

Appendix **Chronology of Financial and Exchange System Reforms**

The major reforms undertaken in the exchange system, banking sector, money and capital markets, and monetary policy from 1978 to 1995 are presented on pages 86–88. The reforms are grouped chronologically. The first phase (1978–84) marked the re-establishment of the financial and

exchange system, and the second phase (1984–88) witnessed its diversification. The third phase (1988–91) was characterized by recentralization of the financial and exchange system, while commercialization and expansion marked the fourth phase (1992–95).

Phase	Exchange System	Banking Sector	Money and Capital Markets	Monetary Policy
First Phase: Re-establishment of the Banking System (1978–84)				
December 1978	Third Plenum of the Central Committee of the Communist Party makes a decisive break with the legacy of the Cultural Revolution and resolves to focus the Party's work on economic development in order to achieve substantial, sustained gains in output. To achieve this objective, it is decided that market-oriented reforms will be adopted.	1979 Allocation of investment funds shifts from budgetary grants to bank lending. Three specialized banks are established to operate in specific sectors of the economy (PCBC, BOC, and ABC). A network of RCCs is set up under the supervision of the ABC.	1981 The issuance of government securities is resumed through compulsory sales to enterprises and individuals.	1978–84 Monetary policy is still dominated by the credit plan and the cash plan, the financial counterparts of the physical plan. Interest rates are set by the PBC under the authority of the State Council.
Second Phase: Diversification and Innovation (1984–88)				
September 1983	A directive of the State Council formally establishes the PBC as the country's central bank by removing its urban commercial activities, thereby finalizing the transition to a two-tier banking system.	Early 1980s The first NBFIs start to operate, including a number in the coastal regions (ITICs mainly), quite often at the provincial level.	1982 Private enterprises are allowed to issue shares.	
1985	The use of the settlement rate is discontinued. All transactions are to be done at the official rate set by the SAEC.	1985 A fourth specialized bank, the ICBC, is established to take over the commercial activities that were removed from the PBC.	1983 The ABC establishes prototype intrabank market; other banks follow.	1984 Reserve requirements are introduced; different rates apply according to the type of deposits (20–40 percent). PBC establishes lending facilities for banks.
1986	The foreign exchange regime is changed from one of pegging to a basket to a system of managed floating. Chinese enterprises and foreign investment corporations in SEZs are permitted to transact foreign exchange at freely negotiated rates (the retention quota system).	1986 Provisional regulations entrust the PBC with responsibility to conduct monetary policy and regulate and supervise the financial system, as well as the money and capital markets. All banks are allowed to engage in foreign exchange transactions. UCCs are opened under ICBC supervision, and TICs and securities houses proliferate.	1984 The first information centers appear in some major cities, thereby introducing the concept of an interbank market. Local enterprises are allowed to issue corporate bonds with the prior approval of the PBC. Interest rates on these bonds are allowed to be up to 40 percent higher than rates on bank deposits.	1985 Ratio of reserve requirements is reduced and made uniform at 10 percent.
				1986 Banks are allowed to adjust interest rates on loans within a 10 percent margin above the administered rate. Credit quotas become more indicative.
				1985 SOEs are permitted to issue shares carrying no ownership rights. Banks are permitted, upon approval from PBC, to issue financial bonds. The interest rate is set 2 percentage points above deposit rates of similar maturities.
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1987
Two "universal" banks are permitted to compete with existing banks in all forms of business.

1986
Secondary market trading in government securities is allowed on an experimental basis.

1987
The Government begins to diversify its debt instruments with the issuance of key construction bonds, state construction bonds, and special state bonds to households and state enterprises.

1987
Ratio of reserve requirements is raised to 12 percent.

1988
Ratio of reserve requirements is raised to 13 percent.

1989
Guidelines on "excess reserve requirements" are introduced in a range of 5–7 percent of domestic currency deposits.
The 1986 measure allowing banks to adjust loan rates above the administered rate is reversed. Credit quotas again become mandatory.

1990
Banks are again allowed to adjust interest rates on loans within specified margins (60 percent for RCCs, 30 percent for UCCs, and 20 percent for the other banking institutions) above rate set by PBC.
The PBC regulates interbank market rates and promulgates new measures to regulate interbank markets.

1988
The State Council officially approves trading in government securities. Gradually, trading is extended from 7 cities to 63 cities, and other securities (bonds, shares, and nongovernment securities) are added to the list.
Fiscal bonds are sold for the first time to financial institutions.

1988
The TIC sector is reorganized: the number of TICs is significantly reduced through mergers and absorptions.

1988
The right to trade in retention quotas is extended to all domestic entities engaged in foreign trade. Those who were also permitted to retain foreign exchange earnings are permitted to transact retention quotas in the swap centers. By October 1988, 80 swap centers have been established.

1988–89
Official rate is used for the foreign exchange plan, the surrender of foreign exchange, and purchases made with retention quotas.

1989
The Stock Exchange Executive Council is founded.

1990
High inflation prompts the Government to issue "price-indexed" bonds.
The PBC establishes the Quotation Center for government securities. The Shanghai Securities Exchange is officially recognized.

1991
The Shenzhen Stock Exchange is officially recognized. Treasury bonds for households are issued via an experimental underwriting syndicate.

Third Phase: Rectification and Recentralization (1988–91)

Early 1988
In the wake of a bout of inflationary pressures, a stabilization program is introduced (the "rectification program"), in which structural reforms are given lower priority than stabilization and administrative measures are used to supplement nascent indirect instruments of macroeconomic control.

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Chronology of Reforms (concluded)

Phase	Exchange System	Banking Sector	Money and Capital Markets	Monetary Policy
Fourth Phase: Commercialization and Expansion (1992–Present)				
October 1992 Fourteenth National Congress of the Communist Party endorses the views of senior leader Deng Xiaoping and adopts goal of establishing a "socialist market economy."	1992 Part of the retention quotas made available to the state are purchased at a premium equal to the monthly weighted average of the rate in the swap market. The PBC starts selling the quotas that it has bought at the market rate to importers through the swap market at the prevailing swap market rate.	1992 The rectification program ends. The authorities announce their intention to accelerate the reform process. Gradually, more commercial banks, mostly of regional scope, are licensed.	1993 The Quotation Center is transformed into the NETS.	1993 Banks and NBFIs are ordered to recall all loans on the interbank market securities. The PBC issues new guidelines on interbank activities.
November 1993 Third Plenum of the Fourteenth Central Committee outlines and approves a comprehensive reform strategy in which financial reforms are mentioned as a key element to strengthen the capability for market-oriented macro-economic management.	1993 The State Council decides that the SAEC should function under the guidance of the PBC. The PBC lifts the cap on the swap rate. The SAEC issues regulations on licensing, capital, operations, controls, and risk limits for foreign exchange operations.	1993 Three policy lending banks are established.	1994 Paperless treasury bills are issued through an underwriting syndicate. The PSSS, planned to be the (temporary) infrastructure for payment and settlement related to open market operations, is established.	1994 Decision is made to extend the bulk of PBC credit at the PBC headquarters level, thereby reversing the previous practice of extending credit at the branch level. PBC overdraft or direct loans to the Government are discontinued. Some PBC loans extended to the state commercial banks and other financial institutions are called back for monetary policy purposes. Special deposits are used to absorb excess liquidity in the system. Guidelines on asset-liability management are introduced for all banks, and credit quotas are replaced by loan-to-deposit ratios for the UCCs and TICs. Only four state commercial banks and four universal banks remain under credit quotas.
1994 The official and swap market exchange rates are unified at the prevailing swap market exchange rate. The CFETS becomes operational, creating an integrated system of foreign exchange trading centralized in Shanghai.	1994 The PBC law is enacted. The commercial bank law is enacted.	1995 Plans are prepared to liberalize interest rates and to develop an integrated interbank market.	1995 Excess reserve guidelines are complied with on a consolidated, bankwide level, while monitoring remains at the branch level.	

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