

# CHINA BIWEEKLY

RMB Internationalization Business Promotion Office  
Global Business Division

August 25th 2017

## ■ BIWEEKLY DIGEST

### [Economy]

- **State Council executive meeting decides to further open up the market**
- **Main economic indicators for July show a slowdown in investment, production and consumption**

### [Industry]

- **Business sentiment of the convenience store sector improves in the second quarter of 2017**

### [Trade/ Investment]

- **Trade statistics for July show exports and imports increase 7.2% and 11.0% YoY, respectively**

### [Finance/ Exchange]

- **SWIFT: Share of RMB payments remains sixth place in the world in June**
- **Foreign currency reserves for July increase for six consecutive months**
- **Balance of payments for January-June, 2017 show China's trade surplus narrows by 7.0%**

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## [Economy]

### ◆ State Council executive meeting decides to further open up the market

Premier Li Keqiang held State Council executive meeting on July 28 and stated that China would promote foreign investment growth and further open up the market. On July 30, the Ministry of Commerce issued “the Interim Measures on Filing Administration of Establishment and Changes of Foreign-Invested Enterprises” to revise the rules of filing procedures for Foreign-Invested Enterprises (“FIEs”).

New rules will promote the pre-entry domestic treatment of foreign investors and the negative list system currently being tested in pilot free trade zones. The contacts and forms for the various notifications and registration for foreign enterprises will be unified.

In tax matters, deferred tax payment is allowed for foreign investors who invest dividends from local companies directly in projects encouraged by the government. Also, the preferential enterprise income tax policy for high and new technology enterprises (HNTEs), which has been applied in service outsourcing model cities, will be expanded China as a whole.

Regarding equity policies, the restrictions on the proportion of foreign equity will be cancelled or eased in some areas of the manufacturing and service sectors. Local governments will be encouraged to attract the establishment of regional headquarters by multinational enterprises. The establishment of an FIE through M&A will no longer be subject to the authority’s approval, but instead only need to undergo simplified filing procedures.

Investment administration authority will be enlarged in national development zones, and foreign capital projects which meet the requirements of local planning will be guaranteed priority use of land for construction.

Regarding the employment of foreign talent, the process for issuing work permits will be simplified and measures to expand work visa issuance and extend the validity period of visas will be announced this year.

In principle, these measures should be fully implemented by the end of September.

### ◆ Main economic indicators for July show a slowdown in investment, production and consumption

On August 14, The National Bureau of Statistics (NBS) announced the main economic indicators for July. Investments in fixed assets for January-July increased 8.3% YoY (down 0.3% from January-June), with infrastructure investments up 20.9% YoY (down 0.2% from 21.1% in January-June) and real estate investments up 7.9% YoY (down 0.6% from 8.5% in January-June).

Industrial production for July (value-added basis) slowed down to 6.4% YoY (down 1.2 pts from 7.6% in June). By sector, however, there was a significant increase in dedicated facility production (up 11.9% YoY), automobile production (up 11.8% YoY), PC/telecommunications/electronic facility production (up 11.8% YoY) and electric machines/appliances production (up 11.7% YoY).

Total retail sales of consumer goods for July increased 10.4% YoY, down 0.6 pts from 11.0% in June.

Consumer Price Index (CPI) for July increased 1.4% YoY (down 0.1 pts from June), while industrial producer price index (PPI) increased 5.5% YoY, same as in June.

**< Main Economic Indicators in July >**

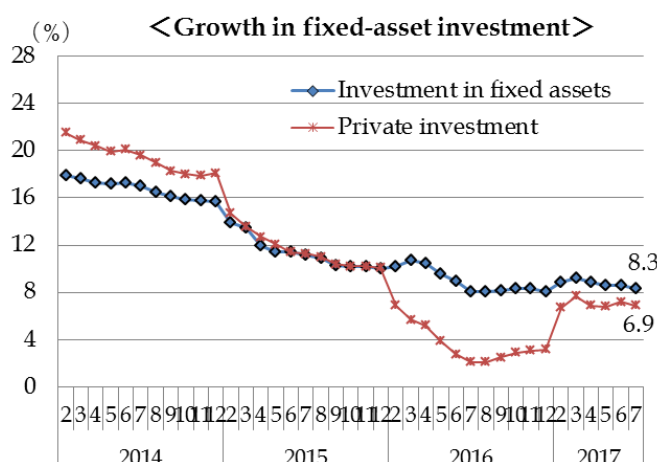
Item		Amount	YoY (%)	
Investment in fixed assets*		(RMB Bn)	33,741	8.3
State-owned sector		(RMB Bn)	12,301	11.7
Private sector		(RMB Bn)	20,464	6.9
By industry	Primary industry	(RMB Bn)	1,068	14.4
	Secondary industry	(RMB Bn)	12,715	3.4
	Tertiary industry	(RMB Bn)	19,958	11.3
Value-added industrial production**		-	-	6.4
Total retail sales of social consumables		(RMB Bn)	2,961	10.4
Consumer price index (CPI)		-	-	1.4
Industrial producer price index (PPI)		-	-	5.5
Industrial producer purchase price		-	-	7.0
Exports		(USD Bn)	193.6	7.2
Imports		(USD Bn)	146.9	11.0
Trade balance		(USD Bn)	46.7	-

\*: Cumulative total for January-July (excl. investment by rural companies)

\*\* : Of independently-accounted state-run companies and non-state-run companies with annual sales of at least RMB 20 million

Source: Prepared based on the data published by the NBS

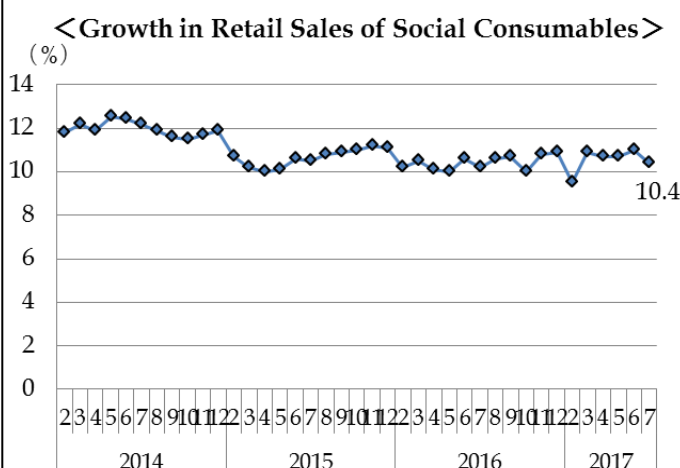
The NBS commented that economic activities were stable generally as a result of reforms on the supplier side and structural adjustments. With regard to the risk of economic downturn in the second half of this year, they emphasized that a slight slowdown in growth is normal and improvement in the quality of economic activities is more important. They also said that the real estate market is becoming stable thanks to a series of price control measures, which is successfully controlling the rise of prices.



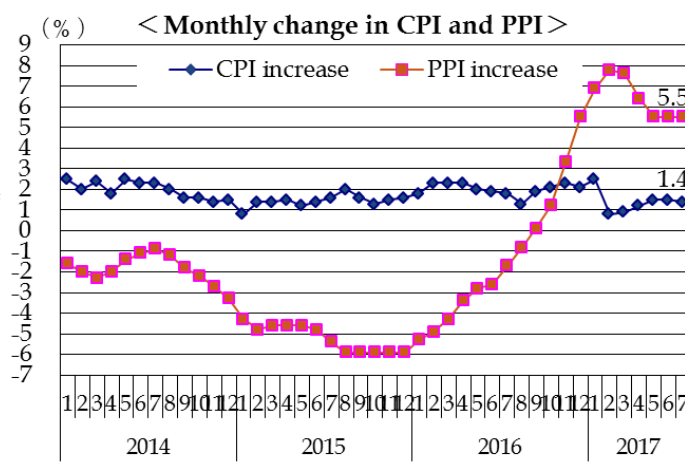
Note: Cumulative total from the year's start  
Source: Prepared based on public NBS data



Note: Cumulative total of January and February for February data only  
Source: Prepared based on public NBS data



Note: Cumulative total of January and February for February data only  
Source: Prepared based on public NBS data



Source: Prepared based on public NBS data

## [Industry]

### ◆ Business sentiment of the convenience store sector improves in the second quarter of 2017

On August 9, the Ministry of Commerce and China Chain Store & Franchise Association released a report on the business sentiment index for Chinese convenience stores in the second quarter of 2017. The report indicates the current situation of the convenience store sector in China with “the business index of the Chinese convenience store sector” and “the development index of urban convenience stores”. Release of these reports started this year, and this report was the second such release.

The business index of the Chinese convenience store sector is composed of the “industry-related business index”, which is based on the results of a survey of the management of CCFA’s 58 member companies and the “store-related business index” which is based on the results of a survey of 580 store owners. The index is released on a quarterly basis.

The business index of the Chinese convenience store sector was 72.2 in the first quarter and 74.0 in the second quarter, greatly exceeding the break-even point of 50. Meanwhile, cost-related indexes fell significantly below 50, indicating that cost reduction is the greatest challenge in the industry. Recently, in order to reduce labor cost, unmanned stores have come to draw attention, and the report pointed out that investments in unmanned stores have become active.

The development index of urban convenience stores is released every year and indicates the development status of the convenience store sector in 36 cities (Note) based on increase in store numbers, population coverage ratio, the percentage of convenience stores operating 24 hours per day, etc. Shenzhen, Guangdong Province, Taiyuan, Shanxi Province and Changsha, Hunan Province were ranked as the top 3 in the 2016 comprehensive ranking.

Significant features of the 2016 convenience store sector are: store numbers and sales maintained high growth; growth rates of the central and western district cities exceeded those of coastal cities; and competition has intensified due to the entrance of many new companies (the number of convenience store operators in 2016: 295, up 14.3% year-over-year).

(Note: 36 cities include provincial capitals except for Lhasa, 4 cities specifically designated in the state plan 4(which are Dalian, Tsingtao, Xiamen and Shenzhen), Wenzhou and Dongguan.)

### <Business Index of the Chinese Convenience Store Sector>

Item	2017	
	1st Q	2nd Q
<b>Business index</b>	<b>72.2</b>	<b>74.0</b>
<b>Industry-related business index (weighted 40%)</b>	<b>81.1</b>	<b>82.5</b>
Corporate sales	94.7	96.2
Industry sales	88.3	90.4
Store number	88.3	89.1
Employee number	78.7	80.7
Total cost	19.1	18.2
Main business profit	84.0	86.5
Main business cost	22.3	20.4
Business environment	83.0	84.6
<b>Store-related business index (accounts for 60%)</b>	<b>66.3</b>	<b>68.3</b>
Store sales	86.5	88.1
Customer number	86.1	87.6
Merchandise types	81.1	84.5
Service	78.8	80.7
Merchandise price	57.4	60.8
Store rent	39.1	40.2
Utility cost	21.6	22.5
Labor cost	31.1	34.8
Operating margin	77.9	80.2

(Source) Based on the report on the business index for Chinese convenience stores in the Second quarter of 2017 by the Ministry of Commerce

### <The development index of convenience stores by city>

#### Comprehensive ranking

Rank	City	Score
1	Shenzhen (Guangdong)	89
2	Taiyuan (Shanxi)	89
3	Changsha (Hunan)	87
4	Dongguan (Guangdong)	85
5	Xiamen (Fujian)	83
6	Zhengzhou (Henan)	82
7	Shanghai	82
8	Beijing	81
9	Guangzhou (Guangdong)	80
10	Urumqi (Xinjiang Autonomous Region)	80

#### Store number growth rate ranking

Rank	City	Growth rate
1	Zhengzhou (Henan)	33.3%
2	Guiyang (Guizhou)	30.0%
3	Nanning (Guangxi)	29.5%
4	Beijing	25.0%
5	Fuzhou (Fujian)	25.0%
6	Harbin (Heilongjiang)	25.0%
7	Xi'an (Shaanxi)	23.1%
8	Wuhan (Hunan)	22.0%
9	Jinan (Shandong)	16.7%
10	Shenzhen (Guangdong)	15.8%

#### Population coverage ratio ranking

Rank	City	Population / store
1	Dongguan (Guangdong)	1,015
2	Changsha (Hunan)	1,761
3	Shenzhen (Guangdong)	2,354
4	Taiyuan (Shanxi)	2,472
5	Guangzhou (Guangdong)	3,076
6	Shanghai	3,369
7	Chengdu (Sichuan)	3,512
8	Urumqi (Xinjiang Autonomous Region)	5,184
9	Yinchuan (Gansu)	5,245
10	Shenyang (Liaoning)	5,709

#### Percentage of stores operating 24 hours

Rank	City	Ratio
1	Chongqing	90.0%
2	Haikou (Hainan)	87.5%
3	Xiamen (Fujian)	83.3%
4	Hangzhou (Zhejiang)	80.0%
5	Nanning (Guangxi)	69.9%
6	Guangzhou (Guangdong)	66.7%
7	Dalian (Liaoning)	63.6%
8	Kunming (Yunnan)	63.1%
9	Shanghai	62.5%
10	Xi'an (Shaanxi)	56.3%

(Source) Based on the report on the business index for Chinese convenience stores in the first quarter of 2017 by the Ministry of Commerce

## [Trade/ Investment]

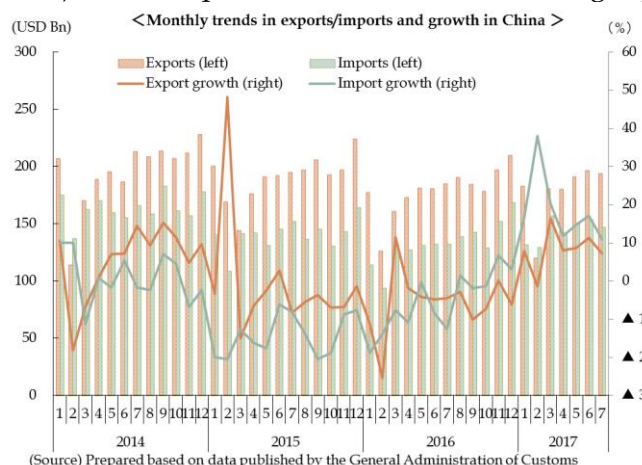
### ◆Trade statistics for July: Exports and imports increase 7.2% and 11.0% YoY, respectively

According to the preliminary figures for trade statistics (in USD) published by the General Administration of Customs on August 8, total exports and imports in July rose 8.8% YoY (June: +13.8% YoY) to USD 340.56 Bn. Of the total, exports rose 7.2% YoY (June: +11.3% YoY) to USD 193.65 Bn while imports went up 11.0% YoY (June: +17.2% YoY) to USD 146.91 Bn, with the growth rate for both decreasing from the previous month.

The cumulative total of exports and imports for January-July rose 12.3% YoY (January-June: +13.0% YoY) to USD 2,249.93 Bn, with exports up 8.3% YoY (January-June: up 8.5% YoY) to USD 1,240.81 Bn and imports up 17.7% YoY (January-June: up 18.9% YoY) to USD 1,009.12 Bn. The growth slowed down, compared to January-June.

The General Administration of Customs reported that the recovery of China's external trade continued in July, while the growth slowed down because the trade performance for July last year was relatively high. They said that the recovery of the global economy and increases in import prices and volume of resources were the factors of the growth.

Regarding trade with Japan for January-July, exports rose 6.2% YoY, same as in January-June (+6.2% YoY), while imports increased 15.1% YoY, slightly slowing down from January-June (+15.6% YoY).



<Exports, imports, and growth rate by country and region for January-July 2017 (Top 10) > (USD Bn)

Country/Region	Exports and imports (Jan.-Jul.)	YoY	Exports (Jan.-Jul.)	YoY	Imports (Jan.-Jul.)	YoY
USA	317.7	14.3%	230.2	12.1%	87.5	20.4%
Japan	166.9	10.8%	76.5	6.2%	90.5	15.1%
South Korea	152.3	10.2%	57.7	12.3%	94.6	8.9%
Hong Kong	150.3	▲ 8.8%	146.3	▲ 4.0%	4.1	▲ 67.2%
Taiwan	103.7	9.7%	23.7	6.7%	79.9	10.6%
Germany	92.4	8.5%	39.6	8.9%	52.8	8.2%
Australia	77.5	36.4%	22.0	11.2%	55.5	50.0%
Vietnam	61.3	18.6%	38.0	15.3%	23.3	24.5%
Malaysia	52.5	14.8%	23.1	14.5%	29.5	15.1%
Brazil	50.0	30.6%	15.7	36.9%	34.3	27.9%

(Source) Prepared based on data published by the General Administration of Customs

## [Finance/Exchange]

### ◆SWIFT: Share of RMB payments remains sixth place in the world in June

On July 28, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) announced that RMB remained 6th in the June 2017 ranking table of currencies for international payments by amount. The transaction share expanded to 1.98% from 1.61%.

Regarding the ongoing internationalization of RMB, RMB clearing banks (interbank transaction centers) have been established in 23 cities around the globe, and in October 2016, IMF decided to include RMB in the SDR (special drawing right) basket. However, the growth of RMB-denominated settlements has been slowing down in the past 2 years due to Chinese economic slowdown, restrictions on capital outflows by the government, and concern about RMB depreciation, according to SWIFT.

<Offshore RMB Clearing Centers as of July 2017>

Established	Country / territory (city)	Clearing Bank
2003	Hong Kong	Bank of China
2004 Sep	Macau	Bank of China
2012 Dec	Taiwan (Taipei)	Bank of China
2013 Feb	Singapore	ICBC
2014	Jun	Germany (Frankfurt)
		UK (London)
	Jul	Korea (Seoul)
	Sep	Luxembourg
		France (Paris)
	Nov	Qatar (Doha)
2015		Canada (Toronto)
	Jan	Malaysia (Kuala Lumpur)
		Thailand (Bangkok)
	Feb	Australia (Sydney)
	May	Chile (Santiago)
	Jun	Hungary (Budapest)
	Jul	South Africa (Johannesburg)
	Sep	Zambia (Lusaka)
		Argentina (Buenos Aires)
Nov	Switzerland (Zurich)	
2016	Sep	USA (New York)
	Dec	UAE (Dubai)
2017 Mar	Russia (Moscow)	

(Source) Created based on RMB Tracker (July 2017) by SWIFT

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Meanwhile, SWIFT expressed optimistic views on long-term RMB internationalization, indicating (1) progress of the "One Belt, One Road" initiative, (2) improvement of China's cross-border interbank RMB payments system (CIPS), (3) Hong Kong's role as an intermediary between China and overseas countries, (4) further deregulation in the Chinese capital market and (5) development of fintech such as online payments as positive factors.

Regarding the impact of "One Belt, One Road" initiative on RMB internationalization, SWIFT indicated that while having uncertainties regarding issues such as fair governance, return on investment and China's influence on domestic projects in host countries, the Initiative will contribute to the international legal compliance and the improvement of financial risk management rules through multinational enterprises' participation and collaboration with international organizations.

Regarding the present situation of RMB usage in the countries in the "One Belt, One Road" regions, SWIFT explained that from June 2014 to June 2017 RMB settlements increased 551% in Malaysia, 436% in Germany, 56% in Russia, 50% in Thailand and more than 100% in the four Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. Meanwhile, RMB settlements in the same period declined in Italy, Iran, France, Netherlands and Singapore, showing a gap among countries.

<Share of currencies in international settlements>

Rank	Top: currency / Bottom: share of overall settlements																							
	2014		2015			2016												2017						
	Jan	Jan	Jan	Jan	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
1	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	
	38.75%	43.41%	44.82%	42.96%	41.40%	43.09%	41.92%	41.68%	40.97%	41.30%	42.50%	41.08%	40.55%	41.07%	42.09%	40.72%	40.86%	41.80%	42.14%	40.58%	40.47%			
2	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
	33.51%	28.75%	27.20%	29.43%	31.47%	29.83%	30.69%	31.31%	30.82%	31.31%	30.17%	31.24%	32.26%	31.55%	31.30%	32.87%	32.00%	31.20%	31.10%	33.30%	32.89%			
3	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	
	9.38%	8.24%	8.45%	8.66%	8.78%	8.00%	8.40%	7.87%	8.73%	7.85%	7.53%	7.77%	7.61%	7.38%	7.20%	7.49%	7.41%	7.13%	7.31%	7.08%	7.29%			
4	JPY	JPY	CNY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	
	2.49%	2.79%	2.79%	3.07%	3.16%	3.27%	3.24%	3.16%	3.46%	3.42%	3.37%	3.53%	3.38%	3.38%	3.40%	3.06%	3.30%	3.31%	3.53%	3.11%	3.16%			
5	CAD	CNY	JPY	CNY	CNY	CNY	CAD	CAD	CAD	CNY	CNY	CNY	CAD	CNY	CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	
	1.80%	2.06%	2.76%	2.45%	1.76%	1.88%	1.83%	1.91%	1.96%	1.90%	1.86%	2.03%	1.82%	2.00%	1.93%	1.87%	1.89%	2.00%	1.92%	1.92%	2.04%			
6	AUD	CAD	CAD	CAD	CAD	CNY	CNY	CNY	CAD	CAD	CAD	CAD	CAD	CAD	CNY	CNY	CNY	CNY	CNY	CHF	CNY	CNY	CNY	
	1.75%	1.91%	1.79%	1.74%	1.73%	1.85%	1.82%	1.90%	1.72%	1.81%	1.72%	1.90%	1.67%	1.82%	1.68%	1.68%	1.84%	1.78%	1.60%	1.61%	1.98%			
7	CNY	CHF	AUD	CHF	CHF	AUD	AUD	AUD	CHF	AUD	AUD	AUD	AUD	AUD	AUD	CHF	CHF	AUD	CNY	CHF	CHF	CHF	CHF	
	1.39%	1.91%	1.60%	1.63%	1.52%	1.59%	1.56%	1.68%	1.55%	1.60%	1.67%	1.57%	1.64%	1.73%	1.55%	1.53%	1.66%	1.65%	1.60%	1.60%				
8	CHF	AUD	CHF	AUD	AUD	CHF	CHF	CHF	CHF	AUD	CHF	CHF	CHF	CHF	CHF	CHF	AUD	AUD	CHF	AUD	AUD	AUD	AUD	
	1.38%	1.74%	1.55%	1.47%	1.52%	1.47%	1.50%	1.41%	1.52%	1.59%	1.44%	1.45%	1.50%	1.57%	1.53%	1.50%	1.61%	1.64%	1.54%	1.51%	1.47%			
9	HKD	HKD	HKD	HKD	SEK	HKD	SEK	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	
	1.09%	1.28%	1.41%	1.23%	1.02%	1.10%	1.09%	1.16%	1.09%	1.19%	1.25%	1.15%	1.21%	1.26%	1.31%	1.15%	1.30%	1.24%	1.19%	1.18%	1.28%			
10	THB	THB	THB	THB	HKD	THB	HKD	THB	THB	SEK	SEK	THB	SEK	THB	SEK	SEK	THB	SEK	SEK	THB	THB	THB	THB	
	0.98%	0.98%	1.04%	0.99%	1.00%	1.05%	1.06%	1.04%	1.02%	1.00%	1.11%	1.05%	1.06%	1.02%	1.06%	1.01%	1.01%	1.03%	1.00%	0.95%	0.93%			

(Note) USD: U.S. dollar, EUR: euro, GBP: British pound, JPY: Japanese yen, CNY: Chinese yuan, CAD: Canadian dollar, AUD: Australian dollar, CHF: Swiss franc, HKD: Hong Kong dollar, THB: Thai baht, SEK: Swedish krona, SGD: Singapore dollar  
(Source) Created based on public data from SWIFT.

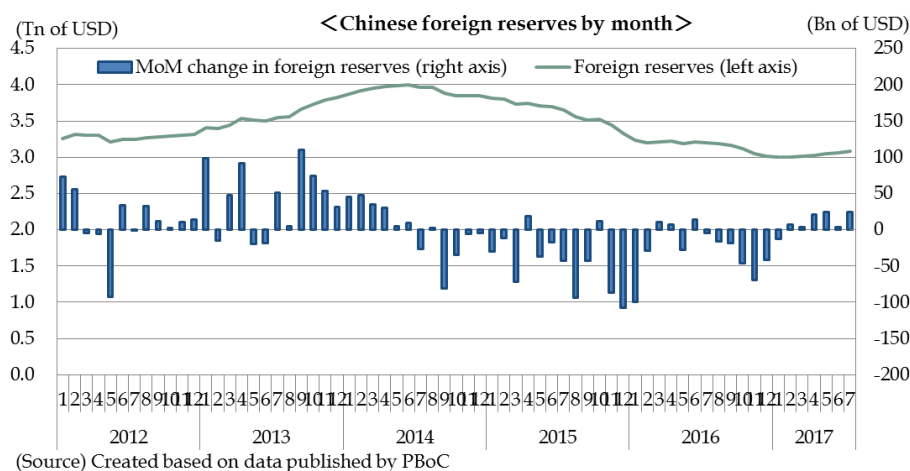
## ◆ Foreign reserves increase for the sixth consecutive month in July

According to an announcement by the People's Bank of China on August 7th, foreign reserves in July increased by USD 23.9 Bn month on month to USD 3,080.7 Bn, marking an increase for six consecutive months.

The State Administration of Foreign Exchange (SAFE) that the foreign reserve balance increased in July because of the factors such that cross-border transfers of funds continued to

be stable, supply and demand of for foreign currencies were in balance, and the converted USD value of assets denominated in other currencies increased due to the weak dollar.

They also reported that the international financial market has become stable this year, with RMB rates stable basically, and RMB selling and foreign currency buying by individuals and corporates have been heading toward a more rational trend.



(Source) Created based on data published by PBoC

## CHINA BIWEEKLY (August 25th 2017)

### ◆ International balance of payments for January-June 2017: Trade surplus shrinks by 7.0%

On August 7, the State Administration of Foreign Exchange (SAFE) announced the preliminary figures for the international balance of payments for January-June 2017.

Current account balance marked a surplus of USD 71.2 Bn, with current account surplus to GDP ratio falling to 1.3% (from 1.9% for the entire 2016). Of the total, trade balance marked a surplus of USD 215.4Bn, with the growth down 7.0% YoY, indicating imports increased more than exports. Service balance showed a deficit of USD 135.1Bn, with the deficit bigger 24.0% YoY, due to an increase in spending on overseas travel.

Meanwhile, capital and financial account ran a deficit of USD 13.6 Bn, with direct investment balance turning from a net outflow of USD 47.1Bn in the previous year to a net inflow of USD 14.2Bn, because outward direct investment, which increased significantly last year, has been decreasing sharply this year.

Regarding reserve assets balance, which indicates increase/decrease in foreign currency reserves, foreign currency reserves decreased last year (with reserve assets increasing on the international balance of payments), but increased in January-June (with reserve assets decreasing on the international balance of payments).

The SAFE reported that China's international balance of payments was sound and cross-border transfer of funds was stable in January-June, and predicted that the balance of payments would going to balance out.

#### < Major items of the international balance of payments (preliminary) > (USD Bn)

Item	2016				2017	
	Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.
Current account	48.1	98.7	174.7	210.4	19.0	71.2
Trade balance	104.9	229.0	366.9	485.2	81.7	215.4
Service balance	▲ 57.0	▲ 116.9	▲ 183.0	▲ 242.3	▲ 60.1	▲ 135.1
(travel)	▲ 54.7	▲ 108.0	▲ 168.4	▲ 223.1	▲ 52.6	▲ 115.9
Primary income balance (income)	1.9	▲ 10.2	▲ 4.8	▲ 26.3	0.1	▲ 2.5
Secondary income balance (current transfer)	▲ 1.7	▲ 3.1	▲ 4.5	▲ 6.2	▲ 2.6	▲ 6.7
Capital/financial accounts	▲ 48.1	▲ 59.5	▲ 85.6	▲ 47.0	▲ 19.0	▲ 13.6
Capital balance	▲ 0.1	▲ 0.1	▲ 0.3	▲ 0.3	▲ 0.1	▲ 0.1
Financial balance	▲ 48.0	▲ 59.4	▲ 85.3	▲ 46.7	▲ 18.9	▲ 13.4
Financial balance excl. reserve assets	▲ 171.2	▲ 217.2	▲ 379.4	▲ 490.3	▲ 21.5	15.6
(direct investment)	▲ 22.9	▲ 47.1	▲ 78.0	▲ 58.5	11.4	14.2
Reserve assets	123.3	157.8	294.1	443.6	2.6	▲ 29.0
Errors and omissions	0.0	▲ 39.2	▲ 89.0	▲ 163.3	0.0	▲ 57.7

Source: Created based on data published by the State Administration of Foreign Exchange

(Note) ▲ represents a deficit.