



China's Economy and Capital Market

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Overview

- n China's macroeconomic situation in 2009 and the first half of 2010
- n China's capital market development in 2009 and the first half of 2010
- n Outlook of China's capital market



I. China's macroeconomic situation in 2009 and the first half of 2010

(I) In 2009, the Chinese government had focused on the following tasks:

- n Improving and reinforcing its macro-control efforts to promote steady and rapid economic development
- n Restructuring in the economy to consolidate the foundation for long-term development
- n Insisting on deepening reform and opening up to constantly enhance the systems and mechanisms conducive to scientific development
- n Striving to improve people's livelihood to speed up civil undertakings



(II) Overall situation of China's macroeconomic performance in 2009

The whole year's GDP reached 33.5353 trillion *yuan*, an increase of 8.7 percent over the previous year.

(II) Overall situation of China's macroeconomic performance in 2009 (1)

- n Agricultural production enjoyed continued and stable development, with an increase in food output over six consecutive years

Grain output totaled 530.82 million tons in 2009, 2.11 million tons more than the previous year, up by 0.4%.

- n Industrial production growth slowed down while corporate profits rose rapidly.

The annual added value of enterprises above the designated size was up by 8.3% than the previous year, while the growth rate down by 4.6 percentage points over the previous year. Total profit reached 2.5891 trillion yuan, up by 7.8% over the same period in the previous year.

(II) Overall situation of China's macroeconomic performance in 2009 (2)

- n Domestic market sales grew rapidly, while urban and rural consumer demand rose in a slower lane

Throughout the year, total retail sales of consumer goods reached 12.5343 trillion *yuan*, up by 15.5 percent over the previous year. Retail sales of consumer goods in urban areas amounted to 8.5133 trillion *yuan*, up by 15.5 percent, with the growth rate decreased by 6.7 percentage points over the previous year; retail sales of consumer goods at and below county level accounted for 4.021 trillion *yuan*, up by 15.7 percent, with the growth rate decreased by 5.0 percentage points over the previous year.

- n Investment took a major step forward and got better structured

Annual investment in fixed assets reached 22.4846 trillion *yuan*, up by 30.1 percent over the previous year, with the growth rate increasing by 4.6 percentage points over the previous year. Urban fixed-asset investment accounted for 19.4139 trillion *yuan*, up by 30.5 percent, with the growth rate increased by 4.4 percentage points; rural investment accounted for 3.0707 trillion *yuan*, up by 27.5 percent, with the growth rate increasing by 6.0 percentage points.

(II) Overall situation of China's macroeconomic performance in 2009 (3)

- n The markup slackened and gradually came down

The annual CPI fell by 0.7 percent, down by 5.2 percentage points over the previous year. Fixed-asset investment price fell by 2.4 percent, PPI fell by 5.4 percent, The prices of agricultural products and agricultural means of production fell by 2.4 percent and 2.5 percent respectively.

- n Imports and exports dropped drastically, while the trade surplus tumbled

The annual imports and exports of goods totaled 2.2072 trillion USD, down by 13.9 percent over the previous year, among which exports and imports of goods accounted for 1.2017 and 1.0056 trillion USD respectively. The balance (exports minus imports) amounted to 196.1 billion USD, a decrease of 102 billion USD compared to that in the previous year.

(II) Overall situation of China's macroeconomic performance in 2009 (4)

- n The overall urban employment remained stable, with urban as well as rural resident income continued to increase

11.02 million new jobs were created in cities and towns throughout the year, and the registered urban unemployment rate was 4.3 percent at the end of the year, approximately flat with that of the previous year. The annual disposable income of urban residents amounted to 17,175 *yuan*, with an actual growth rate of 9.8 percent. The per capita net income of rural residents amounted to 5,153 *yuan*, recording an inflation-adjusted increase of 8.5 percent.

- n The growth rate of broad money supply accelerated, while the amount of loans increased considerably

By the end of the year, the balance of broad money (M2) was 60.6 trillion *yuan*, up by 27.7 percent over the previous year. The balance of narrow money (M1) was 22 trillion *yuan*, up by 32.4 percent. The balances in RMB of loans from financial institutions accounted for 42.6 trillion *yuan* respectively, up by 10.5 trillion *yuan*.



(III) Overall situation of China's macroeconomic performance in the first half of 2010

In the first half of 2010, China's GDP was 17.284 trillion *yuan*, up by 11.1 percent year on year.

(III) Overall situation of China's macroeconomic performance in the first half of 2010 (1)

- n Agricultural production remained stable, with summer grain output standing at the same level with that of the previous year

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- n The overall industrial growth was gratifying, with the corporate profitability greatly improved

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(III) Overall situation of China's macroeconomic performance in the first half of 2010 (2)

- n The growth rate of fixed-asset investment stabilized at its high, accompanied by booming investment in real estate

The country's fixed-asset investment totaled 11.4187 trillion *yuan*, up by 25.0 percent year on year. The investment in real estate totaled 1.9747 trillion *yuan*, an increase of 38.1 percent.

- n Sales in the domestic market took a major step forward, with popular goods constantly selling like hot cakes

The country's retail sales totaled 7.2669 trillion *yuan*, up by 18.2 percent year on year. Retail sales of food and beverages was 818.1 billion *yuan*, up by 16.9 percent; while sales of goods reached 6.4488 trillion *yuan*, an increase of 18.4 percent.

(III) Overall situation of China's macroeconomic performance in the first half of 2010 (3)

- n CPI rose moderately while PPI rose significantly year on year

CPI rose by 2.6 percent while PPI rose by 6.0 percent on a year-on-year basis.

- n Foreign trade recovered at full speed while trade surplus shrank apparently

China's imports and exports totaled 1.3549 trillion USD, up by 43.1 percent year on year, among which exports accounted for 705.1 billion USD while imports up accounted for 649.8 billion USD, with a trade surplus of 55.3 billion USD.

(III) Overall situation of China's macroeconomic performance in the first half of 2010 (4)

- n Income of urban and rural residents continued to grow, with a stable growth momentum in living consumption expenditure

Average urban household income reached 10,699 *yuan*, in which the disposable income of urban residents amounted to 9,757 *yuan*, with an inflation-adjusted growth rate of 7.5 percent.

- n Growth rate of money supply began to drop from its peak, while the amount of loans in RMB increased at a lower speed year on year

By the end of June, the balance of broad money (M2) was 67.4 trillion *yuan*, up by 18.5 percent year on year. The balance of narrow money (M1) was 24.1 trillion *yuan*, up by 24.6 percent. The balance in RMB loans from the financial institutions accounted for 44.6 trillion *yuan*, an increase of 4.6 trillion *yuan* compared to the year beginning, which was 2.7 trillion *yuan* less than the same period last year.



II. China's capital market development in 2009 and the first half of 2010

(I) Extent of the increase and decline in the stock market rose significantly, with more reasonable market valuation

- n The Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Component Stock Index closed at 3,277.14 and 13,699.97 points respectively in 2009, up by 74.25 and 106.48 percent respectively compared to that at the beginning of the year. By the end of June, the SHSE Composite Index closed at 2398.37 points, down by 26.93 percent , while the SZSE Component Index close at 9,386.94 points, down by 30.64 percent;
- n As of end of June 2010, the number of listed companies at Shanghai and Shenzhen Stock Exchanges totaled 1,891, an increase of 173 compared than end of 2009;
- n In 2009, the year-end total market value and negotiable market capitalization at the stock market amounted to 24.393912 and 15.125865 trillion *yuan* respectively, up by 101 and 234.54 percent year on year; As of the end of June, the two figures respectively stood at 19.5138728 and 12.6761525 trillion *yuan*, a reduction of 4.88004 and 2.449713 trillion *yuan*, or 20.01 percent and 16.20 percent respectively over 2009.

(II) The size of financing enjoyed a significant increase, while direct financing played a more important role in the allocation of the social funds

- n The funds raised from the domestic stock market throughout 2009 totaled 571.116 billion *yuan*, a significant increase over the previous year's 426.448 billion *yuan*, including:
 - IPO of 111 A-share stocks with a fund-raising volume of 183.138 billion *yuan*;
 - 83 additional issuances with a fund-raising volume of 301.993 billion *yuan*;
 - 10 allotments of shares with a fund-raising volume of 10.597 billion *yuan*.

- n In the first half of 2010, the total fund-raising through the domestic stock market amounted to 333.91 billion *yuan*, up by 227.96 percent year on year.

(III) Listed companies became better-established to a large extent, with quality improving steadily

- n The regulatory systems of information disclosure for listed companies issuing fully tradable shares in 2009 were modified
- n The information disclosure rules for GEM-listed companies were established
- n The merger and reorganization systems as well as the on-site inspection rules for listed companies were completed.

(IV) Institutional investors have grown in size and strength

- n As of June 30, 2010, there were a total of 619 funds in the country, of which 118 were incepted in 2009 while 62 in the first half of 2010;
- n The year-end net asset value in 2009 amounted to 2.67608 trillion *yuan*, up by 38.02 percent over 2008; the net assets decreased to 2.115699 trillion *yuan* in the first half of 2010, down by 8.19 percent year on year.

(V) Bond market continued to develop in depth with active bond financing

- n As of end of 2009, 1,740 bonds raised funds with a total par value of 16.51735 trillion *yuan*;
- n By the end of June 2010, 2,076 bonds raised funds with a total par value of 18.094713 trillion *yuan*. The total amount of bonds traded through the secondary market accounted for 116.03905 trillion *yuan*, up by 116.94 percent compared with that at the end of 2009.

(VI) Structure of the futures market was further optimized, with the fundamentals for the market development further consolidated

- n The year 2009 saw an annual turnover of 27,463.5626 trillion lots and a turnover amount of 17.132501 trillion *yuan*, greatly up by 76.84 percent and 175.63 percent respectively over the same period of the previous year;

In the first half of 2010, 5,751.8426 lots of futures contracts were traded, with a turnover amount of 4.386126 trillion *yuan*, respectively up by 66.33 percent and 75.70 percent year on year;

- n The Chinese government launched the stock index futures in the first half of 2010.

As of the end of June 2010, the volume of stock index futures traded during the current period totaled 5,444,545 lots, with a turnover amount of 4.486258 trillion *yuan*, while the positions reached 28,785 lots;

- n The supervision system and trading rules for the financial futures market were constantly improved.



(VII) Steady progress has been made in the institutional infrastructure for the capital market

- n In 2009, studying and encouraging policies and measures for long-term funds to invest in the stock market; policy measures concerning cash dividends and repos of listed companies were reinforced; the block trading system was further improved; risk monitoring, early warning as well as prevention and control were strengthened to effectively combat systemic risks; the timely introduction of pilot margin trading business for securities companies allowed modifications to business rules in time based on the practice for gradual expansion of pilot sites;
- n In the first half of 2010, infringements in the interests of listed companies committed by shareholders through affiliated transactions were severely punished. The reform of the issuance system was deepened, and the supervision over inquiry and pricing process was reinforced. The exit mechanism for listed companies was established, and the information disclosure regulatory system in the capital market was perfected. Public opinions were further guided while investors better informed. Progress was also made in market statistics and analysis.

(VIII) Risk disclosure is enhanced, while investor education campaigns were vigorously carried out

- n The CSRC has made deployments for several times for the purpose of better investor education and market supervision;
- n The SAC embraced positive results in investor education. It issued the *Standards for the Investor Education of Operation Departments of Securities Firms* and the *Essential Terms and Conditions in the GEM Investment Risk Disclosure Statement*, launched special inspections and patrol lectures on investor education as well as advocacy campaigns and training focused on business knowledge of index futures, and margin trading.

(IX) Steady progress was made in opening up of the capital market

- n As of the end of June 2010, 31 fund management companies and nine securities companies obtained the QDII qualification, while 24 QDII funds and two collective QDII schemes were approved, of which 17 QDII funds and one collective QDII scheme were issued, with a total stock of approximately 67.6 billion *yuan*;
- n In 2009, the Chinese government approved the application from two securities companies to set up branches in Hong Kong under the revised and republished *Rules for the Establishment of Foreign-shared Securities Companies*;
- n In October 2009, the quota limit for a single QFII institution was raised from 800 million to 1 billion USD, and QFII institutions were allowed to open capital accounts in different natures and categories. As of March 31, 2010, the quota for QFII approved accumulated 17.07 billion USD.



III. Outlook of China's capital market

(I) China has accumulated some experience and formulated certain basic principles, laying a solid foundation for rapid and sound growth of the capital market

- n The development of the capital market is identified as an important strategic task, with an awareness campaign across the whole community on the importance of the capital market
- n We focused on serving the national economy for coordinated progress between the capital market and China's economic and social development
- n We uphold the direction of the market-oriented reform to fully mobilize all market participants
- n We have reinforced the legal system to continuously refine the regulation on the capital market
- n We steadily push forward the opening up to improve the international competitiveness of China's capital market

(II) China's capital market in the future

- n The system of market supervision and law enforcement will take shape, while the capital market has grown more fair, transparent and efficient
- n The market will greatly extend in depth and breadth, heading for an efficient, multi-level international capital market
- n The service will be upgraded across the Chinese institutions engaging in securities and futures businesses, adding to the core competitiveness of these financial service providers



Thank you!