

Zhou Xiaochuan: Tenth anniversary of the China Foreign Exchange Trade System

Speech by Mr Zhou Xiaochuan, Governor of the People's Bank of China, on the tenth anniversary of the China Foreign Exchange Trade System (CFETS) and the opening ceremony of the Forum on China's Money Market, Shanghai, 16 April 2004.

* * *

Distinguished delegates, ladies and gentlemen:

Good evening. I'm very delighted to be with you on the tenth anniversary of the CFETS and the opening ceremony of the Forum on China's Money Market.

Ten years ago the China Foreign Exchange Trade System (CFETS) was set up in Shanghai as part of the efforts to reform the RMB exchange rate system. Starting from this, China began to construct a modern platform to offer trading, information and supervision services to the interbank market. Based on this platform, a national unified RMB funding market was established in 1996, the interbank RMB bond market appeared in 1997, and a national unified RMB commercial paper market debuted in 2003. So far, by using electronic telecommunication technology, the CFETS has basically formed a national unified trading platform and service system for the interbank RMB money market and FX market, serving all financial institutions in the country. All of these achievements have laid a solid foundation for safeguarding China's financial security, increasing market supervision, improving the monetary policy transmission mechanism, and promoting market-based interest rate and exchange rate reform. The decade of accomplishments in the interbank market evolution is the result of reform and opening-up, as well as the devotion and participation of market participants. On this occasion, on behalf of the People's Bank of China, I would like to extend sincere thanks and profound solicitude to the staff of the CFETS and all market participants.

Looking at development trends in the global FX market, we can see that we have enjoyed the latecomer advantage in terms of technology, but there is still a long way to go in market construction and development.

The continuous deepening of China's reform and opening-up requires further development of the financial market, and requires us to update the concept according to specific situations and encourage innovation with the future in mind. First, the transitional period for the banking industry after China's entry into the WTO ends in December of 2006. With the realization of national treatment for foreign institutions and the gradual deregulation on market accession, China's financial industry will encounter increasing international competition. China's commitment to the WTO and its internal demands for economic growth necessitate accelerated development of its financial market. Second, the step-by-step opening of markets and intensifying economic globalization have brought the country's economic growth dependence on foreign trade to 60 percent. More and more enterprises are starting up international businesses, calling on domestic financial institutions to provide enterprises and companies with a series of financial services including hedging, risk control, FX finance, etc. The concept of investment in financial markets has also taken shape among individual residents. The introduction of cross-market financial products is beginning to meet market demands. Expanding market demands offered opportunities for the development of both the interbank market and financial products. Third, learning lessons of the Asian financial crisis, people now have a more profound understanding of the importance of sound development of financial markets. Compared with the global financial market, China's interbank market still has great potential for development. With progress in reform of transforming state-owned commercial banks into joint-stock banks, banks will have to offer better products in the financial market so as to fulfill the twin goals of minimizing risks and maximizing profits. China's interbank market has huge potential and wide open space for development. Furthermore, as opening-up deepens, China, with the objectives set forth in the 3rd Plenary Session of the 16th National Congress of the CPC, will further perfect the exchange rate forming mechanism, gradually lift improper FX restrictions and finally realize the convertibility of RMB under capital accounts. These objectives cannot be accomplished without further development of the interbank market and the innovation and diversification of financial products. In all, it is one of the objectives of China's financial market development to create an all-round and multi-layer financial market system. The realization of these objectives and goals will rely on the deepening and advancement of the financial market. Some newly emerged products such as ABS, MBS and CDO all reflect new changes

in market demands. The development of financial engineering is closely related to the infrastructure of the financial market and a favorable service system.

In the future process of financial market deepening, the development of financial products must be accelerated and innovations must be encouraged so as to further meet market demands. The market should give greater play to price discovery, and should strengthen the ability of financial enterprises to price financial products. Without good products or financial institutions with comparatively strong pricing capabilities, it is difficult to reach the goals of developing the financial market. Intensive research should be made on the relationship between the interbank market, FX market and OTC market. Secondly, in the aspects of improving the exchange rate forming mechanism and accelerating FX market construction, the market should help enterprises cultivate an awareness of risks, and the market in the broad sense should be able to provide enterprises with a complete set of financial services including hedging, risk averting, and investment and financing. Technology and supervision should also keep up with market development. Supervision should be strengthened with awareness of risk supervision built up among participants in the interbank market, though most of them are financial institutions who have comparatively strong ability to take risks and conduct analysis and research. Last but not least, in terms of development direction, the development of the FX market should be future-oriented while meeting the current demands of the macro economic system and policies, and active studies should be conducted on the trading system.

The past ten years have been a splendid decade of accomplishments in constructing the interbank market. There is still a long way to go toward market construction in the future. Reform and opening-up presents many demands and challenges, but the past decade of development has laid a sound foundation for the future. I hope that the CFETS can extend its efforts and innovate in a pioneering spirit, thus further promoting financial market development and perfecting the functions of the interbank market.

I wish the Forum on China's Money Market a complete success. Thank you.