approved for reform of accounting, pension and enterprise systems. Further technical assistance support for economic research and preinvestment was also provided in FY 1999. A supplemental loan for financial sector technical assistance was approved in FY 2001. The Economic Reform Implementation project, a technical cooperation loan, was approved in FY 2006. A large program of technical assistance is currently financed by trust funds from within and outside the Bank, covering environmental management, financial sector reform, statistical reform, poverty issues, and social security.

**Resident Mission:** A resident IBRD office in Beijing has been in operation since October 1985. In October 1997, responsibility for managing the Bank's total program for China was decentralized to the Beijing office.

**International Finance Corporation (IFC):** As of December 2007, IFC had invested \$3.56 billion in 142 projects across all major sectors (\$1.15 billion in equity, \$1.65 billion in loans, \$765 million in syndications). IFC's early partners were mostly foreign investors, but 85 percent of IFC's clients are domestic companies. The investment program for FY 2008 is expected to be \$600–\$700 million in about 20 banks/companies, including major initiatives in energy efficiency, water, renewables and pilot microfinance institutions. A resident IFC office in Beijing has been in operation since 1992. In July 2000, a joint IFC/World Bank regional office for private sector development was established in Hong Kong SAR, with management of this program decentralized to that office. In 2002, IFC opened an office in Chengdu to provide advisory services to small and medium enterprises (SMEs) in Western region of China.

IFC's strategic priorities in China comprise: a) focus on frontier areas including West and Northeast and continue active business enabling environment work in these areas; b) support sustainable Chinese companies to adopt international standards and leverage consolidation opportunities; c) support selected banks, insurance companies and NPL asset management institutions, leverage local banks as platforms to support SMEs, energy efficiency, affordable housing and trade finance, support access to finance for the underserved including rural finance, microfinance, and frontier banks; d) support private infrastructure including water and wastewater treatment, clean energy, carbon trading, and social services institutions such as schools and hospitals.

Table II.1. China: IBRD-IDA Lending Activities, FY 1981–2007 1/

(In millions of U.S. dollars)

	Commitments		Disbursements	
	IDA	IBRD	IDA	IBRD
1981	100	100	0	0
1982	60	0	0	0
1983	150	463	33	0
1984	424	616	134	20
1985	442	660	146	236
1986	450	687	252	352
1987	556	867	361	318
1988	640	1,054	399	302
1989	515	833	549	685
1990	590	0	557	569
1991	978	602	494	620
1992	949	1,578	753	618
1993	1,017	2,155	763	813
1994	925	2,202	869	1,057
1995	630	2,434	659	1,555
1996	480	2,540	891	1,328
1997	325	2,490	722	1,405
1998	293	2,323	596	1,497
1999	423	1,674	614	1,412
2000	0 2/	1,673	420	1,408
2001	0	788	345	1,476
2002	0	563	260	1,755
2003	0	1,145	153	1,628
2004	0	1,218	105	1,205
2005	0	1,030	66	1,075
2006	0	1,455	54	1,037
2007	0	1,641	25	1,256
Total	9,947	32,790	10,187 3/	23,625

1/ The financial year (FY) runs from July through June.

2/ As of July 1, 1999. China no longer borrows from IDA.

3/ IDA disbursements exceed commitments due to changes in the US\$-SDR exchange rate.

Table II.2. China: Sectoral Distribution of Lending, FY 1980–2007 1/

Sector	US\$ Millions	Percent	Number of Project
Rural development/poverty alleviation	10,959	26.0	75
Industry and energy	9,910	23.5	55
Industry/corporate reform	3,013		20
Energy/renewable energy	6,897		35
Transport	12,203	28.9	67
Human resources	2,650	6.3	30
Education	1,727		19
Health	923		11
Urban development/environment	5,828	13.8	39
Technical assistance/public sector	625	1.5	18
Total	42,175	100.0	284

1/ Source: "World-Bank Supported Projects in China, by Sector," *The World Bank Group in China: Facts and Figures*, July 2007.

### **ANNEX III: CHINA—RELATIONS WITH THE ASIAN DEVELOPMENT BANK**

1. The Asian Development Bank's (ADB) partnership with the People's Republic of China (PRC) has grown in many ways since the PRC became a member of ADB in March 1986. The PRC is ADB's second largest shareholder among regional members and the third largest overall, as well as an important middle-income country client. By the end of 2007, the PRC's cumulative borrowing from ADB reached \$18.9 billion with 133 loans for public sector projects. Of the total public sector loans, 58.3 percent was allocated to the transport and communications sector, followed by energy (13.4 percent), water supply, sanitation and waste management (9.4 percent), multisector (7.1 percent), agriculture and natural resources (6.0 percent), and industry and trade (5.5 percent). Over the past 21 years, ADB has helped finance 20 private sector projects in the PRC totaling \$1.29 billion.
2. ADB also funds Technical Assistance for the PRC. By the end of 2007, ADB had provided a total of \$290.9 million in grants for 534 technical assistance projects, consisting of \$88.1 million for preparing projects and \$202.8 million for policy advice and capacity development.
3. Overall, the PRC has demonstrated strong capabilities in implementing projects. The good performance shows the strong sense of project ownership among agencies involved in the design, implementation, and management of projects, as well as the rigorous screening process for development projects, particularly those proposed for external financing. Loan disbursement and contract award performance is good.
4. The PRC has demonstrated its strong partnership with ADB by contributing \$30 million to the eighth replenishment of the Asian Development Fund (ADF IX),<sup>1</sup> and establishing the \$20 million Poverty Reduction and Regional Cooperation Fund. The Poverty Reduction and Regional Cooperation Fund—the first fund established in ADB by a developing member country—has so far committed about \$8.2 million to 21 regional technical assistance projects mainly in the Greater Mekong Subregion and in Central Asia.
5. In 2008, the Asian Development Bank issued its new “Country Partnership Strategy” (CPS) for the People's Republic of China, covering 2008 to 2010. The new CPS was developed in close cooperation with the PRC Government, and will support the Government's implementation of the 11<sup>th</sup> 5-Year Plan through four strategic pillars: (i) inclusive growth and balanced development; (ii) resource efficiency and environmental sustainability; (iii) regional cooperation and public goods; and (iv) the enabling environment for private sector development. In addition, two themes will cut across all of ADB's operations: (i) knowledge and innovation; and (ii) governance.

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<sup>1</sup> Initial contributions to ADF were pledged in 1973 (ADF I). Subsequently, ADF has been replenished eight times with the most recent replenishment for ADF IX covering the period 2005–2008.

6. Projected public sector lending in 2008 and 2009 will be about \$1.5 billion annually, of which 37 percent will support transport infrastructure; 25 percent for agriculture, rural development, and natural resource management; 25 percent for urban development, water supply, and sanitation improvement; and 13 percent for the energy sector. With 88 percent of the projects located in the western and central regions and all projects having an environmental focus, the pipeline closely follows the strategic pillars of the CPS, particularly its emphasis on inclusive growth and environmental protection.

7. The ADB's lending program will continue to be supported by technical assistance. Grants for technical assistance program are expected to be \$15 million to \$20 million annually. To enhance the strategic focus of ADB operations, better meet the goals of the 11<sup>th</sup> 5-Year Plan, and address pressing concerns on environmental protection and energy preservation, 8 out of the 15 advisory technical assistance projects for 2008 are directly related to resource efficiency, environment protection, and climate change initiatives.

Table III.1. China: ADB's Commitments and Disbursements  
(Public Sector Loans), 1993–2007

(In millions of U.S. dollars)

Year	Commitments 1/	Disbursements 2/
1993	1,031	371
1994	1,618	492
1995	2,304	558
1996	3,282	707
1997	4,033	715
1998	4,518	818
1999	5,337	792
2000	6,159	832
2001	6,748	1,313
2002	7,563	782
2003	8,075	705
2004	8,733	636
2005	11,060	892
2006	11,794	988
2007	13,214	1,190

1/ Refers to cumulative contract awards.

2/ Refers to disbursements for the year.

## ANNEX IV: CHINA—STATISTICAL ISSUES

1. While economic statistics are adequate for surveillance purposes, weakness remain in the quality of the data, including coverage, frequency and timeliness. Nevertheless, China has made significant strides in bringing its economic and financial statistics into line with international good practice. In April 2002, China began participation in the Fund's GDDS, and it certified and updated the metadata posted on the Fund's DSBB (the most comprehensive documentation of economic and financial statistics available in English), in April 2006.

### Real Sector Statistics

2. Data on the expenditure components of GDP are not available on a quarterly basis. Annual GDP by expenditure is compiled at current and constant 2000 prices, but the constant price estimates are not published. Quarterly data are produced in cumulative form, with minimal revisions, making it difficult to assess quarterly developments accurately or to make seasonal adjustments. Constant price measures of GDP need to be improved because of deficiencies with the price indices and techniques used to derive the estimates. Nevertheless, the National Bureau of Statistics (NBS) has made a number of improvements to the range and quality of national accounts data, including quarterly estimates of GDP by industry and estimates of GDP by type of expenditure. Further improvements are intended, including the adoption of the 1993 *System of National Accounts*, further development of income and expenditure data, and improvements to quarterly GDP estimates. However, no target dates have been set. As in other countries, rapid economic change, including the expansion of the nonstate sector, presents new problems for data compilation. The ability to change the collection of data is restricted by the decentralized nature of the statistical system. Extensive technical assistance has been provided from multilateral and bilateral institutions.

3. Monthly industrial production, retail sales, and fixed investment data also have a shifting base that does not permit the production of a consistent time series. Data revisions tend to be made without publishing the entire revised series.

4. Labor market statistics—including employment and wage data—are not comprehensive, and are only available on an annual basis, with considerable lag.

5. In January 2001, the NBS began to publish an annually-chained Laspeyres price index, which more accurately reflects consumer spending patterns (e.g., the weight of services increased, while the weight of food declined). The number of survey items has been expanded to around 700. The most recent weights of the major CPI components were provided to the staff in 2006. Prior to 2001, the index was compiled and disseminated on a month to month and year to year basis using current year weights for most items. The data for this index are for the period 1978–2000.

## Government Finance Statistics

6. Serious data shortcomings continue to hamper fiscal analysis. Budgetary data exclude spending associated with domestic bond proceeds on-lent to local governments and official external borrowing. Also, data on the social and extra budgetary funds are only provided annually and with a long lag. Expenditure classification remains poor, mainly because data are not classified by economic type. However, the situation should gradually improve with the recent introduction of a revised budget classification system, starting with the 2007 budget. The authorities have indicated an intention to develop accrual based measures of fiscal performance over the medium term while also strengthening the compilation of cash based GFS.

7. China has reported central government and local government cash-based budget data for 2003–2005 following the *GFSM 2001* methodology for publication in the 2007 *GFS Yearbook*. However, no data are provided on government debt and only limited data are reported on transactions in financial assets and liabilities. The revenue classification does not fully distinguish between revenue and grants, tax and nontax revenue, and current and capital revenue. The presentation of expenditure by function is aligned with international best practice. Owing to source data issues, the authorities have not yet been able to report a *GFSM 2001* Statement of Sources and Uses of Cash for the budgetary central government accounts on a subannual basis.

## Monetary and Financial Statistics

8. In recent years, improvements have been made by the People's Bank of China (PBC) in monetary and financial statistics. The most notable progress made by the PBC are as follows: (1) expanding the coverage of financial institutions; (2) adjusting the sectorization of financial corporations; (3) improving the “all accounts” reporting system; and (4) improving data dissemination following the GDDS recommendations, such as disseminating advance release calendars on the PBC's websites. On financial soundness indicators (FSIs), China is in the process of establishing a compilation system and at this stage is requesting comments on the new system from all relevant agencies.

9. However, the monetary and banking surveys lack sufficient detail with regard to bank claims on the government, hampering the estimation of the fiscal deficit from the financing side. The reported net foreign assets position of PBC does not include exchange rate valuation effects and interest earnings on foreign reserves. The PBC has also ceased to report separate data on central government deposits in its balance sheet since April 2005 because the MOF no longer distinguishes between central and other government deposit accounts. This change has led to breaks in data series of monetary base and monetary aggregates. In addition, detailed breakdowns of bank credit by industry, and by borrower (including by the various elements of the state and nonstate sectors), are not publicly available.



10. Due to the restructuring of the banking sector, new statistical issues have arisen, such as how to record the transfer of nonperforming loans to asset management companies, and how to sectorize these companies in the banking survey. The monetary and financial statistics mission that visited Beijing in early 2005 made recommendations for addressing these issues. The August 2007 mission assisted the authorities in addressing issues related to (1) the implementation of Standardized Report Forms; (2) expansion of data coverage to include other financial corporations; and (3) compilation of FSIs and drafting of FSI metadata for the Coordinated Compilation Exercise, in which China has participated.

### **External Sector Statistics**

11. The State Administration of Foreign Exchange (SAFE) relies on an International Transactions Reporting System (ITRS) which produces data derived from information on foreign exchange transactions conducted by banks. To supplement the ITRS, data on travel credits and trade credits are collected through periodic sample surveys, while additional data are collected from other government agencies and reports on balance sheet information from financial institutions and data on portfolio investment and direct investment.

12. The data are compiled (in U.S. dollars) largely in accordance with the fifth edition of the *Balance of Payments Manual (BPM5)*. Semi-annual (January-June) data are compiled and disseminated within three to five months after the end of the reference period while annual data are disseminated four to five months following the end of the reference period. It appears that the authorities may be close to being able to publish quarterly estimates of the balance of payments. Within the current account, component detail is available on goods, services, income, and transfers. Data on the financial account are also available with significant component detail for functional categories. The international investment position (IIP) for 2006, along with revisions for 2004 and 2005 were published in May 2007.

13. The coverage of direct investment transactions remains a problematic issue in the balance of payments and IIP statistics, although progress is being made in developing these statistics. Data on transactions for the nonfinancial sector, received mainly from the Ministry of Commerce (formerly Ministry of Foreign Trade and Cooperation), apparently do not cover all required elements such as disinvestments. In 2007, inward direct investment stock data of the nonfinancial sector were based on new source data collected through the “Joint Annual Review and Evaluation of Overall Performance on China’s Inward FDI,” a joint government department effort to collect performance data from foreign-funded enterprises. Since ITRS is the major data source for BOP, in order to ensure its smooth operation, regular training programs for staff in the provincial offices of SAFE were recommended. In addition, in January 2003 a legislative guarantee for the improvement of the quality of ITRS reporting entitled “The Checking System on Balance of Payments Reporting Data (experimental)” was promulgated by the SAFE.

14. The Fund has provided extensive technical assistance to improve balance of payments and IIP statistics. At the Joint China-IMF Training Program in Dalian, STA conducted a specialized seminar on Cross-border Stocks and Flows in June 2006 and a Balance of Payments and IIP course in June 2007. Following China's agreement to participate in the Coordinated Direct Investment Survey (CDIS), STA visited Beijing in April 2008 to conduct an interagency meeting on the CDIS. At the request of SAFE, STA also conducted a one-week seminar on the new draft *Balance of Payments and International Investment Position Manual (BPM6)* in Kunming, China.

15. The Fund has also provided technical assistance on the coverage, timeliness, and periodicity of data on official reserves, reserves-related liabilities, as well as on other external assets and liabilities, financial derivative activities, and other contingent and potential liabilities. Despite an ostensibly modest level of external vulnerability, there remains a need to strengthen external debt monitoring and compilation, while introducing additional transparency in data dissemination. STA conducted a seminar on external debt statistics in August 2005 as part of the China Training Program.

#### **Data Reporting to STA for Publications**

16. Despite improvements in reporting a number of breaks remain in the series, and comparable historical data are not available. Reporting of data to STA for *IFS* has, in the past, tended to be sporadic and with a considerable time lag. Following the introduction of new reporting arrangements, the timeliness of consumer price, industrial production, trade value, and total GDP data in *IFS* has improved substantially. However, the range of information is relatively limited, with no data published on producer prices, wages, trade volumes or prices/unit values.

#### **Data Dissemination to the Public**

17. The publication of a quarterly statistical bulletin by the PBC has significantly improved the timing and coverage of publicly available data on the monetary accounts and the main real sector indicators. However, the monthly statistical publications do not contain many time series (e.g., unemployment) or the disaggregation necessary for analysis. Moreover, several important time series, particularly on the main fiscal variables, are not released in a systematic and timely manner. Extensive annual economic data are available in various statistical yearbooks, but these are published nine months or more after the end of the year.

## China—Table of Common Indicators Required for Surveillance

(As of August 28, 2008)

	Date of Latest Observation	Date Received	Frequency of Data <sup>9</sup>	Frequency of Reporting <sup>9</sup>	Frequency of Publication <sup>9</sup>
Exchange rates	8/28/08	8/28/08	D	M <sup>9</sup>	D
International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>	6/08	7/08	M	M	M
Reserve/base money	7/08	8/08	Q, M	Q, M	Q, M
Broad money	7/08	8/08	M	M	M
Central bank balance sheet	6/08	7/08	M	M	M
Consolidated balance sheet of the banking system	6/08	7/08	M	M	M
Interest rates <sup>2</sup>	8/28/08	8/28/08	<sup>11</sup>	<sup>11</sup>	<sup>11</sup>
Consumer price index <sup>3</sup>	7/08	8/08	M	M	M
Revenue, expenditure, balance and composition of financing <sup>4</sup> – general government <sup>5</sup>	7/08	8/08	M	M	A
Revenue, expenditure, balance and composition of financing <sup>4</sup> – central government	12/07	3/08	A	A	A
Stocks of central government and central government-guaranteed debt <sup>6</sup>	12/07	3/07	A	A	A
External current account balance	12/07	5/08	A, Q <sup>12</sup>	A, Q <sup>12</sup>	A, Q <sup>12</sup>
Exports and imports of goods and services <sup>7</sup>	7/08	8/08	M	M	M
GDP/GNP <sup>8</sup>	6/08	7/08	A, Q (cumulative)	A, Q (cumulative)	A, Q (cumulative )
Gross external debt	12/07	3/08	A, Q	A, Q	A, Q
International investment position	12/07	06/08	A	A	A

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.<sup>3</sup> Only 12-month growth rates are reported (price indices are not available).<sup>4</sup> Data on financing (foreign, domestic bank, and domestic nonbank financing) is not available.<sup>5</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.<sup>6</sup> Including currency and maturity composition.<sup>7</sup> Data on the exports and imports of goods are provided monthly. Services trade data is provided semi-annually and released with the current account statistics.<sup>8</sup> For real GDP, level data are available only on an annual basis (growth rates are available on a quarterly, cumulative basis).<sup>9</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).<sup>10</sup> While officially transmitted on a monthly basis, these data are available from news sources on a daily basis.<sup>11</sup> Interest rates change only infrequently; these changes are publicly announced.<sup>12</sup> Data provided semi-annually.

## ANNEX V: CHINA—FISCAL REFORMS AND TECHNICAL ASSISTANCE

1. In recent years, the Fund has provided technical assistance in a number of areas (Table V.1). This annex focuses on the main issues and recommendations in the fiscal area.

### **Fiscal Technical Assistance Program**

2. FAD has largely provided advice on tax policy, tax administration, and budget and treasury reforms.

### ***Tax Policy***

3. The scope of the Fund TA work in this area has been quite comprehensive, covering every major tax: the value-added tax (VAT), the business tax, the enterprise income tax (EIT), and the personal income tax (PIT), or the tax treatment of specific sectors (i.e., financial sector).

4. On the VAT, the focus of the Fund's TA advice on the VAT has been on transforming it into a consumption-type VAT (now being piloted). As there are important revenue and central-province intergovernmental implications of the VAT reform, the Fund has paid particular attention to alternative transition strategies. The Fund's TA advice has also focused on improving the structure of the EIT, including the unification of the regimes applying separately to domestic and foreign enterprises, and rationalizing and reducing the scope of EIT incentives. Steps are underway for EIT unification starting January 1, 2008. For the PIT, whose yield is still relatively insignificant, its structure should be streamlined and its rates simplified; the authorities have recently increased the PIT income exemption threshold, along the lines of previous Fund's advice. In addition, the liberalization of the financial sector under the WTO commitments has important tax implications, some of which has already been covered by Fund TA; such as the August 2007 mission which advised the authorities on financial taxation. Finally, the authorities have also expressed interest in receiving TA on streamlining real estate taxes, which are an important revenue handle for local governments. A mission on revenue forecasting took place in March 2008.

### ***Tax Administration***

5. The authorities have been putting in place the basic building blocks of a modern national tax administration. In this regard, the Fund TA program has aimed at assisting the State Administration of Taxation (SAT) to develop the strategic capacity required for it to manage a national tax system, with assistance provided to both the central and provincial governments. During 2006–2007, TA covered strategic planning, compliance risk management, business process reengineering, VAT administration, taxpayer services, and the planned IT modernization program, Golden Tax Project 3 (GTP 3). A seminar on strategic planning and management practices in support of previous FAD recommendations was conducted January 2008. The SAT has made good progress particularly in VAT administration and delivery of taxpayer services (including the introduction of e-services).

Importantly, compliance risk management capacity is under development and a major IT system enhancement is in the beginning stages. Other organizational reforms have proven more difficult, such as implementing a fully functional organization structure with expanded headquarters responsibilities and staffing, and integrating strategic and annual business planning into the SAT's management processes. Future TA should focus on strengthening the SAT's operational effectiveness by supporting the introduction of strategic management practices, the implementation of the large-scale IT modernization program, GTP 3, and improvements in large-taxpayer administration.

### ***Public Financial Management***

6. In order to improve control, allocation and management of public spending, significant budget and treasury reforms have been implemented in recent years, including departmental budgets, centralization of the government payment function, and establishment of treasury single accounts (TSA) at the central and provincial levels.<sup>1</sup> These efforts have been supported by extensive technical assistance from FAD. In line with the authorities' request, TA in 2006 covered the reform of the Budget Law (a follow-up to a 2005 mission) and strengthening of government cash management. TA in 2007 focused on government accounting and fiscal reporting standards. For the coming years, the involvement with the DG's Comprehensive, Budget and Treasury of the MOF will likely focus on issues as medium-term expenditure frameworks, fiscal transparency and cash management.

### ***Intergovernmental Fiscal Relations***

7. In recent years, the authorities have become increasingly aware of the need to reform the system of intergovernmental fiscal relations, as imbalances between the center and subnational levels are growing and regional disparities are widening. There is a need to clarify expenditure mandates, including by centralizing some spending responsibilities such as pensions. Revenue sharing and the design of the transfer system also need to be reformed. Recently, FAD organized a conference on "Reforming Assignments and Next Steps in Intergovernmental Reforms" (Hangzhou, November 2007) with funding from the UNDP and the Chinese authorities, to follow up on intergovernmental reforms, including deepening of responsibilities for more responsible governance at the sub-national level for the creation of a harmonious society. The authorities confirmed that they have now established a Sub-National Debt Management Division in the Ministry of Finance, and that one of the additional areas of reform will be to assess sub-national risks and liabilities.

8. Building on past activities in these areas, the Fund stands ready to provide TA on the reform of the system of intergovernmental fiscal relations.

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<sup>1</sup> A standard Treasury Single Account (TSA) is a centralized bank account or a set of linked bank accounts through which the government, including its entities and spending units, transacts all receipts and payments and consolidates its cash balances. TSA reform has been introduced in all 36 provinces, autonomous regions and municipalities, and is now being pursued in some 500 of the prefectures and larger cities.

Table V.1. China—Summary of Technical Assistance, 2001–2007

Department	Purpose	Date
Tax System Reform		
FAD	Mission on VAT and inheritance tax	April 2001
FAD	Mission on tax preference	September 2001
FAD	Mission on financial sector taxation	Aug/Sep 2002
FAD	Mission on personal income tax reform	November 2003
FAD	Mission on VAT treatment of financial services	April 2006
Tax Administration Reform		
FAD	Five missions on computerizations	June 2000–Oct. 2002
FAD	Two missions on strategic planning	Nov. 2001–Aug. 2002
FAD	Seminar on Strategic Planning in Washington	October 2002
FAD	Mission on revenue administration	November 2003
FAD	Review of computerization project	September 2004
FAD	Mission on business process reengineering pilot	November 2005
FAD	Mission on IT modernization	June 2006
FAD	Mission on strategic planning, risk management, and taxpayer services	September 2006
FAD	Mission on VAT invoice cross-checking and other administration issues	March 2007
FAD	Mission on business process re-engineering and Golden Tax Project 3	August 2007
	Seminar on Strategic Planning and Management	January 2008
Public Financial Management		
FAD	Workshop on Government Fiscal Management Information System	February 2001
FAD	Mission on treasury/accounting reform; macrofiscal coordination	November 2001
FAD	Mission on budget preparation, classification, and treasury reform	June 2002
FAD	Mission on budget classification	March 2003
FAD	Workshop on Budget and Treasury Modernization in Washington	October 2003
FAD	Mission on treasury and accounting reforms	November 2003
FAD	Mission on Budget Law I	March 2004
FAD	Mission on cash management	April 2006
FAD	Mission on Budget Law II	September 2007
FAD	Discuss FAD's PFM program with authorities	September 2007
FAD/STA	Mission on Accrual Accounting	September 2007
Intergovernmental Fiscal Relations		
FAD	Mission intergovernmental relations	November 2002
FAD	Mission on subnational fiscal risks	November 2003
FAD	Conference on Reforming Assignments and Next Steps in Intergovernmental Reforms	November 2007
Statistics		
STA	Seminar on General Data Dissemination System	April 2001
STA	Missions on trade price statistics	Jun. 2001–Jan. 2002
STA	Mission on GDDS	Feb./Mar. 2002
STA	Seminar on GDDS/SDDS in Washington	September 2002
STA	GDDS Review	December 2003
STA	Mission on government financial statistics	January 2005
STA	Mission on monetary and financial statistic	Feb./Mar. 2005

Table V.1. China—Summary of Technical Assistance, 2001–2007 (Continued)

Department	Purpose	Date
Statistics (continued)		
STA	Seminar on International Investment Position	April 2005
STA	Seminar on IIP Statistics	April 2005
STA	Seminar on External Debt Statistics	August 2005
STA	Macroeconomic statistics	May 2006
STA	Balance of Payments and IIP Course	June 2007
STA	Mission on monetary and financial statistics	August 2007
Monetary Policy and Bank Supervision		
MFD	Missions on banking supervision	October 2003
MFD	Bank Restructuring	April 2004
MFD	AML/CFT Issues	September 2003
MFD	AML/CFT Training for PBC Officials	February 2005
MFD/LEG	Mission on AML/CFT	April 2005
LEG	AML/CFT Symposia	May 2005
MFD	AML/CFT Symposia	September 2005
MFD	AML/CFT and Internal Control Workshop	November 2005
LEG/MFD	AML/CFT Workshop	December 2005
LEG/MFD	Mission on AML/CFT	April 2006
LEG	Workshop on Information Management Technology for China's	June 2006
LEG	AML	July 2006
LEG	Mission on AML/CFT	July 2006
LEG	AML/CFT Workshop	August 2006
LEG	Mission on AML/CFT	September 2006
LEG	Mission on AML/CFT	October 2006
LEG	AML/CFT Symposia	November 2006
Review of Technical Assistance		
FAD	Visit to review UNDP/IMF/China fiscal reform TA program	February 2001
FAD/TAS	Two missions for tripartite review of the UNDP/IMF/China fiscal reform TA program	Jan. 2002/Feb. 2003
MFD	Mission on TA needs in banking sector reform	July 2002
MFD	Mission on TA needs in financial sector	October 2003
FAD	Participation in UNDP/DFID fiscal reform workshop	February 2004
FAD	Visit to discuss TA needs under UNDP/DFID fiscal reform project	December 2004
Training		
INS	Courses on Financial Programming and Policies (3)	July 2000–June 2002
INS	Course on Banking Supervision	June 2001
INS	High-Level Seminar on Banking Reform	March 2001
STA	Seminar on Money and Banking Statistics	April 2001
MFD	Course on Banking Supervision (On-Site and Off-Site)	July 2001
MFD	Banking Risk Management	July 2001
INS	Course on Financial Programming and Policies	August 2001
MFD	Seminar on Capital Account Convertibility	October 2001
FAD	Course on Public Sector Expenditure Management	June/July 2002
STA	Seminar on Balance of Payments and IIP Statistics	August 2002
STA	Course on Government Financial Statistics	September 2002
INS	Course on Banking Supervision	September 2002
MFD	Central Bank Accounting	November 2002

Table V.1. China—Summary of Technical Assistance, 2001–2007 (Concluded)

Department	Purpose	Date
Training (continued)		
STA	Course on Government Financial Statistics	September 2003
INS	Course on Financial Programming and Policies	October 2003
MFD	Course on Assessing Financial Systems	November 2003
INS	Course on Advanced Financial Programming (Washington)	November 2003
STA	Course on Monetary and Financial Statistics	Nov./Dec. 2003
FAD	International Experience with Budget Law and Budget Law Reform	March 2004
INS	High-Level Seminar on Monetary Policy Transmission	April 2004
INS	High-Level Seminar on China's Foreign Exchange System	May 2004
STA	Seminar on Coordinated Portfolio Investment Survey	April 2004
INS	Course on Financial Market Analysis	June 2004
MFD	Workshop on Ex and Balance of Payments Issues	June 2004
INS	Course on Macroeconomic Management and Financial Sector Issues	July 2004
STA	Seminar on Quarterly National Accounts	September 2004
INS	Course on Financial Programming and Policies	October 2004
STA	High Level Seminar on Macroeconomic Statistics	January 2005
MFD	Workshop on Monetary Strategy and Operation	May 2005
INS	Course on Financial Programming and Policies	June 2005
INS	Course on Macroeconomic Management and Fiscal Issues	June 2005
LEG	National IT Symposium	July 2005
LEG	AML/CFT Workshop	July 2005
INS	Course on Macroeconomic Management and Financial Sector Issues	July 2005
STA	Course on External Debt Statistics	August 2005
STA	Course on Monetary and Financial Statistics	September 2005
LEG	Advanced Training on ML and TF Typologies and STRs	December 2005
MFD	Course on Foreign Exchange Operations	March 2006
INS	Course on Macroeconomic Management and Financial Sector Issues	May 2006
LEG	AML/CFT Workshop	June 2006
MFD	Course on Determining the Intermediate Target for Monetary Policy	June 2006
STA	Policy	June 2006
INS	Seminar on Banking Statistics on Cross-Border Flows	July 2006
INS	Course on Advanced Financial Programming	July 2006
LEG	Course on Macroeconomic Management and Financial Issues	September 2006
LEG	National Workshop on IT for FIUs	December 2006
LEG	Workshop for APC Countries	May 2007
LEG	AML/CFT Workshop	May 2007
INS	AML/CFT Training for Supervisors	May 2007
STA	Course on Financial Programming and Policies	June/July 2007
INS	Course on Balance of Payments Statistics	July 2007
	Course on Macroeconomic Management and Financial Sector Issues	
LEG	AML/CFT Training for Supervisors	October 2007
STA		October 2007
MCM	Course on Monetary and Financial Statistics	December 2007
MCM	Workshop on FSAP and Financial Stability	December 2007
LEG	Workshop on Stress Testing	December 2007
FAD	AML/CFT Risks in the Casino Sector	March 2008
LEG	Seminar on Revenue Forecasting	January 2008
	AML/CFT Workshop	