

# **China Monetary Policy Report**

## **Q4 2021**

(February 11, 2022)

**Monetary Policy Analysis Group of  
the People's Bank of China**

## Executive Summary

In 2021, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China maintained a leading position worldwide both in economic development and COVID-19 containment. With relatively high growth and low inflation in tandem with low unemployment, we have made new achievements in pursuing high-quality development and ensured a good start for the 14th Five-Year Plan period. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBC) resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. Maintaining a sound monetary policy, which was flexible, targeted, reasonable, and appropriate, the PBC strengthened intertemporal adjustments and coordinated the policies for the turn of the year. As a result, the monetary policy improved both in quality and efficiency in serving the real economy.

**First**, liquidity was kept adequate at a reasonable level. Using a mix of monetary policy instruments for liquidity injections, the PBC cut the required reserve ratio (RRR) for financial institutions by 0.5 percentage points in July and in December, respectively, which released RMB2.2 trillion of long-term funds. Financial institutions were guided to make proper credit arrangements for the turn of the year so that the stability of aggregate credit growth was improved. **Second**, the overall financing costs were guided to remain stable with a slight decline. The PBC lowered the interest rate on central bank lending for rural development and micro and small businesses (MSBs) by 0.25 percentage points in December 2021, and it guided the rates on 1-year Medium-term Lending Facility (MLF) and 7-day open market operations (OMO) to drop by 10 basis points in January 2022, which brought down money market and bond market rates. The benefits of the loan prime rate (LPR) reform were continuously unleashed. Since December 2021, the 1-year LPR and over-5-year LPR has dropped 15 and 5 basis points, respectively, which guided corporate loan rates to fall as well. The weighted average rate on corporate loans in 2021 reached a record low for the past four decades since the reform and opening-up. **Third**, more support was given to the key areas and weak links in the national economy. At the beginning of 2021, additional central bank lending in the amount of RMB200 billion was provided to guide locally incorporated banks in regions with slow credit growth to increase their credit supply. In September, an additional RMB300 billion central bank lending for MSBs was provided to encourage locally incorporated banks to increase their loans for MSBs and self-employed businesses. In November, the Carbon Emission Reduction Facility (CERF) and RMB200 billion of special central bank lending targeted for the clean and efficient coal use was launched to support the transition towards low-carbon development. **Fourth**, attention was paid to maintaining a balance between internal and external equilibria. While deepening the market-oriented reform of the exchange rate and maintaining a

managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBC enhanced the flexibility of the RMB exchange rate and strengthened expectation management to give play to the role of the exchange rate in adjusting the macro economy and as an auto stabilizer for the balance of payments. **Fifth**, new achievements were made in forestalling and defusing financial risks. The PBC upheld market principles and the rule of law in risk resolution, and financial risks were generally contained.

Overall, in 2021 monetary policy was more forward-looking, stable, precise, effective, and independent, while remaining flexible, targeted, reasonable, and appropriate. With major financial indicators maintaining strong growth on 2020's high base, the financial sector has provided solid support for the real economy. In 2021, new RMB loans reached RMB19.95 trillion, RMB315 billion more than that in 2020. At the end of 2021, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 27.3 percent and 31.8 percent year on year, respectively; broad money (M2) and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 9.0 percent and 10.3 percent, respectively; the macro leverage ratio registered 272.5 percent, down 7.7 percentage points from end-2020. In 2021, the weighted average rate on corporate loans registered 4.61 percent, down 0.1 percentage points from 2020 and 0.69 percentage points from 2019. The RMB exchange rate moved in both directions and remained basically stable at an adaptive and equilibrium level. The central parity of the RMB against the US dollar was 6.3757 at end-2021, an appreciation of 2.3 percent from end-2020.

The Chinese economy is large and highly resilient. Its fundamentals for sound growth in the long run remain unchanged, so do the favorable conditions for building a new development paradigm. However, it should also be noted that domestically the economy is facing triple pressures, namely, shrinking demand, supply shocks, and waning expectations, and externally the environment is more serious and uncertain. In the next stage, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBC will follow the guidelines of the 19th CPC National Congress, the plenary sessions of the 19th CPC Central Committee, and the Central Economic Work Conference. Following the decisions and arrangements of the CPC Central Committee and the State Council, the PBC will apply the new development philosophy fully, faithfully, and comprehensively. It will deepen the supply-side structural reform, speed up the building of a new development paradigm, develop a modern central banking system, and improve the modern monetary policy framework, so as to contribute to high-quality development. Pursuing stability as its top priority and adhering to the principle of seeking progress while ensuring stability, the

PBC will be proactive in implementing the guidelines of the Central Economic Work Conference. While strengthening financial support for the real economy, and continuing its efforts to ensure Six Stabilities and to maintain Six Securities, it will create a favorable monetary and financial environment so that the economic indicators will move within a reasonable range.

While keeping the sound monetary policy flexible and appropriate, the PBC will intensify intertemporal adjustments and give play to the role of monetary policy instruments in adjusting both the aggregate and the structure. Aiming to be forceful, precise, and proactive, the monetary policy will refrain from a deluge of strong stimulus; instead, it will be implemented to satisfy the reasonable and bona fide financing demands of the real economy and to enhance financial support for key areas and weak links so as to achieve a sound combination of stable aggregates and an optimal structure. **First**, monetary and credit aggregates will grow at a steady pace. The mechanism for money supply management will be improved to keep liquidity adequate at a reasonable level. Financial institutions will be guided to vigorously increase loan issuances so that the aggregate credit will grow at a more stable pace. The growth of M2 and the AFRE will be basically in line with that of nominal GDP, and the macro leverage ratio will be basically stable. **Second**, the credit structure will be improved steadily. The structural monetary policy tools will play a greater role and the market-oriented tools in support of MSBs will be effectively implemented. The PBC will make good use of the CERF and the special central bank lending targeted for clean and efficient coal use, and it will guide financial institutions to increase their loan issuances in regions where credit growth is slow. With these targeted efforts, the PBC will ensure more support for MSBs, sci-tech innovation, and green development. **Third**, the overall financing costs for businesses will be lowered. The PBC will enhance the market-oriented interest rate formation and transmission mechanism, tap into the LPR reform, stabilize the liability costs of banks, and facilitate the decline of corporate loan rates. **Fourth**, the RMB exchange rate will be kept basically stable at an adaptive and equilibrium level. Focusing on domestic issues, the PBC will properly balance the internal and external equilibria. The RMB exchange rate will be more flexible, based on market supply and demand, thereby playing its role as an automatic stabilizer in adjusting the macro economy and the balance of payments. The PBC will strengthen macro-prudential management for cross-border capital flows, enhance expectation management, and guide market entities to be risk-neutral. Meanwhile, the PBC will coordinate prevention and resolution of major financial risks by firmly defending the bottom line, improving the holistic approach, and following market principles and the rule of law. The PBC will welcome the convening of the 20th CPC National Congress with great efforts to stabilize the macro economy and to keep the economy on a steady development trajectory for the long run.

## *Contents*

Part 1. Money and Credit Analysis .....	<b>1</b>
I. Liquidity in the banking system was adequate at a reasonable level.....	1
II. Lending by financial institutions grew reasonably, with the annual corporate loan interest rate at a record low since the reform and opening up .....	4
III. Money supply and aggregate financing to the real economy grew at a reasonable pace..	11
IV. The RMB exchange rate remained basically stable at an adaptive and equilibrium level.	17
Part 2. Monetary Policy Operations .....	<b>18</b>
I. Conducting open market operations in a flexible manner .....	18
II. Timely conducting Standing Lending Facility and Medium-term Lending Facility operations .....	21
III. Adjusting the required reserve ratio for financial institutions .....	21
IV. Further improving the macro prudential management framework.....	22
V. Actively giving play to the role of structural monetary policy instruments.....	23
VI. Leveraging the structural guidance role of credit policies .....	29
VII. Deepening the market-based interest rate reform .....	30
VIII. Improving the market-based RMB exchange rate formation mechanism .....	31
IX. Forestalling and defusing financial risks and deepening the reform of financial institutions .....	32
X. Deepening reform of foreign exchange arrangements .....	35
Part 3. Financial Market Conditions .....	<b>36</b>
I. Financial market overview.....	36
II. Development of institutional arrangements in the financial markets .....	42
Part 4. Macroeconomic Overview.....	<b>45</b>
I. Global economic and financial developments .....	45
II. Macroeconomic developments in China .....	49
Part 5. Monetary Policy Outlook .....	<b>56</b>
I. Outlook for the Chinese economy .....	56
II. Outlook for monetary policy in the next stage .....	58

## ***Boxes***

Box 1 Factors Influencing Liquidity in the Banking System and the Central Bank's Liquidity Management.....	2
Box 2 Maintaining Stable Growth of Credit Aggregates .....	6
Box 3 China's Macro Leverage Ratio Remains Generally Stable .....	13
Box 4 Two Instruments Directly Supporting the Real Economy Continue with Modified Arrangements.....	25
Box 5 Exploring the Conducting of Stress Tests on Climate Risk.....	27
Box 6 Key Achievements in Forestalling and Defusing Major Financial Risks .....	32

## ***Tables***

Table 1 The Structure of RMB Loans in 2021 .....	5
Table 2 New RMB Loans by Financial Institutions in 2021 .....	5
Table 3 Weighted Average Interest Rates on New Loans Issued in December 2021 .....	8
Table 4 Shares of RMB Lending Rates at Different Levels, from January to December 2021 .....	9
Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans from January to December 2021 .....	10
Table 6 The Structure of RMB Deposits in 2021 .....	11
Table 7 Aggregate Financing to the Real Economy in 2021 .....	12
Table 8 Trading Volume of the RMB against Other Currencies in the Interbank Foreign Exchange Spot Market in 2021.....	31
Table 9 Fund Flows Among Financial Institutions in 2021 .....	37
Table 10 Interest Rate Swap Transactions in 2021 .....	38
Table 11 Bond Issuances in 2021 .....	40
Table 12 Asset Allocations in the Insurance Sector at End-2021 .....	41
Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies .....	46
Table 14 Floor Area of Real Estate Projects that were Newly Started, under Construction, and Completed in 2021 .....	54

## ***Figures***

Figure 1 Movement of Money Market Interest Rates .....	2
Figure 2 Monthly RMB Settlements under the Current Account .....	18
Figure 3 Volume of Spot Transactions of Bank-issued Perpetual Bonds .....	20
Figure 4 Yield Curves of Government Securities on the Interbank Market.....	39
Figure 5 Interest Rate Hikes in 2021 by Central Banks in Several Economies .....	48

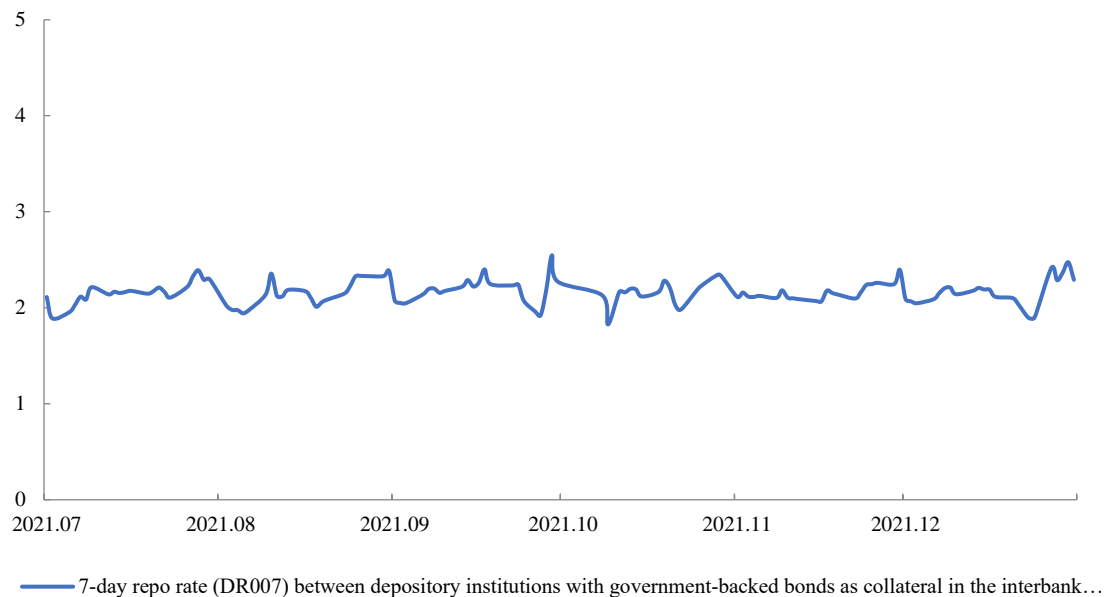
## **Part 1. Money and Credit Analysis**

Since 2021, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, following the guidelines of the Fifth and Sixth Plenary Sessions of the 19th CPC Central Committee and the Central Economic Work Conference, and implementing the requirements set forth in the *Report on the Work of the Government*, the People's Bank of China (PBC) kept its sound monetary policy flexible, targeted, reasonable and appropriate. Money, credit, and aggregate financing to the real economy (AFRE) gained reasonable growth, the credit structure continued to improve, and overall financing costs steadily declined, thereby notably propelling high-quality development of the real economy.

### **I. Liquidity in the banking system was adequate at a reasonable level**

In 2021, according to the requirement that “the sound monetary policy should be flexible, targeted, reasonable, and appropriate,” the PBC pursued stability as its top priority and implemented intertemporal policy designs. A variety of policy tools, such as the required reserve ratio (RRR) cut, the Medium-term Lending Facility (MLF), central bank lending and discounts, and open market operations (OMOs) for liquidity provision were employed in a more forward-looking, flexible, and effective manner. In July and December, the PBC announced two RRR cuts, each of 0.5 percentage points, which released long-term funds of about RMB1 trillion and RMB1.2 trillion, respectively. Meanwhile, the PBC guided money market rates to move around the OMO rates by stabilizing market expectations in different ways. In 2021, the 7-day repo rates between depository institutions with government-backed bonds as the collateral in the interbank market (DR007) averaged 2.17 percent, close to the 7-day OMO rate at 2.2 percent, implying a further decline in the volatility of interest rates. At end-2021, the excess reserve ratio of financial institutions registered 2 percent, a high level for 2021. Liquidity in the banking system was adequate at a reasonable level.

**Figure 1 Movement of Money Market Interest Rates**



Source: [www.chinamoney.com.cn](http://www.chinamoney.com.cn).

### **Box 1 Factors Influencing Liquidity in the Banking System and the Central Bank's Liquidity Management**

Liquidity in the banking system mainly refers to excess reserves deposited by financial institutions in the central bank. It is influenced by a number of factors, including cash in circulation (M0), government deposits at the PBC, required reserves, net foreign assets held by the PBC, clients' payment-settlement provisions held by payment institutions, etc.

These factors have short-term and medium- to long-term impacts on liquidity. The latter is mainly caused by the following factors: the long-term growing trend of M0 led by economic and residential income growth; the part of government deposits with a steady increase; the increase in required reserves due to deposit creation as loans are issued in support of the real economy; and the growing trend of client provisions held by payment institutions.

Meanwhile, the following factors contribute to the short-term impact. First, fluctuations in the fiscal deposits at the PBC. Their rapid rise reduces the liquidity of the banking system during peak tax periods (usually in the middle of a month) or when there are massive issues of government bonds. On the other hand, the concentrated fiscal expenditures at month/quarter/year-end boost liquidity. Second, a rise in the demand for cash during holidays. The public tend to withdraw large amounts of cash from banks on holidays, especially before the Spring Festival, causing liquidity in the banking



system to temporarily drop by RMB1.5–2 trillion and then to bounce back quickly as cash returns to the banking system after the Spring Festival. Third, temporary changes in required reserves as well as client provisions held by payment institutions.

Based on analysis and projections of these short-term and medium- to long-term factors, the PBC undertakes a wide array of monetary policy tools, such as the required reserve ratio, the MLF, and open market operations to manage liquidity, so that liquidity remains adequate at a reasonable level, and supply and demand for each maturity is basically balanced. This guides market rates to move around the central bank's policy rate. Based on their growth patterns, when addressing medium- to long-term factors, the PBC mainly uses the required reserve ratio and the MLF to increase medium- to long-term liquidity when and as appropriate so as to fully meet the demand for medium- to long-term liquidity that supports reasonable money and credit growth. In terms of short-term factors, while fully comprehending their historical patterns, the PBC uses tools such as open market operations for forward-looking and targeted marginal liquidity adjustment to iron out short-term factors and stabilize market expectations. In recent years, money market rates in China have stabilized. The weighted average rate on 7-day repos between depository institutions in the interbank market (DR007) fluctuated around the open market's 7-day reverse repo rate, with generally less volatility.

When analyzing the liquidity conditions of the banking system, it is best to focus on the overall liquidity management framework other than particular factors. It is inappropriate to estimate the liquidity surplus or deficit by simply adding up short-term and long-term factors, or, furthermore, to assume that monetary policy instruments reaching maturity will have an influence and to judge liquidity conditions accordingly. In fact, under the current liquidity management framework, the PBC closely tracks market rates to conduct operations. Various monetary policy tools will be used flexibly to keep liquidity adequate at a reasonable level, no matter how the factors influencing liquidity may change. Regarding maturing monetary policy tools, the PBC will properly arrange the pace of maturities and maintain inter-temporal liquidity management. Some maturing instruments will be rolled over in light of market developments to fully meet the reasonable demand for liquidity.

From a market perspective, the most direct, accurate, and timely indicator of liquidity conditions is the market rate. Observations of the monetary policy stance should focus on policy rates such as rates on open market operations and the MLF, and on the overall movement of market rates during a certain period. It would be inappropriate to focus excessively on quantity factors including the quantity of liquidity and the size of open market operations.

## **II. Lending by financial institutions grew reasonably, with the annual corporate loan interest rate at a record low since the reform and opening up**

Growth of total credit was more stable. Amid positive factors for economic growth and flourishing loan demands at the beginning of 2021, the PBC guided financial institutions to stabilize the pace of loan issuances in the first half of the year, especially in the first quarter, so as to leave some room for uncertainties in the second half of the year. In the second half of the year, the domestic economy faced downward pressure, and credit demands slowed down sharply. In response, through the PBC's forward guidance, financial institutions enhanced the stability of credit growth, coordinated cross-year credit policies, and consolidated financial support for the real economy. Thus, RMB loans achieved a stronger year-on-year increase in 2021. At end-2021, outstanding loans issued by financial institutions in domestic and foreign currencies grew 11.3 percent year on year to RMB198.5 trillion, increasing RMB20.1 trillion from the beginning of 2021, or a year-on-year acceleration of RMB308.8 billion. Outstanding RMB-denominated loans grew 11.6 percent year on year to RMB192.7 trillion, up RMB19.95 trillion from the beginning of 2021, or a year-on-year acceleration of RMB315 billion. Loans grew by RMB7.7 trillion, RMB5.1 trillion, RMB4.0 trillion, and RMB3.2 trillion for each of the four quarters of 2021, respectively. Quarterly increments accounted for 38.5 percent, 25.5 percent, 19.9 percent, and 16.2 percent, respectively, which were basically flat with the previous year.

The credit structure has been improving. At end-2021, medium and long-term loans to enterprises and public entities grew by RMB9.2 trillion from the beginning of the year, accounting for 76.8 percent of total corporate loans. Medium and long-term loans to the manufacturing sector increased by 31.8 percent. In particular, the high-tech manufacturing sector witnessed a year-on-year increase of 32.8 percent. Outstanding inclusive loans to micro and small businesses (MSBs) grew by 27.3 percent year on year to RMB19.2 trillion. These loans supported 44.56 million MSBs, rising 38 percent year on year.

**Table 1 The Structure of RMB Loans in 2021**

Unit: RMB100 million

	Outstanding amount at end-December	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	1926903	11.6%	199490	3150
Households	711043	12.5%	79195	539
Enterprises and public entities	1204537	11.1%	120189	-1483
Non-banking financial institutions	4275	-16.5%	-847	3859
Overseas	7048	15.6%	952	235

Note: Loans to enterprises and public entities refer to loans to non-financial enterprises, government departments, and organizations.

Source: The People's Bank of China.

**Table 2 New RMB Loans by Financial Institutions in 2021**

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks <sup>1</sup>	93722	6292
Chinese-funded small and medium-sized banks <sup>2</sup>	104966	-2002
Small-sized rural financial institutions <sup>3</sup>	26607	1398
Foreign-funded financial institutions	1492	854

Notes: 1. Chinese-funded large-sized banks refer to banks with assets (in both domestic and foreign currencies) of RMB2 trillion or more (according to the amount of total assets in both domestic and foreign currencies at end-2008). 2. Chinese-funded small and medium-sized banks refer to banks with total assets (both in domestic and foreign currencies) of less than RMB2 trillion (according to the amount of total assets in both domestic and foreign currencies at end-2008). 3. Small-sized rural

financial institutions include rural commercial banks, rural cooperative banks, and rural credit cooperatives.

Source: The People's Bank of China.

### **Box 2 Maintaining Stable Growth of Credit Aggregates**

Since the beginning of 2021, in line with the arrangements made by the CPC Central Committee and the State Council, the PBC has implemented a prudent monetary policy that is flexible, targeted, reasonable, and appropriate. In the first half of the year, the PBC employed a mix of monetary policy instruments to keep liquidity adequate at a reasonable level, made good use of central bank lending and two monetary policy tools that provide direct support for the real economy, improved supervision of deposit rates, and guided financial institutions to maintain their support for the real economy. In the second half of the year, in response to the triple pressures on the economy, i.e., shrinking demand, supply shocks, and waning expectations, the PBC enhanced intertemporal adjustments, coordinated cross-year policies, and urged financial institutions to step up their support for the real economy so as to promote stable growth of credit aggregates and to keep economic performance within a reasonable range.

**First, keeping liquidity adequate at a reasonable level.** The PBC injected liquidity into the market by RRR cuts, open market operations, and the MLF. In July 2021, a preemptive RRR cut of 0.5 percentage points was made, and approximately RMB1 trillion of long-term funds were unleashed, paving the way for the sustainable and stable economic recovery in the second half of the year. In December, the PBC cut the RRR by another 0.5 percentage points, which freed up about RMB1.2 trillion of long-term funds, effectively broadened the stable long-term funding source of financial institutions, and thus buttressed the development of the real economy in a better way. At the beginning of 2022, the PBC increased liquidity injections by the MLF and open market operations, creating a favorable liquidity environment for an appropriate growth of money and credit and a stable macro economy as a whole.

**Second, guiding financial institutions to step up their support for the real economy.** The PBC held a meeting with financial institutions on the monetary and credit situation in August and December, respectively, guiding financial institutions to maintain stable growth in credit aggregates. The PBC made efforts to further improve the macro prudential assessment (MPA) framework and encouraged banks to increase their support for inclusive loans to MSBs as well as medium and long-term loans to the manufacturing sector. Central bank bills swap (CBS) operations were conducted on a regular basis to support banks to replenish capital through perpetual bond issuances, thereby further enhancing sustainability of the financial sector's capacity to serve the real economy.

**Third, giving full play to both aggregate and structural monetary policy instruments.** The structural monetary policy instruments have actively done a good job in providing additional financial support. At the beginning of 2021, RMB200 billion in central bank lending was added to support locally incorporated banks in areas with sluggish credit growth to expand lending. In September, the PBC increased central bank lending in support of micro, small, and medium-sized enterprise (MSME) financing by RMB300 billion. In November, the PBC launched the carbon emission reduction facility (CERF) and set up RMB200 billion worth of special central bank lending targeted for clean and efficient coal use, aiming to promote the development of clean energy, energy conservation, environmental protection, carbon reduction technology, clean and efficient use of coal and other relevant key areas, and to boost overall energy supply. In December, the two monetary policy instruments that directly support the real economy were converted into market-based policy tools in support of MSBs. These structural monetary policy instruments not only promoted optimization of the credit structure but also boosted the stable growth of credit aggregates.

**Fourth, steadily bringing down overall financing costs of enterprises.** The role of the loan prime rate (LPR) reform has been brought into full play, the quality of quotes by LPR quoting banks have been improving, and financial institutions have been encouraged to use the LPR as a pricing reference for bank lending. The one-year LPR rate went down by 5 basis points in December 2021. In January 2022, both the one-year MLF rate and the 7-day open market operation rate dropped by 10 basis points, while the one-year and over-5-year LPR rates declined by 10 basis points and 5 basis points, respectively, further bringing down actual lending rates. In December 2021, rates of central bank lending in support of agro-related businesses and MSBs were cut by 0.25 percentage points, marking stepped-up support for these sectors. The PBC also made significant achievements to improve the supervision of deposit interest rates. The self-regulatory ceiling for deposit interest rates has shifted from multiplying the benchmark deposit rates by a designated multiplier to adding the basis points to the benchmark interest rates. In the meantime, the PBC strengthened its management of non-local deposits absorbed by locally incorporated banks. All these efforts contributed to reducing debt costs for banks. The PBC, together with the China Banking and Insurance Regulatory Commission (CBIRC) and other relevant departments, strived to reduce the overall financing costs of enterprises, especially MSBs, through multiple measures, including cutting interest rates, reducing fees, and launching a number of tools that could directly support the real economy.

A series of policies and measures have achieved remarkable results. RMB loans saw an increase of RMB19.95 trillion in 2021, which surpassed that recorded in 2020 by RMB315 billion, indicating stable growth of credit aggregates. At end-2021, M2 and

the AFRE witnessed year-on-year growth of 9 percent and 10.3 percent, respectively, which were basically in line with the nominal economic growth rate. As for the two-year average, the growth rates of M2 and the AFRE in 2020 and 2021 were 9.5 percent and 11.8 percent, respectively, which were basically in line with or slightly higher than the two-year average nominal economic growth.

Going forward, the PBC will continue to follow the guidelines of the Central Economic Work Conference. Pursuing stability as its top priority and seeking progress while ensuring stability, the PBC will continue to implement a prudent monetary policy that is flexible and appropriate, enhance intertemporal policy adjustments, and keep the liquidity adequate at a reasonable level through a mix of monetary policy instruments so as to maintain stable growth of credit aggregates and to keep the growth rates of money supply and the AFRE basically in line with nominal economic growth.

The PBC continued to deepen the market-based reform of interest rates and to tap into the efficiency of the LPR reform. Play was given to the guiding role of the LPR, and the one-year LPR in December 2021 was decreased by 0.05 percentage points. In the meantime, the PBC optimized regulation of deposit rates and lowered the interest rate on central bank lending for rural development and MSBs by 0.25 percentage points, promoting a steady drop in the actual loan rates. In December, the one-year LPR and the over-five-year LPR stood at 3.80 percent and 4.65 percent, respectively, with the one-year LPR down 0.05 percentage points and the over-five-year LPR on par with that in December 2020. The weighted average lending rate recorded 4.76 percent in December, a decline of 0.27 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 5.19 percent, down 0.11 percentage points year on year. The weighted average corporate lending rate fell by 0.04 percentage points year on year to 4.57 percent. The average corporate loan interest rate in 2021 was 4.61 percent, a drop of 0.1 percentage points from 2020 and 0.69 percentage points from 2019, reaching its lowest level in the past four decades of the reform and opening up.

**Table 3 Weighted Average Interest Rates on New Loans Issued in December  
2021**

Unit: %

	December	Change from last December
Weighted average interest rate on new loans	4.76	-0.27

On ordinary loans	5.19	-0.11
Of which: On corporate loans	4.57	-0.04
On bill financing	2.18	-0.92
On mortgage loans	5.63	0.29

Source: The People's Bank of China.

In December, the share of ordinary loans with rates above, at, or below the LPR registered 67.75 percent, 6.98 percent, and 25.27 percent, respectively. Compared with 2021, the floating range of loan rates around the LPR as a whole moved downward.

**Table 4 Shares of RMB Lending Rates at Different Levels, from January to December 2021**

Unit: %

Month	LPR-bps	LPR	LPR+bps					
			Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	[LPR+3%, LPR+5%)	LPR+5% and above
January	23.93	7.51	68.56	15.45	24.38	13.24	8.09	7.39
February	26.24	7.02	66.74	14.26	23.59	12.28	8.25	8.36
March	22.03	8.42	69.54	14.98	24.79	13.56	8.76	7.45
April	21.08	7.46	71.46	14.45	23.88	14.78	9.69	8.68
May	22.89	7.38	69.73	14.27	23.60	14.00	9.04	8.82
June	24.25	8.07	67.67	15.46	23.79	13.36	8.10	6.97
July	22.37	7.15	70.48	14.20	24.18	13.76	9.25	9.10
August	22.48	7.42	70.10	14.20	23.25	13.91	9.37	9.37
September	23.52	8.36	68.13	14.94	23.42	13.24	8.59	7.93
October	24.62	7.38	68.00	13.22	22.05	13.45	9.35	9.93
November	25.48	7.36	67.17	14.40	22.33	13.31	8.77	8.36
December	25.27	6.98	67.75	16.17	22.98	13.25	8.49	6.86

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans declined slightly. In December, the weighted average interest rates on demand and large-value USD-denominated deposits with maturities within 3 months registered 0.10 percent and 0.31 percent, down 0.06 and 0.28 percentage points from December 2020, respectively. The weighted average interest rates on USD-denominated loans with maturities within 3 months and with maturities between 3 months (including 3 months) and 6 months both registered 1.11 percent, down 0.11 percentage points and 0.25 percentage points from December 2020, respectively.

**Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans from January to December 2021**

单位: %

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year
January	0.14	0.65	0.88	0.92	1.10	1.17	1.25	1.12	1.06	1.04	1.94
February	0.14	0.61	0.72	0.90	1.05	1.04	1.23	1.17	1.05	1.16	2.37
March	0.14	0.55	0.77	0.91	1.09	0.99	1.23	1.09	1.01	0.90	2.14
April	0.12	0.51	0.77	0.81	0.99	1.07	1.32	1.15	1.16	1.03	1.93
May	0.11	0.46	0.69	0.73	0.92	0.84	1.31	1.11	0.86	0.90	2.20
June	0.10	0.43	0.62	0.77	0.91	0.90	1.15	0.99	0.90	0.78	2.22
July	0.11	0.43	0.65	0.70	0.93	0.59	1.14	1.03	0.93	0.86	1.93
August	0.09	0.41	0.64	0.69	0.99	0.88	1.25	1.05	0.94	0.90	2.24
September	0.10	0.40	0.55	0.71	0.85	0.80	1.11	1.05	1.10	0.93	2.16
October	0.11	0.41	0.55	0.76	0.85	1.02	1.16	1.15	1.11	0.96	1.32
November	0.11	0.42	0.68	0.72	0.85	1.00	1.20	1.01	1.02	1.06	2.03
December	0.10	0.31	0.65	0.78	0.97	0.96	1.11	1.11	0.98	1.09	2.00



Source: The People's Bank of China.

Deposits grew steadily. At end-2021, outstanding deposits in domestic and foreign currencies in all financial institutions increased 9.3 percent year on year to RMB238.6 trillion, up RMB20.2 trillion from the beginning of 2021 and an acceleration of RMB70.3 billion. Outstanding RMB deposits grew 9.3 percent year on year to RMB232.3 trillion, an increase of RMB19.7 trillion from the beginning of the year and an acceleration of RMB32.3 billion. Outstanding deposits in foreign currencies stood at USD996.9 billion, an increase of USD107.7 billion from the beginning of 2021 and a deceleration of USD23.8 billion.

**Table 6 The Structure of RMB Deposits in 2021**

Unit: RMB100 million

	Deposits at end-December	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2322500	9.3%	196780	323
Households	1025012	10.7%	99002	-13952
Non-financial enterprises	696695	5.5%	37577	-28164
Public entities	311530	4.3%	12074	10505
Fiscal entities	50389	12.6%	5617	1686
Non-banking financial institutions	223546	22.1%	40106	29461
Overseas	15329	18.5%	2404	786

Source: The People's Bank of China.

### **III. Money supply and aggregate financing to the real economy grew at a reasonable pace**

Money and credit aggregates maintained reasonable growth, providing strong support for the real economy. Outstanding M2 recorded RMB238.3 trillion at end-2021, increasing 9.0 percent year on year. Outstanding M1 and M0 registered RMB64.7 trillion and RMB9.1 trillion, respectively, increasing 3.5 percent and 7.7 percent year

on year, respectively. The year of 2021 witnessed a net cash injection of RMB651 billion, which was RMB61.5 billion less than that in the previous year.

According to preliminary statistics, the outstanding AFRE reached RMB314.13 trillion at end-December. Year-on-year growth registered 10.3 percent, decelerating 3 percentage points compared to the growth recorded at end-2020. The AFRE increment in 2021 totaled RMB31.35 trillion, dropping RMB3.44 trillion year on year. Growth of money supply and the AFRE featured the following: first, loans issued by financial institutions to the real economy maintained stable growth. In 2021, loans issued to the real economy denominated in both RMB and foreign currencies increased by RMB20.11 trillion, which was on par with 2020 and RMB3.36 trillion more than that in 2019. Second, debt financing returned to normal, while equity financing exhibited a significantly larger year-on-year increase. In 2021, net financing through government bonds posted RMB7.02 trillion, RMB1.31 trillion less than that in 2020 when RMB1 trillion of special government bonds was issued for the COVID-19 response. Net debt financing by non-financial enterprises dropped by RMB1.09 trillion to RMB3.29 trillion, while their domestic equity financing registered RMB1.24 trillion, an increase of RMB343.4 billion over that in the previous year. Third, off-balance sheet financing recorded a notable year-on-year drop. Net financing through entrusted loans, trust loans, and undiscounted bankers' acceptances exhibited a net decrease of RMB2.67 trillion, which was RMB1.35 trillion larger than the decrease in 2020.

**Table 7 Aggregate Financing to the Real Economy in 2021**

	End-December 2021		2021	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB10 0 million)
AFRE	314.13	10.3	313509	-34408
Of which: RMB loans	191.54	11.6	199403	-907
Foreign-currency loans (RMB equivalent)	2.23	6.3	1715	2 6 5
Entrusted loans	10.87	-1.6	-1696	2258
Trust loans	4.36	-31.3	-20074	-9054

	End-December 2021		2021	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB10 0 million)
Undiscounted bankers' acceptances	3.01	-14.0	-4916	-6662
Corporate bonds	29.93	8.6	32866	-10882
Government bonds	53.06	15.2	70154	-13063
Domestic equity financing by non-financial enterprises	9.48	15.0	12357	3434
Other financing	9.43	16.9	13631	-491
Of which: Asset-backed securities of depository institutions	2.17	14.7	2781	672
Loans written off	6.32	19.5	10299	-1923

Notes: ①AFRE (stock) refers to outstanding financing provided by the financial system to the real economy at the end of a period. AFRE (flow) refers to the volume of financing provided by the financial system to the real economy within a certain period of time. ②Since December 2019, the PBC has further improved AFRE statistics by incorporating “central government bonds” and “local government general bonds” into the AFRE and combining them with the existing “local government special bonds” into the “government bonds” item. The value of this indicator is the face value of bonds under custody. Since September 2019, the PBC has further improved the “corporate bonds” statistics included in the AFRE by incorporating “exchange-traded asset-backed corporate securities.” To improve the AFRE statistical methodology, the PBC has incorporated “local government special bonds” into the AFRE since September 2018 and has incorporated “asset-backed securities by depository institutions” and “loans written off” into the AFRE statistics under the item of “other financing” since July 2018. ③Year-on-year statistics in the table are on a comparable basis.

Sources: The People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

### **Box 3 China's Macro Leverage Ratio Remains Generally Stable**

**First, China has achieved notable results in stabilizing its leverage ratio.**

The macro leverage ratio is measured by a country's aggregate debts in its non-financial sectors to its GDP. Preliminary data show that China's macro leverage ratio at end-2021 dropped by 7.7 percentage points from the year before to 272.5 percent, a decline for the fifth successive quarter, and China has made notable progress in stabilizing its leverage ratio. By sectors, at end-2021, the leverage ratio for the country's non-financial companies, households, and government agencies registered 153.7 percent, 72.2 percent, and 46.6 percent, respectively, compared with the previous year, a decline of 8.0 percentage points and 0.4 percentage points for the first two sectors, and a rise of 0.7 percentage points for government agencies.

Compared with the major economies, the increase in China's macro leverage ratio is relatively manageable in the wake of COVID-19. The latest data from the BIS show that the leverage ratio in the U.S. (286.2 percent), Japan (416.5 percent), and the euro area (284.3 percent) at end-Q2 in 2021 added 31.3 percentage points, 37.1 percentage points, and 27.2 percentage points from end-2019, respectively. Over the corresponding period, China's leverage ratio rose 19.9 percentage points from end-2019 to 275.9 percent, and its increase was 11.4 percentage points, 17.2 percentage points, and 7.3 percentage points lower than the U.S., Japan, and the euro area, respectively. Therefore, China has supported the rapid post-COVID economic recovery with relatively fewer new debts and, comparatively, its macro leverage ratio is not high.

**Table: China's Macro Leverage Ratios since 2016 (%)**

	Overall Leverage Ratio	Household Leverage Ratio	Government Leverage Ratio	Non-Financial Enterprise Leverage Ratio
2016	248.6	52.2	36.7	159.8
2017	252	57	36	159
2018	249	60.5	36.4	152.2
2019	256	65.1	38.6	152.2
2020Q1	270.1	67.3	40.8	162
2020Q2	277.5	69.5	42.7	165.2
2020Q3	281.6	71.8	45.1	164.7
2020	280.2	72.6	45.9	161.7
2021Q1	278.1	72.3	44.7	161.1
2021Q2	275.9	72.2	45	158.6
2021Q3	275.1	72.5	45.9	156.8
2021	272.5	72.2	46.6	153.7

Source: The People's Bank of China.

**Second, the solid COVID-19 response, steady economic recovery, effective macro policies, and other factors all contribute to China's generally stable macro leverage ratio.**

**On the one hand, the key to stabilizing the macro leverage ratio lies in China's notable progress in its COVID-19 response and its sustained economic recovery.**

Nominal GDP is the denominator in the calculation of the macro leverage ratio, and its growth rate significantly affects the movement of the leverage ratio. China's GDP growth slowed markedly under the impact of COVID-19, and its macro leverage ratio rose during this period. The CPC Central Committee, with Comrade Xi Jinping at the core, oversaw the general situation and made the important decision to coordinate the COVID-19 response with economic and social development. These efforts made China the first country to bring COVID under control, to restart work and production, and to achieve positive economic growth. Economic growth became more resilient, which played a prominent role in stabilizing the leverage ratio. China's nominal year-on-year GDP growth accelerated by 10.1 percentage points to 12.8 percent in 2021, markedly driving the macro leverage ratio lower. By quarters, starting from Q2 in 2020, the growth margin of macro leverage ratio moderated until it turned downward. The increase in the leverage ratio during the first three quarters of 2020 stood at 14.1 percentage points, 7.4 percentage points, and 4.1 percentage points, respectively, while the ratio declined by 1.4 percentage points, 2.1 percentage points, 2.2 percentage points, 0.7 percentage point, and 2.7 percentage points, respectively, from Q4 2020 to Q4 2021, falling for five consecutive quarters.

**On the other hand, macro policies with strength, appropriate intensity, and efficiency stabilized the fundamentals of the economy with manageable new debts.**

**First**, policies are strong. Prudent monetary policies have become more flexible, appropriate, and targeted with a prompt and strong response since the outbreak of COVID-19. Monetary support measures of over RMB9 trillion have been introduced, and financial institutions made RMB1.5 trillion in interest concessions to boost the real economy. All sectors have greater awareness of the financial support. Therefore, the sense of fulfillment of the sectors in the real economy has grown stronger. Meanwhile, fiscal policies have become more proactive to offset the impact of COVID-19, with the introduction of large-scale measures to help businesses get through the tough times. Net government bond financing in 2020 reached RMB8.32 trillion, an increase of RMB3.6 trillion from the previous year. On balance, macro policies were coordinated appropriately to foster strong synergies to ensure stability on six key fronts and to maintain security in six key areas, and the fundamentals of the economy were kept stable. **Second**, policies have been introduced with appropriate intensity. The PBC has maintained a prudent monetary policy by refraining from a deluge of strong stimulus policies and continuing with conventional monetary policies. Monetary policy has

gradually shifted since May 2020 to its conventional stance, and since 2021 the PBC has maintained a forward-looking policy with continuity and consistency, stepped up intertemporal adjustments, and provided an enabling environment for a steady economic recovery. During 2020 and 2021, the growth rate of M2 and the AFRE averaged 9.5 percent and 11.8 percent, respectively, in line with and modestly higher than the average nominal GDP growth rate. Thanks to these developments, debt growth in China's non-financial sectors was rather measured and manageable. Outstanding debt aggregates in 2021 increased 9.7 percent year on year, 2.7 percentage points lower than the growth at end-2020. This figure is at a historically low level, 7.3 percentage points lower than the average growth rate of debt aggregates from 2009 to 2019. **Third**, policies are effective. By focusing on serving the real economy and ensuring that stability is a top priority, monetary policy maintained steady growth of money and credit. By smoothing the transmission of monetary policy and continuously advancing the LPR reform, monetary policy guided the marked decline in corporate funding costs. By making policies more targeted and providing direct support to the real economy, financial support policies were phased in to leverage the dual functions of monetary policy instruments in the adjustment of aggregates and structure. Moreover, the difficult fight against financial risks curbed both funds from being diverted out of the real economy and from disorderly expansion, and financial reforms advanced steadily with enhanced quality and efficiency in financial services. All these measures enhanced the efficiency of financial services for the real economy and helped the relatively quick post-COVID economic recovery with fewer new debts.

**Third, the macro leverage ratio in 2022 is expected to remain generally stable.**

The Central Economic Work Conference noted that economic work next year should prioritize stability while pursuing progress, and macro policies should be prudent and effective to strengthen the driving force for self-generated development. The steady decline in China's macro leverage ratio will provide room for the financial system to ramp up support for its real economy. Meanwhile, good COVID-19 prevention and control and growing economic resilience will also provide conditions for continued stability of its macro leverage ratio. In the next phase, the PBC will keep prudent monetary policy flexible and appropriate, step up intertemporal adjustments, enhance the stability in the growth of credit aggregates, and see that increases in money supply and aggregate financing are generally in step with economic growth in nominal terms. This "in step with" mechanism itself contains the notion of "keeping the macro leverage rate generally stable." As the economic recovery continues and the driving force for self-generated development strengthens, the macro leverage ratio will remain generally stable in 2022.

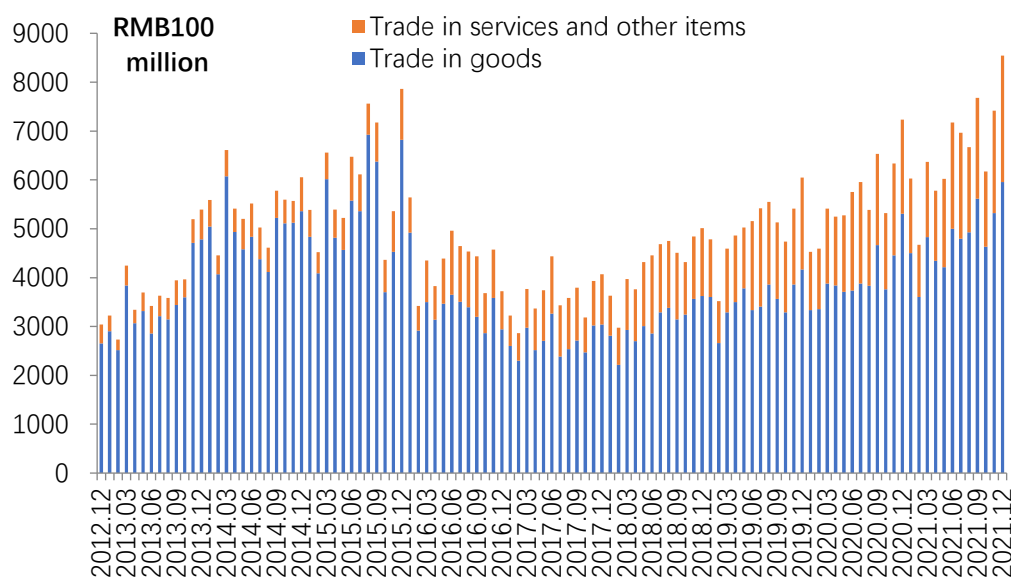
#### **IV. The RMB exchange rate remained basically stable at an adaptive and equilibrium level**

In 2021, cross-border capital flows and foreign exchange supply and demand have been basically in equilibrium, and market expectations have been generally stable. The managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies worked well. Based on market supply and demand, the RMB exchange rate moved in both directions with enhanced flexibility, playing its role as an automatic stabilizer in adjusting the macro economy and the balance of payments. Market factors and policy factors effectively corrected exchange rate deviations, and the RMB exchange rate remained basically stable at an adaptive and equilibrium level.

During 2021, the RMB appreciated modestly against a basket of currencies. At year-end, the China Foreign Exchange Trade System (CFETS) RMB exchange-rate index and the RMB exchange-rate index based on the special drawing rights (SDRs) basket closed at 102.47 and 100.34, respectively, up 8.1 percent and 6.5 percent from end-2020. According to calculations by the Bank for International Settlements (BIS), from end-2020 to end-2021, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 8.0 percent and 4.5 percent, respectively, and from the reform of the exchange rate formation mechanism that began in 2005 to end-2021, appreciation of the NEER and the REER of the RMB registered 48.7 percent and 58.2 percent, respectively. At end-2021, the central parity of the RMB against the US dollar was 6.3757, appreciating 2.3 percent from end-2020 and 29.8 percent on a cumulative basis since the reform of the exchange-rate formation mechanism that began in 2005. In 2021, the annualized volatility rate of the RMB against the US dollar was 3.0 percent.

In 2021, cross-border RMB settlements increased 29 percent year on year to RMB36.6 trillion, with RMB receipts and payments posting RMB18.5 trillion and RMB18.1 trillion, respectively. Cross-border RMB settlements under the current account grew by 16 percent year on year to RMB7.9 trillion, among which RMB settlements of trade in goods registered RMB5.8 trillion, whereas RMB settlements of trade in services and other items registered RMB2.1 trillion. Cross-border RMB settlements under the capital account registered RMB28.7 trillion, increasing 33 percent year on year. Specifically, RMB settlements of direct investments posted RMB5.8 trillion, while RMB settlements of securities investments recorded RMB21.2 trillion.

**Figure 2 Monthly RMB Settlements under the Current Account**



Source: The People's Bank of China.

## **Part 2. Monetary Policy Operations**

In Q4 2021, the PBC resolutely implemented the decisions and arrangements made by the CPC Central Committee and the State Council, kept the sound monetary policy flexible, targeted, reasonable and appropriate, enhanced intertemporal adjustments, coordinated cross-year policies, and brought into play the dual functions of monetary policy tools in adjusting the credit aggregate and structure. By lowering the required reserve ratio (RRR), strengthening the use of structural monetary policy instruments, unleashing the benefits of the LPR reform and other approaches, the PBC put emphasis on strengthening the stability of aggregate credit growth, continuously scaled up support for weak links and key areas, further promoted the steady decline of overall financing costs for enterprises, and contributed to stabilizing the whole macro economy, thereby fostering a favorable monetary and financial environment for high-quality economic development.

### **I. Conducting open market operations in a flexible manner**

**Conducting open market operations in a flexible manner.** In Q4 2021, the PBC strengthened market monitoring and cross-cyclical liquidity adjustments. Based on the adoption of monetary policy instruments such as RRR cuts and the Medium-term Lending Facility (MLF) to provide medium and long-term liquidity, the PBC conducted



successive daily open market operations and managed the intensity of operations flexibly to timely offset the impacts of fiscal expenditures and revenue, issuance of government bonds, and temporary or seasonal factors such as the National Day holiday and the year end, thus maintaining liquidity in the banking system at a reasonable and adequate level. In late December, the PBC conducted 14-day reverse repos in a phased manner to release cross-year liquidity in advance, and it moderately intensified operations in an attempt to maintain a basic equilibrium between supply and demand of the cross-year funds. Meanwhile, by properly arranging the operation timing and maturities, the PBC ensured that the funds that had been supplied at year-end would be withdrawn timely upon their maturity after New Year's Day so as to effectively ensure the stability of liquidity and money market operations across the year.

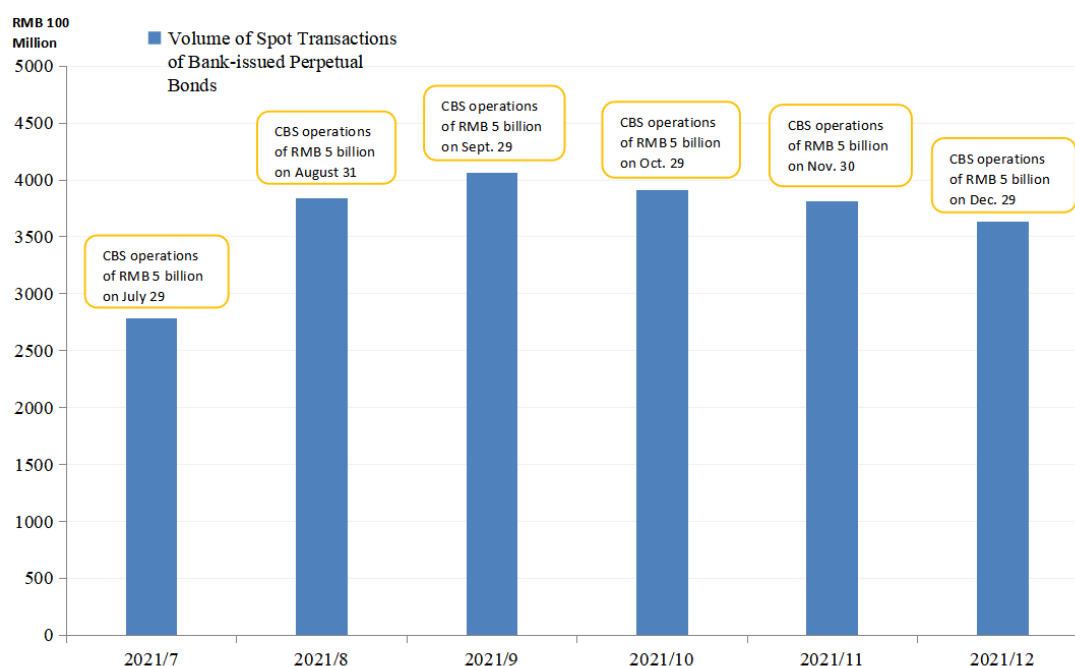
**Guiding market rates to move around central bank policy rates in a reasonable manner.** In Q4 2021, the rates paid on open market operations (OMO) remained unchanged. Since the beginning of 2021, the institutional building of open market operations has achieved remarkable results. First, the PBC sent successive short-term policy rate signals through daily open market operations in a bid to stabilize market expectations. In addition, the PBC clarified that OMO rates were short-term policy rates and guided the weighted average rate on 7-day repos between depository institutions in the interbank market (DR007) to move around the policy rates within a range. Liquidity expectations of financial institutions became more stable at key junctures, such as quarter-end and year-end. Demand for precautionary liquidity dropped significantly, and money market rates remained stable. In 2021, the DR007 averaged 2.17 percent, approximating the 2.20 percent of the central bank's 7-day OMO rate.

On January 17, 2022, the PBC conducted a total of RMB700 billion of MLF operations and RMB100 billion of 7-day reverse repos. The rates paid on the MLF and the open-market operations both declined by 10 basis points to 2.85 percent and 2.10 percent, respectively. The operations increased liquidity supply and offset the impacts of the tax payment peak in January, the accelerated issuance of government bonds, cash provisions before the Spring Festival, and other short-term factors in advance, thus keeping liquidity adequate at a reasonable level. The declined rates paid on the MLF and the open-market operations showed that the proactive response and quick measures taken at an early stage regarding monetary policy were conducive to uplifting market confidence and to promoting a steady decline in the comprehensive financing costs for enterprises.

**Continuously conducting central bank bill swap (CBS) operations.** In Q4 2021, the PBC conducted CBS operations three times, with the total amount registering RMB15 billion. The maturity of each operation was three months, at a fixed rate of 0.10 percent.

In 2021, the PBC conducted CBS operations regularly on a monthly basis, and these operations have played a positive role in boosting liquidity in the secondary market of bank-issued perpetual bonds and in supporting the issuance of perpetual bonds to replenish capital as well as in enhancing the stability of aggregate credit growth by banks, especially by small and medium-sized banks.

**Figure 3 Volume of Spot Transactions of Bank-issued Perpetual Bonds**



**Issuing central bank bills in Hong Kong on a regular basis and introducing the market-maker mechanism for central bank bill repos.** In Q4 2021, the PBC issued three batches of RMB-denominated central bank bills in Hong Kong, totaling RMB30 billion. Specifically, the 3-month, 6-month, and 1-year bills registered RMB10 billion, RMB5 billion, and RMB15 billion, respectively. In 2021, the PBC issued twelve batches of RMB-denominated central bank bills totaling RMB120 billion. In January 2021, the Bank of China (Hong Kong) introduced the market-maker mechanism for RMB-denominated central bank bill repos in Hong Kong. A total of RMB309 billion of central bank bill repo transactions were completed in 2021, with the scope of institutional participants continuously expanding. The regular issuance of central bank bills and the introduction of the market-maker mechanism for central bank bill repos in Hong Kong enriched the scope of RMB investment products and RMB liquidity management tools in Hong Kong, which played an active role in promoting the sound development of the offshore RMB money market and bond market and in propelling both domestic and overseas market entities to issue RMB-denominated bonds and to conduct RMB business in the offshore market. According to statistics, in 2021 offshore RMB bond issuances, excluding RMB-denominated central bank bills issued in Hong

Kong, registered over RMB180 billion, an increase of 38 percent year on year. The RMB offshore money market and bond market are becoming increasingly buoyant.

## **II. Timely conducting Standing Lending Facility and Medium-term Lending**

### **Facility operations**

**Conducting MLF operations in a timely manner.** To ensure an appropriate supply of medium and long-term liquidity and to give play to the signaling and guiding functions of the medium-term policy rates, the PBC conducted a total of RMB4.55 trillion of MLF operations in 2021, all with a maturity of one year and an interest rate of 2.95 percent. In particular, the amount of MLF operations posted RMB0.8 trillion, RMB0.45 trillion, RMB1.3 trillion, and RMB2.0 trillion in Q1, Q2, Q3, and Q4, respectively. At end-2021, the outstanding MLF registered RMB4.55 trillion, RMB0.6 trillion less than that at the beginning of 2021. On January 17, 2022, MLF operations were conducted with a rate paid at 2.85 percent, down 10 basis points.

**Advancing the reforms of electronic SLF operations.** The entire process of conducting SLF operations became electronic in an orderly manner, which enhanced operational efficiency, stabilized market expectations, and strengthened the stability of liquidity in the banking system. In 2021, the PBC conducted a total of RMB76.03 billion SLF operations, of which RMB47.51 billion, RMB11.55 billion, RMB2.75 billion, and RMB14.22 billion of SLF operations were conducted in Q1, Q2, Q3, and Q4, respectively. At end-2021, the balance of SLF operations registered RMB12.68 billion. The SLF rate played its role as the ceiling of the interest rate corridor, and it promoted the smooth operation of money market rates. At end-2021, the overnight, 7-day, and 1-month SLF rates stood at 3.05 percent, 3.20 percent, and 3.55 percent, respectively, on par with the rates at end-Q3. On January 17, 2022, SLF rates of all maturities were lowered by 10 basis points each. After the rate cut, the overnight, 7-day, and 1-month SLF rates stood at 2.95 percent, 3.10 percent, and 3.45 percent, respectively.

## **III. Adjusting the required reserve ratio for financial institutions**

**In Q4, 2021, the required reserve ratio for financial institutions was lowered by 0.5 percentage points in an attempt to support the real economy and to promote the steady decline of overall financing costs.** The PBC reduced the required reserve ratio by 0.5 percentage points, effective on December 15, 2021 (not applicable to financial institutions that had already implemented a required reserve ratio of 5 percent). Meanwhile, financial institutions that participated in the assessment of the targeted

RRR cut for inclusive finance were all entitled to the most preferential required reserve ratio, releasing about RMB1.2 trillion of long-term funds. After this round of RRR cuts, the weighted average required reserve ratio for financial institutions stood at 8.4 percent. This RRR cut is a conventional operation, aimed at enhancing intertemporal adjustments, improving the funding structure of financial institutions, and strengthening the capacity of the financial sector to serve the real economy. First, the PBC kept liquidity adequate at a reasonable level, effectively expanded the sources of long-term stable funding for financial institutions, and enhanced their capability to allocate funds. Second, the PBC guided these institutions to actively use the funds released from the RRR cut to boost support for the real economy, especially micro, small, and medium-sized enterprises (MSMEs). Third, the RRR cut lowered the funding costs of financial institutions by approximately RMB15 billion per year, which further reduced the overall financing costs for enterprises through the transmission of financial institutions. The two across-the-board RRR cuts of 0.5 percentage points for each in 2021 released a total of about RMB2.2 trillion of long-term funds.

**The foreign exchange required reserve ratio was raised for financial institutions, and foreign exchange liquidity management of financial institutions was enhanced.** The PBC raised the foreign exchange required reserve ratio by 2 percentage points, from 7 percent to 9 percent, effective on December 15, 2021, freezing around USD20 billion of foreign exchange liquidity. In 2021, the PBC raised the foreign exchange RRR twice, both by 2 percentage points, freezing a total of about USD 40 billion of foreign exchange liquidity.

#### **IV. Further improving the macro prudential management framework**

**The role of the macro prudential assessment (MPA) was effectively brought into play to optimize the credit structure and to promote the supply-side structural reform of the financial sector.** In 2021, the PBC further improved the framework of the MPA and the assessment mechanism, and it attached importance to their guidance on both the aggregate and the structure of credit. By adjusting and optimizing relevant assessment indicators in a dynamic manner, the PBC guided financial institutions to enhance the stability of growth of credit aggregates and to continue to ramp up support for the real economy, especially by issuing loans to inclusive MSBs and medium and long-term loans to the manufacturing sector.

***Guidelines on Macro-Prudential Policies (Trial) were released.*** On December 31, 2021, the PBC released the *Guidelines on Macro-Prudential Policies (Trial)* (hereinafter referred to as the *Guidelines*). Based on the actual situation in China, the *Guidelines* specify elements for establishing a sound macro-prudential policy framework. First, they define concepts related to macro-prudential policies, such as the macro-prudential policy framework, systemic financial risks, and the working

mechanisms of the macro-prudential management. Second, they lay out the major content of the macro-prudential policy framework, including its policy objectives, assessment of systemic financial risks, policy tools, transmission mechanisms, and governance mechanisms. Third, they put forward the support and safeguards as well as the policy coordination requirements necessary for the effective implementation of macro-prudential policies. Promulgation of the *Guidelines* is a major measure for establishing a sound macro-prudential policy framework, which is conducive to building a smooth governance mechanism of macro-prudential policies, to developing a coordinated system of forestalling and defusing systemic financial risks, and to promoting sound development of the financial system.

**The regulatory framework for systemically important financial institutions was improved.** To improve the regulatory framework of Systemically Important Banks (SIBs), the PBC drafted the *Additional Regulatory Rules on SIBs (Trial)* jointly with the CBIRC, and solicited public opinions starting from April 2, 2021, which were officially released on October 15, entitled *Order No.5 [2021] of the PBC and CBIRC*. The Order specifies requirements for additional regulation, recovery and resolution plans, and prudential regulation, providing guidance and standards for implementing regulation of the SIBs. On October 15, the PBC and CBIRC also published a list of domestic SIBs. A total of nineteen banks were identified as domestic SIBs on the basis of the data assessment in 2020, including six state-owned commercial banks, nine joint-stock commercial banks, and four city commercial banks.

**The regulatory system for financial holding companies (FHCs) was further improved.** Since the beginning of 2021, the PBC has made proactive efforts to carry out administrative approvals of FHCs. On March 31, it released the *Interim Regulations on Filing-based Management of Directors, Supervisors, and Senior Executives of Financial Holding Companies (Order No.2 [2021] of the PBC)* (hereinafter referred to as the *Regulations*). The *Regulations* clarify that the PBC should perform the duties of filing and supervising directors, supervisors, and senior executives of FHCs, and they specify the eligible conditions for personnel and the relevant filing procedures. In addition, the PBC reinforced appointment management so as to regulate the operation of FHCs and to guard against relevant risks.

## **V. Actively giving play to the role of structural monetary policy instruments**

**Actively using central bank lending to support rural development, central bank lending for MSBs, central bank discounts, and other instruments to guide financial institutions to enhance support for key areas and weak links in the national economy and for coordinated regional development.** The PBC gave full play to the role of central bank lending to support rural development and central bank

lending for MSBs in providing targeted liquidity and serving as positive incentives, and it guided locally incorporated financial institutions to expand credit supply for MSBs, private firms, agriculture, rural areas, and rural people. Central bank lending for poverty alleviation was rolled over according to the current regulations so as to support and consolidate the effective connections between achievements in poverty eradication and rural revitalization. In ten provinces with slow credit growth, locally incorporated financial institutions were guided further to make good use of the quota of RMB200 billion of central bank lending and to step up support for the economic weak links, such as local agro-related businesses, MSBs, and private firms, so as to promote coordinated regional development. More relief and assistance was provided for market entities, especially MSMEs. The new quota of RMB300 billion central bank lending for micro and small businesses (MSBs) was fully utilized, effectively satisfying the financing demand of MSBs and self-employed businesses hard hit by mounting commodity prices and COVID-19, and substantially reducing the financing costs. As of end-2021, outstanding central bank lending to support rural development stood at RMB496.7 billion. Outstanding central bank lending for MSBs and for poverty alleviation posted RMB1.2351 trillion and RMB175.0 billion, respectively. Outstanding central bank discounts registered RMB590.3 billion. In 2021, the PBC made net withdrawals of PSLs in the amount of RMB433.4 billion from development and policy banks, with net withdrawals in Q4 totaling RMB82.7 billion and the outstanding PSLs registering RMB2.8017 trillion at end-2021.

**Steadily advancing the two monetary policy instruments that directly support the real economy to bolster the development of MSBs.** At end-2021, the instrument supporting deferred repayments on inclusive MSB loans provided a total of RMB21.7 billion in incentive funds. This has directly motivated locally incorporated banks to defer repayments on RMB2.17 trillion inclusive MSB loans and for nationwide financial institutions in the banking sector to defer payments on RMB16 trillion loans, easing the phased pressures on MSBs to repay the principal and interest. The support plan for inclusive unsecured MSB loans provided a total of RMB374.0 billion in preferential funding. This has directly motivated locally incorporated banks to issue RMB1.05 trillion in unsecured MSB loans and for financial institutions in the banking sector nationwide to issue RMB10.3 trillion in inclusive unsecured MSB loans, thereby effectively alleviating the financing difficulties of MSBs. According to the arrangements of the executive meetings of the State Council, the PBC converted the instrument supporting deferred repayments on inclusive MSB loans into the support plan for inclusive unsecured MSB loans in a market-based way so as to provide financial support for stabilizing enterprises and securing employment in a more sustainable manner.

#### **Box 4 Two Instruments Directly Supporting the Real Economy Continue with Modified Arrangements**

MSBs play a major role in the national economy as these numerous and wide-ranging market entities are the major representatives of market dynamism and job creators. To ease the shocks of COVID-19 on MSBs, the PBC, following the arrangements of the CPC Central Committee and the State Council, implemented two monetary policy instruments directly supporting the real economy from June 2020 to end-2021, namely, the instrument supporting deferred repayments on inclusive MSB loans and the support plan for inclusive unsecured MSB loans. The two instruments supported locally incorporated banks to defer the repayments on the principal and interest of loans for MSBs in temporary difficulty and encouraged these banks to increase unsecured loans to MSBs. They have reduced the phased pressures on MSBs to repay the principal and interest, eased the shortage of collateral and financing difficulties facing MSBs, and have played a positive role in securing market entities and employment.

As MSBs are struggling amid downward economic pressures in China, further enhancing financial support for them is favorable for stabilizing enterprises, securing employment, and ensuring the overall stability of the macro economy. Following the decisions of the executive meetings of the State Council on further enhancing financial support for MSMEs in a market-based way, the PBC issued a timely notice announcing that from January 1, 2022, the two monetary policy instruments directly supporting the real economy will continue with modified arrangements.

**First, the instrument supporting deferred repayments on inclusive MSB loans will be converted into the instrument supporting inclusive MSB loans.** From the beginning of 2022, financial institutions and businesses may independently negotiate their terms on principal and interest repayments in line with market-based principles. From the beginning of 2022 to end-June 2023, for inclusive MSB loans issued by locally incorporated banks, the PBC will provide funding in the amount of 1 percent of their incremental balance of these loans, thus encouraging the expansion of inclusive MSB loans.

The instrument supporting inclusive MSB loans has an incentive mechanism to motivate locally incorporated banks to serve MSBs and to increase the volume, lower the price, and expand the coverage of MSB financing. First, the instrument targets six types of eligible locally incorporated banks, including urban commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives, village banks, and private banks (including Internet banks). Second, the instrument provides funding for locally incorporated banks based on the increment of MSB loan balance. Through monetary policy operations, the PBC provides 1 percent of the quarter-on-quarter

increment (the increase at the end of a quarter compared with the previous quarter) of the inclusive MSB loan balance for these banks. The funding is examined and issued on a quarterly basis. If the quarter-on-quarter increment is negative, it will not be calculated until it is adequate in future quarters so as to promote the continuous growth of the inclusive MSB loan balance. Providing incentives on the basis of the loan increment will not only guide locally incorporated banks to continuously support the borrowing demand of old customers, but also motivate them to tap into new customers. Third, the sound principle should be upheld. To prevent moral hazards, the credit risks of relevant loans will still be shouldered by locally incorporated banks so as to encourage sound banks with potential to enhance support for MSBs on the premise of risk prevention and control.

**Second, from 2022 the support plan for inclusive unsecured MSB loans will be incorporated into the management of central bank lending that supports rural development and MSBs.** The quota of RMB400 billion central bank lending originally arranged to support inclusive unsecured MSB loans may be rolled over, and if necessary, may be further increased. Eligible locally incorporated banks that issue inclusive unsecured MSB loans may apply to the PBC for preferential funding of central bank lending that supports rural development and MSBs. It aims to make this type of central bank lending more targeted, direct, and effective, guiding locally incorporated banks to continuously expand credit supply to agro-related businesses, MSBs, and private firms.

Going forward, the PBC will, in line with market-based and law-based principles, give full play to the guiding role of market-based policy instruments after the conversion of the two monetary policy instruments directly supporting the real economy. It will further motivate locally incorporated banks to enhance support for MSBs, MSB owners, and self-employed businesses, tap into proper financing demands, increase the proportion of inclusive unsecured MSB loans, and increase the volume, lower the price, and expand the coverage of inclusive MSB loans so as to ease the financing difficulties and reduce the financing costs for MSBs.

**The carbon emission reduction facility (CERF) and special central bank lending targeted for the clean and efficient coal use were launched, contributing to achievement of carbon peaking and carbon neutrality in a scientific and orderly manner.** According to the decisions of the executive meetings of the State Council, the PBC launched the CERF to support three major areas of carbon reduction, namely, clean energy, energy conservation and environmental protection, and carbon reduction technology. It also launched special central bank lending targeted for the clean and efficient coal use to support seven relevant areas, including mass clean coal production and the application of clean combustion technology. In November 2021, the PBC released the *Notice on Launching the CERF* (Yinfa No.278 [2021]) and the *Notice on*



*Launching Special Central Bank Lending Targeted for the Clean and Efficient Coal Use* (Yinfa No.289 [2021]), stipulating that the two instruments adopt a direct mechanism whereby “central bank lending follows corporate loans.” Under this facility, financial institutions can apply to the PBC for funding support after issuing loans to enterprises in relevant areas at preferential rates on the premise of making independent decisions and bearing the risks on their own. For financial institutions issuing qualified loans, the PBC provides low-cost funds in the amount of a specified proportion of the principal. To be specific, the CERF and special central bank lending targeted for the clean and efficient coal use provide 60 percent and 100 percent of the loan principal, respectively, both at a rate of 1.75 percent. In Q4, the PBC granted the first batch of funds to relevant financial institutions through the aforementioned two instruments, totaling RMB88.2 billion. In particular, the CERF and the special central bank lending for the clean and efficient use of coal posted RMB85.5 billion and RMB2.7 billion, respectively. Going forward, the PBC will ensure effective implementation of these two instruments, promote financial institutions to provide credit support for carbon emissions reductions and the clean and efficient use of coal, and facilitate the transition to a green and low-carbon economy while ensuring security of the energy supply so as to contribute to the achievement of carbon peaking and carbon neutrality in a scientific and orderly way.

#### **Box 5 Exploring the Conducting of Stress Tests on Climate Risk**

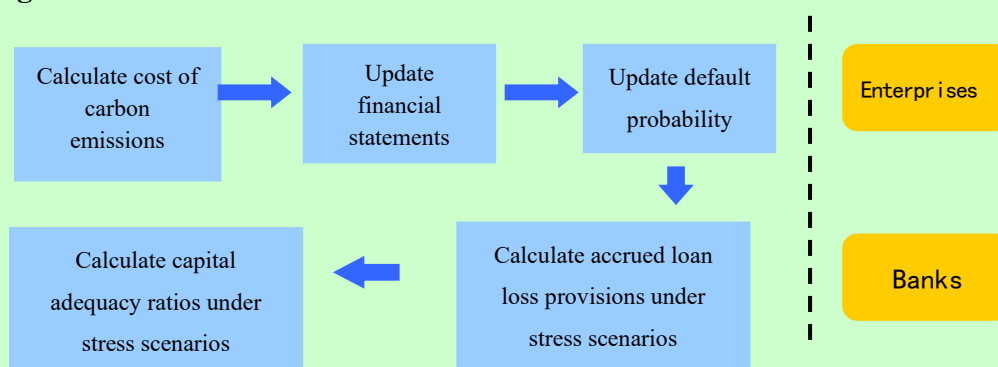
From August to November 2021, the PBC organized some banking institutions to perform the climate risk stress test based on sensitivity analysis and to assess the potential impact of China’s transition toward the goals of carbon peaking and carbon neutrality in the banking sector so as to strengthen the capacity of banking institutions to manage climate-related risks.

The participating banks consisted of two development and policy banks, six large commercial banks, twelve joint-stock commercial banks, and three city commercial banks. Mainly focusing on enterprises with annual CO<sub>2</sub> emissions above 26,000 tonnes of thermal power, and the steel and cement industries (based on definition of the standards of the major greenhouse emission entities set by the Ministry of Ecology and Environment), the testing examined the effects of the rising cost of carbon emissions on the enterprises’ capacity to service debts and also on the quality of related credit assets held by the participating banks as well as their capital adequacy level.

**The test adopted the following methodology and assumptions: on stress scenarios,** three types of carbon prices were specified based on mildly adverse, adverse and severely adverse scenarios, with the main reference to the price changes in the domestic

carbon emissions market and to the carbon price scenarios from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). **On the key assumptions**, first, enterprises were assumed to pay for their carbon emissions based on a certain ratio, which rose every year; second, it was assumed that there is no technological progress and a single enterprise has no bargaining power upstream or downstream; third, insolvent enterprises were assumed to default on their loans. On risk transmission channels, target enterprises were assumed to face growing production costs and declining profitability due to expenditures on carbon emissions, leading to a rise in the probability of loan defaults and expected bank losses as well as an adverse impact on the capital adequacy level of banks (as the figure below shows). The test set end-2020 as the baseline with a ten-year horizon. If a participating bank meets all the regulatory requirements on its post-stress CET1 ratio, Tier 1 ratio and capital adequacy ratio (CAR) (including additional capital requirements for systemically important banks) in 2030, it will be regarded as passing the stress test.

**Figure: Transmission Channel of the Stress Test on Climate Risk Sensitivity**



According to the test results, without a low-carbon transition, the enterprises of thermal power, steel, and cement industries would face a weakened capacity to service debts under the stress scenarios. However, as the proportions of loans to such industries were not high for the participating banks, the aggregate CAR met the regulatory requirements under all three stress scenarios. At end-2020, the provision coverage ratio of the participating banks reported 222.56 percent, with the loan provision ratio at 3.22 percent and the CAR at 14.89 percent. Under the mildly adverse, adverse and severely adverse scenarios, the aggregate CAR of the participating banks will decline to 14.57 percent, 14.42 percent, and 14.27 percent at the end of 2030, respectively, above the regulatory requirements.

As a preliminary exploration of the PBC for assessing the impacts of climate risk on the financial system, the test's stress scenarios and key assumptions do not represent the existing policies or future policy orientations. Based on the test, the utmost challenge lies in insufficient disclosures of carbon emissions information and the big

data gap in China, and the testing methodology also needs improvements. The results will not be used as a basis for policy decisions. Looking forward, the PBC will continue to improve the methodology for climate risk stress test based on sensitivity analysis, expand its industrial coverage, and further explore the climate risk stress test based on macroeconomic scenarios..

## **VI. Leveraging the structural guidance role of credit policies**

### **Financial support to stabilize businesses and secure employment was stepped up.**

The Project of Enhancing the Capacity to Provide Financial Services for MSMEs was further advanced in a bid to promote MSB financing featuring “increased volume, expanded coverage, and lowered prices.” As of end-2021, outstanding inclusive loans to MSBs grew by 27.3 percent year on year to RMB19.2 trillion. These loans supported 44.56 million MSBs, an increase of 38 percent year on year. The weighted average interest rate on new inclusive loans to MSBs posted 4.93 percent in 2021, dropping by 0.22 percentage points from 2020, a decline outstripping the overall drop of corporate loan interest rates. By focusing on key support groups and key businesses, the PBC made innovations in a variety of activities bridging government agencies, banks, and businesses to promote more effective and better-targeted financing connections. The campaign to “extend loans to small businesses to enhance people’s well-being” was carried out to provide financial support for the development of self-employed individuals, and problems of pressing concern for these individuals were addressed through strengthening connections of financing information and moving ahead the financing service window, i.e., providing financial services in a proactive and well-targeted manner. Financial support to culture and tourism, accommodations and catering, retail, foreign trade, and other sectors has been stepped up. As of end-2021, a list of key enterprises was developed, comprising 515,000 firms in industries hit by COVID-19 and core businesses in the supply chain, and financial institutions extended cumulative loans of RMB8.3 trillion, boosting and stabilizing jobs for 35 million people.

### **Financial support to consolidate and expand the achievements of poverty eradication was put in place, and rural revitalization was promoted on all fronts.**

Continued efforts have been made to put in place the *Opinions on Financial Support for Consolidating and Expanding Achievements in the Critical Battle against Poverty and Promoting Rural Revitalization on all Fronts*, which encourage and guide financial institutions to strictly follow the requirements of the “Four Withouts,” i.e., lifting areas out of poverty without loading off responsibilities, without abolishing policies, without ceasing support, and without removing supervision, so as to provide continuous support for the development of regions and population that had been lifted out of poverty. Meanwhile, the PBC ensured financial services to key areas that safeguard an efficient

supply of grain and vital agricultural products as well as to key entities such as new types of agribusinesses, encouraged innovation in tailored financial products and services, and made consolidated efforts to provide better financial services. As of end-2021, outstanding agro-related loans increased 10.9 percent year on year to RMB43.21 trillion.

## **VII. Deepening the market-based interest rate reform**

Since 2021, the PBC has adopted reform measures to smooth the transmission of monetary policy. The benefits of the loan prime rate (LPR) reform were continuously unleashed, and a steady decline in overall corporate financing costs was promoted. **First**, the PBC encouraged financial institutions to fully tap into the LPR in pricing so as to enhance competition in the MSB loan market. The central bank lending rate in support of agriculture and MSBs was cut by 0.25 percentage points in December 2021, and the one-year LPR was lowered by 5 basis points in the same month, so the actual lending rates moved further downward on the basis of the significant decline in 2020. In December, the weighted average lending rate dropped by 0.27 percentage points year on year to 4.76 percent and the weighted average interest rate on corporate loans fell by 0.04 percentage points to 4.57 percent. **Second**, the PBC implemented measures to improve regulation over deposit rates and maintained fair competition in the deposit market. It modified the mechanism for a self-regulatory ceiling of deposit rates by adding basis points to the benchmark interest rates so as to guide the medium and long-term deposit rates to move down, to improve the term structure of deposits, to reduce banks' liability costs, and to promote the steady decline of overall corporate financing costs. **Third**, the PBC advanced the market-based interest rate reform of credit card overdrafts. It has removed the upper and lower limits on credit card overdraft interest rates from January 1, 2021, and the issuers and users can negotiate their own interest rates for credit card overdrafts. **Fourth**, the PBC continued to promote lenders of all sorts to explicitly post the annualized interest rates of their loan products so as to protect the lawful rights and interests of financial consumers. **Fifth**, the PBC continued to advance the onshore transition of international benchmark interest rates. It organized the release of recommended loan agreements based on onshore USD floating interest rates and the standard document for the backup mechanism of the Interbank Offered Rate (IBOR) in the NAFMII master agreement. It guided and urged major banks to be well prepared for the benchmark transition in areas of signing the agreement, communicating with customers, internal training, system upgrading, etc., thus responding appropriately to the LIBOR reform.

## VIII. Improving the market-based RMB exchange rate formation mechanism

The PBC continued to advance the market-based reform of the RMB exchange rate and to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. It enhanced the flexibility of the RMB exchange rate and gave play to the role of the exchange rate as an automatic stabilizer in adjusting the macro economy and the balance of payments. The PBC attached importance to guiding expectations and kept the RMB exchange rate basically stable at an adaptive and equilibrium level.

In 2021, the highest and lowest RMB central parities against the USD were 6.3498 and 6.5731, respectively. During the 243 trading days, the RMB appreciated on 128 days and depreciated on 115 days. The biggest intraday appreciation and depreciation were 1.0 percent (648 bps) and 0.8 percent (543 bps), respectively. The RMB exchange rate appreciated against other major international currencies. At end-2021, the central parities of the RMB against the dollar, the euro, the pound, and the Japanese yen appreciated 2.3 percent, 11.2 percent, 3.3 percent, and 14.1 percent, respectively, from end-2020. Since the reform of the RMB exchange-rate formation mechanism that commenced in 2005 to end-2021, the RMB appreciated by a cumulative total of 29.8 percent, 38.7 percent, and 31.8 percent, respectively, against the dollar, the euro, and the Japanese yen. Meanwhile, direct RMB trading was buoyant in the interbank foreign exchange market with stable liquidity, which helped lower the exchange costs of micro economic entities and facilitated bilateral trade and investment.

As of end-2021, under the bilateral currency swap agreements between the PBC and foreign monetary authorities, foreign monetary authorities utilized a total of RMB61.532 billion and the PBC utilized foreign currencies equivalent to USD342 million. These operations played an active role in promoting bilateral trade and investment.

**Table 8 Trading Volume of the RMB against Other Currencies in the Interbank Foreign Exchange Spot Market in 2021**

Unit: RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	618899.66	17629.67	2735.76	1519.23	866.21	769.75	341.26

Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	552.60	365.95	734.85	3.78	97.91	1.41	76.83
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	9.17	27.40	11.92	12.10	66.08	46.92	28.39
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	0.29	1.02	335.73	0.01	0	0	10.44

Source: China Foreign Exchange Trade System.

## IX. Forestalling and defusing financial risks and deepening the reform of financial institutions

**New achievements were made to forestall and defuse financial risks.** The PBC adhered to the disposal of risks in a market-oriented and law-based manner, with total financial risks decreasing. The disposal of risks of key conglomerates and large enterprises was steadily advanced. The risk disposal of existing high-risk institutions was continuously promoted, with the number of high-risk institutions decreasing notably. The *China Financial Stability Report* (2021) was issued, continuously improving risk monitoring of the banking, securities, and insurance sectors and the financial market. The *Administrative Measures on the Total Loss-Absorbing Capacity of Global Systemically Important Banks* were issued and implemented, ensuring that the global systemically important banks in China are fully capable of absorbing losses and recapitalization. The central bank rating of financial institutions in Q3 was completed, with over 4,000 banking financial institutions being rated throughout the nation. As a result, actual risk exposure was ascertained, and high-risk institutions were identified precisely. The PBC conducted annual stress tests on over 4,000 banking financial institutions, and risk monitoring of large enterprises was conducted on a quarterly basis.

### Box 6 Key Achievements in Forestalling and Defusing

#### Major Financial Risks

After the 19th National Congress of the CPC made the important arrangement of “resolutely fighting the critical battle of forestalling and defusing major financial risks,” under the strong leadership of the CPC Central Committee and the State Council, the Financial Stability and Development Committee under the State Council (hereinafter referred to as the FSDC) has taken a lead. The PBC has earnestly fulfilled its role as the General Office of the FSDC, cooperated with relevant departments and local

governments in steadily promoting the relevant tasks, made major periodic achievements in fighting the critical battle, and firmly defended the bottom line so that no systemic risks should occur. Thus, favorable economic and financial environments have been created for building a moderately prosperous society in all respects.

**First, macro risks are under effective control.** The PBC has maintained a sound monetary policy, has ensured an appropriate aggregate supply of money, and has kept the macro leverage ratio stable. From 2017 to 2019, the macro leverage ratio was kept stable at about 250 percent, with annual growth of about 2 percentage points, creating policy space for the subsequent fight against COVID-19 and strengthening intertemporal policy adjustments. Under the impact of COVID-19 in 2020, China's economic growth witnessed a certain period of an obvious slowdown. With Xi Jinping at its core, the CPC Central Committee made important decisions and arrangements regarding coordination between pandemic prevention and control and social and economic development. The macro policies are powerful, well-calibrated, and effective, stabilizing the economic fundamentals with debt growth under control. At end-2020, the macro leverage ratio rose temporarily to 280.2 percent, which witnessed a subsequent steady decrease and fell to 272.5 percent by end-2021.

**Second, resolution of key high-risk institutions has been conducted in a steady manner.** Ten financial institutions controlled by "Mingtian Group", such as Baoshang Bank (BSB), Huaxia Life Insurance, and New Times Securities, have been taken over in a decisive and orderly manner, with bankruptcy and liquidation of BSB steadily completed. Resolution of the Huaxin Group is generally completed and that of the Anbang Insurance Group is reaching a conclusion. The restructuring plan of the HNA Group has been approved by the court. Together with the China Banking and Insurance Regulatory Commission, the PBC has guided the relevant local governments to steadily resolve the risks of large enterprises, such as the Founder Group, and those of small and medium-sized financial institutions, such as Hengfeng Bank. In addition, while focusing on major risks, the authorities also took the whole picture under surveillance, and enhanced early warning and timely resolution of risks. The PBC has continuously promoted risk disposal of high-risk rural small and medium-sized banking institutions and has promptly contained the sporadic bank runs at the branch levels.

**Third, efforts have been made to rectify financial disorder and to crack down on illegal financial activities in a forceful manner.** Unauthorized Internet-based asset management institutions, unauthorized payment institutions, equity crowd-funding platforms, and illegal Internet "mutual-insurance" platforms have all been cleaned up. All operating peer-to-peer lending institutions have exited from the market. On-shore cryptocurrency trading and financing platforms of initial coin offerings have been closed. Unauthorized on-shore and off-shore online foreign exchange trading platforms have been shut down. A special rectification has been conducted to crack down on illegal fund-raising, and a serious crackdown has been conducted on illegal fund-raising



and similar illegal financial activities.

**Fourth, there has been a sharp decline in shadow banking risks.** According to the requirement of “preventing risks, rectifying disorder, and shoring up weaknesses,” the *Guidelines on Regulating the Asset Management Business of Financial Institutions* (hereinafter referred to as the Guidelines) and their complementary rules were issued in a timely manner. With the transition period of the Guidelines coming to an end at end-2021 as expected, the scale of asset management products has grown amidst stability, the structure has continuously been optimized, the share of net value-based products has increased by a large margin, and risks have obviously moderated. Joint efforts have been made to rectify financial disorder such as violations of inter-bank business regulations, leverage financing, off-balance-sheet businesses, and arbitrage, as well as diversions from the real economy into the virtual economy. High-risk shadow banking businesses have been continuously dismantled, leading to an obvious decline of risks and hazards resulting from shadow banking.

**Fifth, risks from external shocks have been dealt with effectively.** The capital market has withstood shocks, such as the turbulence of the international financial market and the escalating external pressures on China. At the same time, the reform of fundamental arrangements has continuously been deepened. The coordinated management framework of “macro prudential management plus micro regulation” has been continuously improved, and the policy toolkit has been diversified and perfected. Therefore, in the midst of complicated and rapidly changing situations, the stability of the foreign exchange market and the security of the national economy and finance have been effectively safeguarded.

**Sixth, anti-corruption and rectifying disorder have been closely integrated with risk resolution.** The PBC has effectively promoted the establishment of a risk prevention and control mechanism, earnestly held those responsible to account, improved law-based finance, shored up regulatory weaknesses, filled in regulatory gaps, and resolutely investigated and dealt with a number of major cases with adverse influence on the market. As a result, supervisory negligence and criminal behavior hidden behind the financial risks have been seriously punished.

**As concentrated efforts have been made to fight the tough battle, the prominent risks accumulated in China’s financial system have been disposed of in an effective manner, and institutional weaknesses have been gradually shored up.** The endogenous risks, which are caused by illegal and illegitimate operations of some financial institutions and by the financial sector being distracted from its intended purpose of serving the real economy, have been basically eliminated. Currently, China’s financial system is healthy and stable overall, with the quality and efficiency of the financial sector serving the real economy further improved. According to the central



bank rating of financial institutions in Q3, of over 4,400 banking institutions rated throughout the nation, 4,002 institutions are rated within the safe boundary, with assets accounting for 98.65 percent of the total in the banking industry. In particular, 24 large banks operate in a sound manner, and the quality of their assets is fine. Their assets account for 70 percent of the industry, constituting the steady mainstay of China's financial system. It should also be noted that under the impact of COVID-19, as centennial changes are accelerating, the external environment tends to be more complicated and serious, and it faces more uncertainties. China's economic development is faced with the triple pressures of shrinking demand, supply shocks, and weakened expectations, and the risk prevention situation is still complicated and serious.

Going forward, the PBC must always follow the central and unified leadership of the CPC Central Committee on finance, hold steadfast to the fundamental position of people-centered development, understand the new development stage, act on the new development philosophy, and establish a new development paradigm to drive high-quality development. It will place emphasis on stabilizing growth and preventing risks, give priority to stability, and pursue progress while ensuring stability. In line with the principles of "maintaining overall stability, taking a coordinated approach, adopting differentiated measures, and defusing bombs with precision," it will adhere to market-oriented and law-based principles, continue to promote recovery amidst operations and to defuse risks through reform, and it will ensure that all concerned parties truly perform their respective duties. It will make the policy adjustments more forward-looking, preemptive, and systematic, actively respond to new situations and challenges, firmly defend the bottom line that no systemic risk should occur, and resolutely maintain the stability of overall economic and social development.

**Reform of development and policy financial institutions was continuously deepened.** The PBC worked to comprehensively implement the reform plans for development and policy financial institutions to redefine their responsibilities and business scope, apply classified accounting, improve corporate governance, strengthen restraint mechanisms, and prevent financial risks. The PBC guided development and policy financial institutions to fulfill their responsibilities, focus on their main businesses, and give full play to their role in supporting economic restructuring and high-quality development on the basis of strengthening risk prevention and control.

## **X. Deepening reform of foreign exchange arrangements**

**Pilot programs for a higher-level opening-up of cross-border trade and investment were conducted in some districts.** Currently, based on the approval of the State Council, the SAFE has conducted pilot programs for the higher-level opening-up of cross-border trade and investment in districts such as Lin-gang Special Area of China

(Shanghai) Pilot Free Trade Zone, Nansha New Zone Area of China (Guangdong) Pilot Free Trade Zone, Yangpu Economic Development Zone of China (Hainan) Pilot Free Trade Zone, and Beilun District of Ningbo Municipality in Zhejiang Province. The pilot policies include nine capital account reform measures, four current account facilitation measures, and two requirements for strengthening risk prevention and control and supervision capacity-building .

**The regular issuance of the qualified domestic institutional investors (QDII) quota was continuously promoted, with macro prudential management on quota and risk prevention optimized.** Sticking to regular and standardized issuances of the QDII quota, the SAFE conducted seven rounds of issuing QDII quotas in 2021, totaling USD40.8 billion to 57 institutions, better satisfying the demand of domestic market entities for cross-border investment.

**Facilitation of cross-border investment and financing was further promoted, supporting development of the real economy.** In October 2021, the *Official Reply of the State Administration of Foreign Exchange on Supporting the Pilot Program of External Debt Facilitation in Chengdu and Chongqing* was issued, approving four pilot programs in Chengdu and Chongqing on external debt registration without regional limitations and one-off registration of external debt for non-financial enterprises.

### **Part 3. Financial Market Conditions**

In 2021, performance of the financial market was generally stable. Money market interest rates remained stable with active market transactions. The bond market featured increased bond issuances and generally declining coupon rates. In general, the stock market index went up, with both turnover and the amount of funds raised witnessing year-on-year increases.

#### **I. Financial market overview**

##### **1. Money market interest rates remained stable with active market transactions.**

The money market was generally stable. In December 2021, the monthly weighted average interest rate for interbank lending was 2.02 percent, and the monthly weighted average interest rate of pledged repos posted 2.09 percent, 14 basis points and 10 basis points lower than that in September, respectively. The monthly weighted average interest rate of government-backed bond pledged repos among depository institutions posted 1.94 percent, 12 basis points lower than that in September and 15 basis points

lower than the monthly weighted average interest rate of pledged repos in the interbank market. At end-2021 the overnight and 7-day Shibor posted 2.13 percent and 2.27 percent, respectively.

Market transactions were active. In 2021, the volume of bond repos trading on the interbank market reached RMB1045.2 trillion, representing an average daily turnover of RMB4.2 trillion, up 8.5 percent year on year. The volume of cumulative trading in interbank lending registered RMB118.8 trillion, with an average daily turnover of RMB475.3 billion and a year-on-year decrease of 19.6 percent. In terms of the maturity structure, overnight repos accounted for 84.4 percent of the total turnover in bond repos, decreasing 0.3 percentage points year on year, and overnight lending constituted 89.2 percent of the interbank lending, down 1.0 percentage point year on year. The volume of bond repos trading on the exchange markets increased 21.9 percent year on year to RMB350 trillion.

**Table 9 Fund Flows Among Financial Institutions in 2021**

Unit: RMB100 million

	Repos		Interbank lending	
	2021	2020	2021	2020
Chinese-funded large banks <sup>①</sup>	-2,353,285	-2,711,676	-290,416	-405,206
Chinese-funded medium-sized banks <sup>②</sup>	-1,545,575	-950,665	-82,950	-58,995
Chinese-funded small-sized banks <sup>③</sup>	59,856	-49,334	106,924	127,947
Securities institutions <sup>④</sup>	1,374,598	1,100,130	214,408	261,702
Insurance institutions <sup>⑤</sup>	142,965	122,001	532	819
Foreign-funded banks	74,946	74,489	-23,711	-27,072
Other financial institutions and vehicles <sup>⑥</sup>	2,246,496	2,415,055	75,214	100,806

Notes: ①Chinese-funded large banks include the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, China Development Bank, Bank of Communications, and Postal Savings Bank of China. ②Chinese-funded medium-sized banks refer to policy banks, China Merchants Bank, and the eight other joint-equity commercial banks, Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu. ③Chinese-funded small-sized banks refer to Hengfeng Bank, China Zheshang Bank, China Bohai Bank, other city commercial banks, rural commercial banks, rural cooperative banks, private banks, and village and township banks. ④Securities institutions include securities firms, fund management companies, and futures companies. ⑤Insurance institutions include insurance firms and corporate annuities. ⑥Other financial institutions and vehicles include urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies, asset management companies, social security funds, mutual funds, wealth management products, trust plans, and other investment vehicles. Some of these financial institutions and vehicles do not participate in the interbank lending market. ⑦A negative sign indicates net lending and a positive sign indicates net borrowing.

Source: China Foreign Exchange Trade System.

Interbank Certificates of Deposit (CD) and negotiable CD businesses operated steadily. In 2021, about 30,000 interbank CDs were issued on the interbank market, raising RMB21.8 trillion. The volume of trading on the secondary market totaled RMB154.5 trillion. At end-2021, outstanding interbank CDs reached RMB14.0 trillion. About 54,000 negotiable CDs were issued by financial institutions in 2021, raising RMB11.3 trillion, an increase of RMB1.6 trillion year on year. In 2021, the average weighted interest rate of 3-month interbank CDs was 2.62 percent, 10 basis points higher than that of the 3-month Shibor.

Interest rate swap transactions witnessed steady growth. In 2021, the RMB interest rate swap market witnessed 252,000 transactions, decreasing 7.9 percent year on year, with the volume of the notional principal totaling RMB21.1 trillion, an increase of 8.0 percent year on year. In terms of the maturity structure, contracts with maturities of up to one year traded most briskly and the volume of the notional principal posted RMB15.3 trillion, accounting for 72.6 percent of the principal of all maturities. The 7-day fixing repo rate and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 86.7 percent and 12.4 percent, respectively, of the total notional principal of the interest rate swaps. In 2021, interest rate swaps anchored to the loan prime rate (LPR) witnessed 919 transactions, with RMB109.83 billion of the notional principal.

**Table 10 Interest Rate Swap Transactions in 2021**

	Transactions	Notional principal (RMB100 million)
2021	252,443	211,166.4
2020	274,029	195,564.6

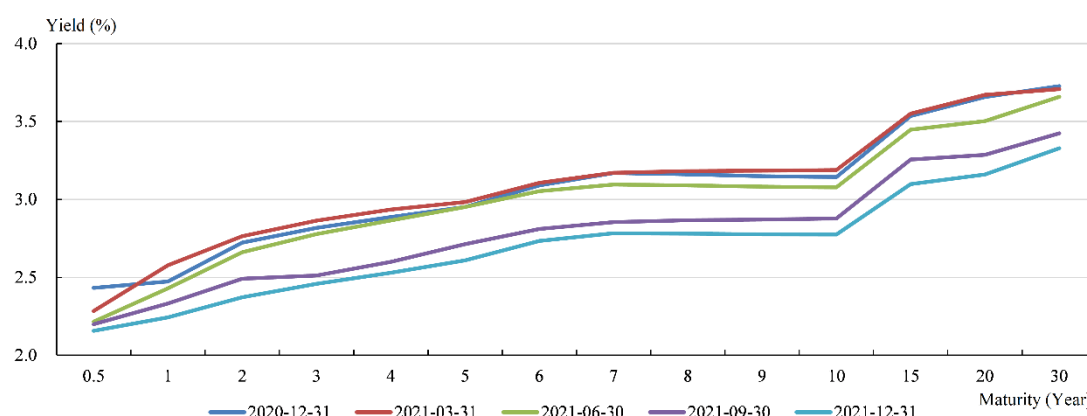
Source: China Foreign Exchange Trade System.

The LPR interest rate option business developed steadily. Fixing repo rate (FDR) options were newly added to the interbank market on March 29, 2021. In 2021, a total of 390 interest rate option transactions were concluded, totaling RMB75.621 billion. Specifically, 32 were interest rate swap transactions, amounting to RMB1.560 billion of the notional principal, and 358 were interest rate cap/floor transactions, amounting to RMB74.061 billion of the notional principal.

## **2. Coupon rates of bonds generally declined, while bond issuances expanded**

On the whole, coupon rates of bonds declined. In December 2021, the yield on 10-year government securities issued by the Ministry of Finance was 2.82 percent, 3 basis points lower than that in September. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 3.02 percent, 10 basis points lower than the rate in September. The average rate of 1-year short-term financing bills (bond rating A-1) issued by AAA-rated enterprises was 3.07 percent, 79 basis points lower than the rate in September.

**Figure 4 Yield Curves of Government Securities on the Interbank Market**



Source: China Central Depository & Clearing Co., Ltd.

Government securities yields went down. At end-December 2021, yields on 1-year, 3-year, 7-year, and 10-year government securities decreased by 9 basis points, 5 basis points, 7 basis points, and 7 basis points to 2.24 percent, 2.46 percent, 2.78 percent, and 2.78 percent from end-September, respectively. The term spread between 1-year and 10-year government securities was 53 basis points, narrowing 1 basis point from end-September. Credit spreads narrowed, with yield spreads on 3-year AAA and AA-rated short-to-medium-term bills and CDB bonds narrowing by 8 basis points and 4 basis points to 34 basis points and 109 basis points from end-June, respectively.

Bond issuances saw year-on-year growth. In 2021, the cumulative value of bond issuances increased by 7.8 percent, or RMB4.4 trillion, year on year to RMB61.4 trillion. Specifically, the issuance of local government bonds posted 7.48 trillion, up by 16.1 percent year on year, recording net financing of RMB4.82 trillion, up by 10.4 percent year on year. At end-2021, outstanding bonds held in custody amounted to RMB133.5 trillion, representing an increase of 14.1 percent year on year.

The volume of spot bond transactions on the interbank market decreased, while that on the stock exchange grew. In 2021, the value of cash bonds trading on the bond market posted RMB243.1 trillion, registering a decrease of 3.8 percent year on year.

Specifically, the value of cash bonds trading on the interbank market was RMB214.4 trillion, representing a decrease of 7.9 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB28.7 trillion, an increase of 43.9 percent year on year.

**Table 11 Bond Issuances in 2021**

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government securities	67,835	-3,019
Local government bonds	74,826	10,388
Central bank bills	0	0
Financial bonds <sup>①</sup>	323,516	31,977
Of which: Financial bonds issued by the CDB and policy financial bonds	55,281	3,643
Interbank certificates of deposit	217,923	28,203
Corporate credit bonds <sup>②</sup>	146,804	4,793
Of which: Debt-financing instruments of non-financial enterprises	96,634	5,173
Enterprise bonds	6,274	733
Corporate bonds	32,288	966
Bonds issued by international institutions	857	303
Total	613,839	44,441

Notes: ①Including financial bonds issued by the CDB, policy financial bonds, bonds issued by commercial banks (including ordinary bonds, subordinated bonds, and hybrid bonds), bonds issued by securities firms, and interbank certificates of deposit. ②Including debt-financing instruments issued by non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, privately offered SME bonds, and asset-backed securities on the Shanghai Stock Exchange and the Shenzhen Stock Exchange issued by non-financial enterprises.

Sources: The People's Bank of China, China Securities Regulatory Commission, and China Central Depository & Clearing Co., Ltd.

### **3. Bill financing saw steady growth, and interest rates on the bill market were basically stable**

The bill acceptance business recorded stable growth. In 2021, commercial drafts issued by enterprises totaled RMB24.2 trillion, rising 9.3 percent year on year. At end-2021, outstanding commercial drafts stood at RMB15.0 trillion, increasing by 6.3 percent year on year. Outstanding commercial draft acceptances increased by RMB885.3 billion in 2021. Of the outstanding bankers' acceptances, 67.8 percent was issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing witnessed steady growth, with generally stable interest rates. In 2021, total discounts by financial institutions amounted to RMB45.9 trillion, growing 13.7

percent year on year. At end-2021, the balance of bill financing was RMB9.9 trillion, up 17.9 percent year on year. The balance accounted for 5.1 percent of the total outstanding loans, up 0.3 percentage points year on year. In 2021, the interest rates for bill financing first increased and then decreased, but they remained generally stable.

#### **4. Stock indices went up, with turnover and the amount of funds raised increasing year on year**

The stock indices went up. At end-2021, the Shanghai Stock Exchange Composite Index closed at 3,640 points, increasing by 4.8 percent from end-2020; The Shenzhen Stock Exchange Component Index closed at 14,857 points, increasing by 2.7 percent from end-2020. Turnover on the stock markets expanded. In 2021, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB258 trillion, and the average daily turnover was RMB1.1 trillion, representing an increase of 24.7 percent year on year. The amount of funds raised on the stock markets increased year on year. In 2021, a cumulative fund of RMB1.5 trillion was raised, increasing by 27.5 percent year on year.

#### **5. Premium income decreased year on year and the growth of assets in the insurance sector slowed down**

In 2021, total premium income in the insurance sector amounted to RMB4.5 trillion, down 0.8 percent year on year, a deceleration of 6.9 percentage points from the previous year. Claim and benefit payments totaled RMB1.6 trillion, representing a year-on-year increase of 12.2 percent. Specifically, total property insurance claims and benefit payments increased by 10.5 percent year on year, and total life insurance claims and benefit payments went up by 13.9 percent year on year.

**Table 12 Asset Allocations in the Insurance Sector at End-2021**

Unit: RMB100 million, %

	Balance		As a share of total assets	
	End-2021	End-2020	End-2021	End-2020
Total assets	248,874	232,984	100.0	100.0
Of which: Bank deposits	26,179	25,973	10.5	11.1
Investments	206,101	190,828	82.8	81.9

Source: China Banking and Insurance Regulatory Commission.

The growth of assets in the insurance sector slowed down. At end-2021, total assets in the insurance sector increased 6.8 percent year on year to RMB24.9 trillion, a deceleration of 6.5 percentage points from end-2020. Specifically, bank deposits increased by 0.8 percent, while investment-linked assets increased by 8 percent year on year.

## **6. Turnover of spot and swap foreign exchange transactions witnessed rapid growth**

In 2021, the cumulative turnover of spot RMB/foreign exchange transactions registered USD10 trillion, an increase of 19.4 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD20.3 trillion, an increase of 24.4 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD13.6 trillion, accounting for 66.8 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD108.9 billion, rising 4.3 percent year on year. The turnover of foreign currency pair transactions totaled USD1.6 trillion, increasing by 93.1 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 55.6 percent of the total market share.

## **7. The volume of gold trading declined, and prices went down**

At end-2021, international gold prices closed at USD1,794 per ounce, representing a loss of 4.3 percent from end-2020. The Au99.99 on the Shanghai Gold Exchange closed at RMB373.85 per gram, decreasing by 4.1 percent from end-2020. In 2021, the volume of gold traded on the Shanghai Gold Exchange was 34,800 tons, representing a decrease of 40.6 percent year on year. Turnover posted RMB13.08 trillion, a decrease of 42.0 percent year on year.

# **II. Development of institutional arrangements in the financial markets**

## **1. Institutional arrangements in the bond market**

Institutional arrangements in the bond market were further improved. In April 2021, the PBC released the *Announcement No. 4 [2021] of the People's Bank of China (Revision of the Announcement on Bond Trading and Circulation on the Interbank Bond Market)*. The Announcement further improves institutional arrangements and efficiency for bond trading and circulation, thus enhancing the capability of the bond market to serve the real economy. In August, the PBC, NDRC, MOF, CBIRC, and CSRC jointly released the *Notice on Promoting the Sound Development of the Credit Rating Business on the Bond Market* (Yinfa No.206 [2021]). The Notice improves rating quality and rating differentiation, allowing the credit rating business to better support the sound development of the bond market. In August, the PBC, NDRC, MOF, CBIRC, CSRC, and the State Administration of Foreign Exchange (SAFE) jointly



released the *Guiding Opinions on Advancing the Reform, Opening-Up, and High-Quality Development of the Corporate Credit Bond Market* (Yinfa No.217 [2021]). The Guiding Opinions aim to improve the legal system for the bond market and to build a multi-tiered bond market system featuring robust regulation, orderly competition, transparency, and openness.

The high-level two-way opening-up of China's bond market pressed ahead in a steady manner. In September 2021, the PBC and the Hong Kong Monetary Authority (HKMA) jointly announced the launch of Southbound Trading under the mutual bond market access and connection scheme between the Mainland and Hong Kong (hereinafter referred to as the "Southbound Bond Connect"). In the same month, the PBC released the *Notice of the PBC on Launching Southbound Trading under the Mutual Bond Market Access between the Mainland and Hong Kong*. In October, FTSE Russell added Chinese government bonds to its World Government Bond Index (WGBI). So far, all three major global bond index providers have included Chinese bonds in their major indexes, which fully reflects the confidence that international investors have in the long-term sound development of China's economy and in China's commitment to a further opening-up of its financial markets. The opening-up of the financial markets helps China achieve high-quality economic growth and enables global investors to share China's economic achievements. In December, to deepen the reform of "streamlining administration, delegating powers, improving regulation and services," further unify and regulate the management framework for bond issuances in overseas jurisdictions by domestic financial institutions, and enhance the convenience and flexibility of issuing bonds overseas, the PBC and the NDRC jointly repealed the *Interim Measures for the Administration of the Issuance of RMB Bonds in Hong Kong Special Administrative Region by Domestic Financial Institutions* (Announcement No. 12 [2007] of the PBC and NDRC). The repeal of the Interim Measures will not affect the issuance of RMB and foreign currency-denominated bonds in Hong Kong and other countries (regions) by domestic financial institutions. In fact, the issuance procedures were improved and became more convenient, allowing issuers to choose the issuing regions and time windows within approved quotas at their discretion.

## **2. Reform and institutional arrangements in the securities market**

The capital market reform was deepened comprehensively. The Guangzhou Futures Exchange was launched in January 2021, aiming to serve the real economy and green development as well as the building of the Guangdong-Hong Kong-Macau Greater Bay Area and the Belt and Road. On April 6, the Shenzhen Stock Exchange officially merged its main and SME boards, creating a new development paradigm featuring diversified yet complementary boards. In April, China's first special representative litigation case of a securities dispute made its debut, which was significant for protecting the legitimate rights and interests of investors and boosting the sound development of the capital market. On November 15, the Beijing Stock Exchange started trading. Focusing on serving innovative SMEs, it further improved the multi-layered capital market system.

Institutional arrangements for capital market regulation were improved. In January 2021, the CSRC released the *Provisions on Strengthening Regulation of Private Equity Investment Funds*, which reiterated and detailed the regulations over the bottom lines in the operation of private equity funds to regulate development of the industry. In February, the CSRC released the *Guidelines for the Application of Regulatory Rules -- Concerning Disclosure of Information by Shareholders of Companies Applying for IPO*. The Guidelines tighten regulation over behavior such as sudden buying before the listing, abnormal buying prices, tunneling, and “shadow shareholders,” and targeting illegal “rags to riches.” In July, the General Offices of the CPC Central Committee and the State Council released the *Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law*. The Opinions consolidate a law-based and integrity-based capital market and help to create a favorable market ecology that upholds laws and honors commitments.

### **3. Institutional arrangements in the insurance market**

The insurance industry was opened up further. In March 2021, the CBIRC revised and released the *Implementation Rules of the Regulations of the People's Republic of China on Foreign-funded Insurance Companies* and removed the clauses concerning foreign ownership limits on joint-venture life insurance companies to maintain consistency among the relevant institutional systems. Meanwhile, it further elaborated on the entry criteria for foreign insurance group companies and for foreign financial institutions to invest in foreign-funded insurance companies. Supplementary improvements were made to clarify the requirements for market access and for changes of shareholders in foreign-funded insurance companies, relevant management systems for domestic insurance group companies, security reviews of foreign investment, etc.

An exclusive commercial pension insurance pilot was launched. In May 2021, the CBIRC released the *Notice on Exclusive Commercial Pension Insurance Pilots* and it decided to launch an exclusive commercial pension insurance pilot in Zhejiang Province (including Ningbo City) and Chongqing Municipality for one year starting on June 1, 2021. PICC Life Insurance Company Limited and five other life insurance companies were to carry out the pilot work. The Notice specifies the methods of payment, design of the accumulation period and claiming period, the insurance liabilities, rules for insurance cancellation, information disclosures, and product management. It also clarifies the regulatory support policies with respect to equity asset allocations and the minimum capital requirement.

Regulation of the solvency of insurance companies was strengthened. In January 2021, the CBIRC revised and released the *Regulations on Solvency Management of Insurance Companies*. The Regulations, with a risk-oriented approach, specify regulatory rules of solvency that integrate quantitative capital requirements, qualitative regulatory requirements, and market discipline mechanisms, thus making clear the three-pillar

framework of solvency regulation. In December, the CBIRC released the *Solvency Regulatory Rules II for Insurance Companies*, which guide the insurance industry to return to its safeguarding role and to focus on its main businesses, enhance its capability to serve the real economy, and effectively prevent risks in the insurance sector.

## **Part 4. Macroeconomic Overview**

### **I. Global economic and financial developments**

Disrupted by the resurgence of COVID-19, the global economic recovery has slowed down since the second half of 2021. Supply-chain bottlenecks have not yet eased, overseas inflationary pressures have increased, and labor markets in the advanced economies have seen structural shifts. Looking ahead, COVID-19, inflation, and macro policy adjustments in the advanced economies remain highly uncertain. Potential economic and financial risks arising from such uncertainties should not be neglected.

#### **1. Economic performance and financial markets in the major economies**

**The global resurgence of COVID-19 cases has disrupted the economic recovery.** Omicron, the new variant, is still spreading throughout the world. Daily confirmed new cases globally peaked at nearly 4 million since January 2022. At one time, daily new cases exceeded 1 million in the U.S. The resurgence of COVID-19 has persistently prolonged supply-chain strains and amplified uncertainties related to the global economic recovery. In December 2021, the PMI in the U.S., the euro area, and Japan was 58.7, 58, and 54.3, respectively, down 2.4 percentage points, 0.4 percentage points, and 0.2 percentage points from the previous month. The International Monetary Fund (IMF) and the World Bank have recently revised downward their global growth forecasts for 2022. Using the composite leading indicator, the Organisation for Economic Co-operation and Development (OECD) has concluded that growth rates in the U.S., Europe, Japan, and the UK may have peaked at end-2021.

#### **Commodity prices surged, while inflation in the advanced economies increased.**

Factors such as extreme weather and geopolitical tensions continued to push up oil and gas prices. In January 2022, the price of Brent Crude Oil Futures rose above USD90 a barrel, a new high since October 2014. The price of natural gas futures on the New York Mercantile Exchange was once above USD6.3 per million British thermal units, a record high since April 2010. Inflation went up in the advanced economies. In December 2021, the CPI was up by 7 percent year on year in the U.S., a new high since 1982. The HICP rose by 5 percent in the euro area. Inflation also remained elevated in

the emerging economies. In December, the IPCA in Brazil and the CPI in Russia were up by 10.1 percent and 8.4 percent year on year, respectively.

**The labor shortage has worsened in the advanced economies where the labor market has seen structural changes.** The unemployment rate in the major advanced economies moved closer to pre-COVID-19 levels, while the labor participation rate remained low, resulting in an insufficient labor supply. First, people are less willing to work. The elderly have retired early due to health concerns, women have quit their jobs to take care of their families, and young people have adopted a wait-and-see attitude without any imminent need to look for jobs. There was a wave of many resignations in the U.S. where a new record high of 4.5 million people resigned in November 2021, and job vacancies remained above 10 million for six consecutive months. Second, massive fiscal subsidies in response to COVID-19 are a disincentive to work. This is more salient in the U.S., as direct subsidies to households and individuals are higher in the U.S. than in Europe. Third, trade unions have grown more powerful in some countries. They have stronger bargaining power, demanding higher wages and better compensation.

**Global financial markets were more volatile.** The resurgence of COVID-19, the economic slowdown, and rising inflation have made investors more sensitive, leading to larger fluctuations in the capital markets. The major stock indices in the advanced economies began a downward correction in September and November 2021 and January 2022. In the meantime, driven by expectations of a monetary policy shift and growing risk aversion, the U.S. Dollar Index and the yields on U.S. Treasuries moved upwards. From end-August to end-December 2021, the U.S. Dollar Index rose from below 93 to near 96. The yield on 10-year U.S. Treasuries edged up from 1.3 percent to 1.52 percent and recently even further to above 2 percent, higher than the pre-COVID level at end-2019.

**Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies**

Economy	Indicator	Q4 2020			Q1 2021			Q2 2021			Q3 2021			Q4 2021		
		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	Real GDP Growth (annualized quarterly rate, %)	4.5			6.3			6.7			2.3			6.9		
	Unemployment Rate (%)	6.9	6.7	6.7	6.4	6.2	6.0	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9
	CPI (year-on-year, %)	1.2	1.2	1.4	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0
	DJ Industrial Average (end of the period)	26502	29639	30606	29983	30932	32982	33875	34529	34503	34935	35361	33844	35820	34484	36338

Euro Area	Real GDP Growth (year-on-year, %)	-4.4			-1.1			14.4			3.9			4.6		
	Unemployment Rate (%)	8.4	8.2	8.2	8.2	8.2	8.1	8.2	8.0	7.9	7.7	7.5	7.4	7.3	7.1	7.0
	HICP (year-on-year, %)	-0.3	-0.3	-0.3	0.9	0.9	1.3	1.6	2.0	1.9	2.2	3.0	3.4	4.1	4.9	5.0
	EURO STOXX 50 (end of the period)	2958	3493	3572	3481	3636	3919	3975	4039	4064	4089	4196	4048	4251	4063	4306
United Kingdom	Real GDP Growth (year-on year, %)	-6.4			-5.1			24.2			6.8			6.5		
	Unemployment Rate (%)	5.0	5.1	5.2	5.1	5.0	4.9	4.8	4.8	4.7	4.6	4.5	4.3	4.2	4.1	...
	CPI (year-on-year, %)	0.7	0.3	0.6	0.7	0.4	0.7	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4
	FTSE 100 (end of the period)	5577	6266	6461	6407	6483	6714	6970	7023	7037	7032	7120	7086	7238	7059	7385
Japan	Real GDP Growth (annualized quarterly rate, %)	9.6			-2.9			2.0			-3.6			...		
	Unemployment Rate (%)	3.1	3.0	3.0	2.9	2.9	2.6	2.8	3.0	2.9	2.8	2.8	2.8	2.7	2.8	2.7
	CPI (year-on-year, %)	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8
	NIKKEI 225 (end of the period)	22977	26434	27444	27663	28966	29179	28813	28860	28792	27284	28090	29453	28893	27822	28792

Sources: Statistical Bureaus and the Central Banks of the Relevant Economies.

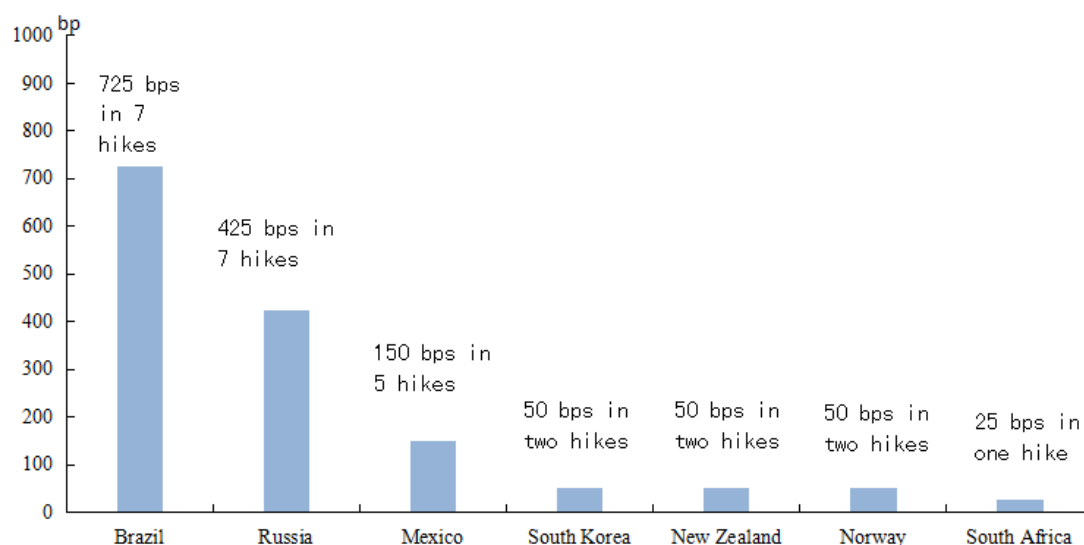
## 2. Monetary policies in the major economies

**The major advanced economies sped up their monetary policy shifts.** The Federal Reserve accelerated monetary policy tightening. It reduced asset purchases by USD15 billion in November and December 2021, and by USD30 billion per month starting from January 2022 (USD20 billion for Treasury securities and USD10 billion for agency mortgage-backed securities), bringing them to an end in March 2022. The Federal Reserve indicated in January 2022 that a rate hike would soon be appropriate and it would start to reduce the size of the balance sheet faster and more significantly than in the previous cycle after the first rate hike. The European Central Bank (ECB) announced in December 2021 that it would slow the pace of net purchases under the pandemic emergency purchase program (PEPP) and discontinue them at the end of March 2022. Its Governing Council decided to increase monthly net purchases from EUR20 billion to EUR40 billion in the second quarter of 2022 and to EUR30 billion in the third quarter under the asset purchase program (APP). From October 2022 onwards, it will maintain net asset purchases under the APP at a monthly pace of EUR20 billion and it expects net purchases to end shortly before raising the key interest rates. The Bank of England raised the rate by an unexpected 15 basis points (bps) to 0.25 percent in December 2021 and raised it further by 25 bps to 0.5 percent in February 2022. It also decided to start reducing its balance sheet. The Bank of Japan will end additional purchases of commercial paper and corporate bonds by end-March 2022 as scheduled to allow its holdings to gradually fall back to the pre-COVID level of about JPY5 trillion. Among other central banks, the Bank of Korea, the Reserve Bank of New

Zealand, and the Norges Bank all raised rates twice in 2021, each by a total of 50 bps. The Bank of Canada put an end to quantitative easing, while the Reserve Bank of Australia cut the size of bond purchases and exited yield curve control.

**Several emerging economies raised interest rates a number of times.** To address inflationary pressures, capital outflows, and currency depreciations, the major emerging economies hiked rates several times in 2021. The central banks of Brazil and Russia both increased their rates seven times by a total of 725 bps and 425 bps, respectively, the Bank of Mexico raised its rate five times by a total of 150 bps, and the South African Reserve Bank hiked its rate once by 25 bps.

**Figure 5 Interest Rate Hikes in 2021 by Central Banks in Several Economies**



### 3. Issues that merit attention

**COVID-19 remains a major variable in global economic and financial developments.** Given possible virus variants and the spread of Omicron in several places, the global path of COVID-19 is highly uncertain. In the short term, disruptions from COVID-19 will weigh down on the recovery of production and supply, which will slow down the global economic recovery. In the medium and long term, the persistence of COVID-19 will not only widen the gap among different economies, industries, businesses, and income groups but will also undermine human capital accumulation and labor supply, as some people may be forced to leave the labor force permanently due to limited access to education, leaving a scarring effect on long-term global growth.

**The macro policy shift in the major advanced economies is a huge external uncertainty in 2022.** On the monetary policy front, the central banks in most advanced economies have changed their policy stance. The Federal Reserve’s policy shift of “reducing bond purchases – raising interest rates – shrinking balance sheets” is clear

and its tightening statement exceeds market expectations. The Bank of England has successively hiked the rate twice, and the ECB has also announced that the pace of bond purchases would be slowed down. On the fiscal policy front, the IMF forecast that the fiscal deficit in the U.S., the euro area, Japan, and the UK would drop from 10.8 percent, 7.7 percent, 9.0 percent, and 11.9 percent in 2021 to 6.9 percent, 3.4 percent, 3.9 percent, and 5.6 percent in 2022, respectively. Marginal convergence has become a prominent feature in the countries' fiscal policies. It should be noted that global financial vulnerabilities have increased since the outbreak of COVID-19 amid rapidly rising asset prices and higher debts. Therefore, a policy exit in the advanced economies may not only trigger large asset-price corrections but also bring spillovers to the emerging economies through trade, capital flows, financial markets, and other channels. Properly addressing potential risks requires stronger international coordination.

**There remain disputes over how long high inflation will persist, and the de-anchoring of inflation expectations should be avoided.** The COVID-induced supply-chain bottlenecks and disruptions, the wage-price spiral caused by structural labor shortages, the rising commodity prices and their pass-through effects, and the ultra-loose monetary policy in the advanced economies have all contributed to a sharp increase in overseas inflation. How these factors will evolve and when their impact will recede remain highly uncertain. At present, inflation expectations in the advanced economies are still elevated even though inflationary pressures have already reached highs that have rarely been seen in years. Policy makers need to watch closely the risk of de-anchoring and prevent inflation from spreading.

## **II. Macroeconomic developments in China**

In 2021, though facing the changes unseen in a century, severe COVID-19 around the world and complex and complicated situations at home and abroad, China's economy sustained a steady recovery, new achievements were made in high-quality development, and the 14th Five-Year Plan achieved a good start. According to preliminary statistics, GDP in 2021 grew by 8.1 percent year on year to RMB114.3670 trillion on a comparable basis, and the average growth rate of GDP during the past two years was 5.1 percent. By quarters, GDP in Q1 grew by 18.3 percent year on year, while that in Q2, Q3, and Q4 grew by 7.9 percent, 4.9 percent, and 4.0 percent year on year, respectively.

### **1. Consumption and investments rebounded steadily, and imports and exports recorded rapid growth.**

The increase in residents' income kept pace with economic growth, and consumption

grew steadily. In 2021, the country's per capita disposable income reached RMB35128, increasing by 9.1 percent year on year in nominal terms, or 8.1 percent in real terms, with the average growth rate during the past two years at 5.1 percent. The structure of income distribution continuously improved, and the per capita income gap between urban and rural residents narrowed. According to the Urban Depositors' Survey conducted by the PBC in Q4, 24.7 percent of residents were inclined to "consume more," up 0.6 percentage points from Q3 and up 1.4 percentage points year on year, respectively. In 2021, total retail sales of consumer goods grew by 12.5 percent year on year, with the average growth rate during the past two years at 3.9 percent.

Investments grew steadily with an improved structure. In 2021, total fixed-asset investments throughout China (excluding those by rural households) increased by 4.9 percent year on year, with the average growth rate during the past two years registering 3.9 percent. In terms of sectors, investments in manufacturing increased by 13.5 percent, 8.6 percentage points higher than the growth of total investments, with the average growth rate during the past two years registering at 4.8 percent. Investments in real estate development increased by 4.4 percent, with the average growth rate during the past two years registering at 5.7 percent. Investments in infrastructure increased by 0.4 percent year on year, with the average growth rate during the past two years registering 0.3 percent. In terms of industries, investments in the high-tech industry grew by 17.1 percent year on year, 12.2 percentage points higher than the growth of total investments. Investments in health and education grew by 24.5 percent and 11.7 percent year on year, respectively.

Imports and exports expanded rapidly. In 2021, imports and exports of goods grew by 21.4 percent year on year. Specifically, exports grew by 21.2 percent year on year and imports grew by 21.5 percent year on year, with the trade surplus in goods posting RMB4.3687 trillion. The trade structure continued to improve, with the share of imports and exports under general trade increasing by 1.6 percentage points year on year. Exports of machinery and electronics increased by 20.4 percent year on year, accounting for 59 percent of total exports. Imports and exports to the countries along the Belt and Road and the RCEP (the Regional Comprehensive Economic Partnership) trading partners grew by 23.6 percent and 18.1 percent, respectively. Our trading partners are becoming more diversified.

Foreign direct investments (FDI) continued to gather in the high-tech industries. In 2021, actually utilized FDI increased by 14.9 percent year on year to RMB1149.36 billion (equivalent to USD173.48 billion), growing by 20.2 percent year on year (excluding investments in banking, securities, and the insurance industry). In terms of sectors, FDI continued to gather in the high-tech industries. In 2021, actually utilized FDI in the high-tech industry grew by 17.1 percent year on year. Specifically, actually



utilized FDI in the high-tech services industry grew by 19.2 percent year on year and actually utilized FDI in the high-tech manufacturing industry grew by 10.7 percent year on year.

## **2. Agricultural production saw a bumper harvest, industrial production continued to grow, and the service industry recovered steadily.**

In 2021, the value-added of the primary, secondary, and tertiary industries in the national economy grew by 7.1 percent, 8.2 percent, and 8.2 percent year on year, respectively, accounting for 7.3 percent, 39.4 percent, and 53.3 percent of GDP, respectively.

Agricultural production was favorable, and animal husbandry grew steadily. In 2021, the country's total grain output grew by 2.0 percent year on year, and annual output has been over 650 million tons for seven successive years. The output of summer grains, early season rice, and autumn grains all increased, solidifying the position of agriculture as a ballast stone. The output of pork, beef, lamb, and poultry grew by 16.3 percent year on year. The capacity of hog production was released rapidly, and at end-2021 hogs in stock and fertile sows in stock increased by 10.5 percent and 4.0 percent year on year, respectively.

Industrial production continued to grow, and the high-tech manufacturing sector and the equipment manufacturing sector saw rapid growth. In 2021, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 9.6 percent year on year, with the average growth rate during the past two years registering at 6.1 percent. Specifically, the value-added of the mining sector increased by 5.3 percent year on year. The manufacturing sector increased by 9.8 percent year on year. The electricity, heat, gas and water production, and supply sectors increased by 11.4 percent year on year. The industrial structure was continuously optimized. The value-added of the high-tech manufacturing sector and the equipment manufacturing sector increased by 18.2 percent and 12.9 percent year on year, which was 8.6 percentage points and 3.3 percentage points higher, respectively, than that of the IEDS. New energy cars, industrial robots, integrated circuits, and micro computer equipment grew by 145.6 percent, 44.9 percent, 33.3 percent, and 22.3 percent year on year, respectively.

Growth in the services industry recovered steadily, and the modern service industry showed sound growth momentum. Specifically, the value-added of electronic information transmission/software/information technology services, accommodation/catering services, and transportation/storage/post services maintained recovery and grew by 17.2 percent, 14.5 percent, and 12.1 percent year on year, respectively. In 2021, the Index of Service Production (ISP) increased by 13.1 percent

year on year, with the average growth rate registering at 6.0 percent during the past two years. In December, the Business Activities Index for the services industry reached 52 percent, 0.9 percentage points higher than that in November.

### **3. Consumer prices increased moderately, and producer prices receded from their previous high level.**

Consumer prices increased moderately. Affected by the continued recovery of hog production, the relatively weak aggregate demand under COVID-19, and the high base effect, in 2021, the CPI increased by 0.9 percent year on year, down 1.6 percentage points from that in 2020. The CPI in October, November, and December rose by 1.5 percent, 2.3 percent, and 1.5 percent year on year, respectively. The main drivers of the CPI moderately increased. Food prices dropped by 1.4 percent for the whole year, decelerating by 12 percentage points from 2020. Non-food prices increased 1.4 percent for the whole year, accelerating by 1 percentage point from 2020. The core CPI (food and energy excluded) rose moderately by 0.8 percent year on year, on par with the previous year.

Producer prices witnessed a remarkable rise. Due to the tight supply of global energy and raw materials, the prices of major commodities soared in 2021, driving the domestic Producer Prices Index (PPI) to surge. The PPI increased 8.1 percent year on year, accelerating by 9.9 percentage points from that in 2020. During the three months of Q4, the PPI increased 13.5 percent, 12.9 percent, and 10.3 percent year on year, respectively, representing a downward trend from the peak. The Purchasing Price Index for Industrial Products (PPIRM) increased by 11 percent year on year, accelerating by 13.3 percentage points from 2020.

### **4. Fiscal revenue grew rapidly, and expenditures rose steadily.**

Fiscal revenue grew rapidly. In 2021, revenue in the national general public budget posted RMB20.25 trillion, an increase of 10.7 percent and 6.4 percent in comparison with that in 2020 and 2019, respectively. Specifically, tax revenue amounted to RMB17.27 trillion, up 11.9 percent year on year. Non-tax revenue registered RMB2.98 trillion, up 4.2 percent year on year. The domestic value-added tax and domestic consumption tax rose by 11.8 percent and 15.4 percent year on year, respectively. The business income tax went up by 15.4 percent year on year, and the personal income tax grew by 21 percent year on year.

In 2021, expenditures in the national general budget saw an increase of 0.3 percent year on year to RMB24.63 trillion. In terms of the expenditure structure, expenditures related to science and technology, education, social security, and employment grew quickly, registering year-on-year growth of 7.2 percent, 3.5 percent, and 3.4 percent, respectively.

## **5. The employment situation remained generally stable.**

The surveyed urban unemployment rate declined. In 2021, 12.69 million people were newly employed, up 0.83 million from 2020. The national surveyed urban unemployment rate averaged 5.1 percent, lower than the macro-management target of 5.5 percent, registering a decrease of 0.5 percentage points year on year. The job market for major groups improved. The number of rural migrants in 2021 registered 292.51 million, up 6.91 million from end-2020, recovering to the level in end-2019. In 2021, the average monthly income of rural migrants increased by 8.8 percent year on year to RMB4,432.

## **6. The balance of payments and external debt.**

A basic equilibrium was maintained in China's balance of payments. According to preliminary statistics, in 2021 China's current account surplus registered USD315.7 billion, accounting for 1.8 percent of GDP, continuously remaining within a reasonable range. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD554.5 billion, an increase of 8 percent year on year, whereas the deficit in trade in services recorded a deficit of USD97.7 billion, down 33 percent year on year. In the capital and financial account, direct investments recorded a surplus of USD204.8 billion, and reserve assets increased USD188.6 billion. By the end of 2021, foreign exchange reserves registered USD3.2502 trillion, up USD33.6 billion from end-2020. At end-Q3 2021, the scale of China's foreign debt remained stable with a slight increase. At end-September 2021, the balance in the all-system foreign debt (denominated in both domestic and foreign currencies) posted USD2.6965 trillion, up USD16.7 billion from end-June or an increase of 0.6 percent. The increase in foreign debt was mainly due to the additional allocation of Special Drawing Rights (SDR) to the central bank and the increase in foreign investors holding domestic RMB bonds. The term structure of foreign debt was continuously optimized. At end-September 2021, medium- and long-term foreign debt accounted for 47 percent of all foreign debt, up 3 percentage points from that at end-June, further enhancing the stability of China's foreign debt structure.

## **7. Analysis by sector**

### **7.1 The real estate sector**

In 2021, the real estate market in China remained generally stable. In December, among 70 medium and large-sized cities nationwide, newly built residential housing prices increased by 2.0 percent year on year, decelerating by 1.7 percentage points from 2020. Second-hand residential housing prices increased by 1.0 percent year on year, decelerating by 1.1 percentage points from the previous year. In 2021, total floor area of sold units increased by 1.9 percent year on year, registering an average growth of 2.3 percent during the past two years. Housing sales increased by 4.8 percent year on year,

registering an average growth of 6.7 percent during the past two years. Investments in real estate development grew by 4.4 percent year on year, registering an average growth of 5.7 percent during the past two years. Specifically, investments in residential housing development rose by 6.4 percent year on year, registering an average growth of 7.0 percent during the past two years and accounting for 75.3 percent of total investments in real estate development.

**Table 14 Floor Area of Real Estate Projects that were Newly Started, under Construction, and Completed in 2021**

	Floor area (100 million square meters)	YOY growth (%)	YOY acceleration (percentage points)
Floor area of newly started real estate projects	19.9	-11.4	-10.2
Floor area of real estate projects under construction	97.5	5.2	1.5
Floor area of completed real estate projects	10.1	11.2	16.1

Source: National Bureau of Statistics of China.

On the whole, growth of real estate loans remained stable. At end-2021, outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) grew by 7.9 percent year on year to RMB52.2 trillion, a deceleration of 3.7 percentage points from end-2020. Specifically, outstanding individual housing loans grew by 11.3 percent year on year to RMB38.3 trillion, a deceleration of 3.3 percentage points from end-2020. Outstanding housing development loans grew by 0.5 percent year on year to RMB9.1 trillion, a deceleration of 7.7 percentage points from end-2020.

## **7.2 The automobile industry**

In 2021, the automobile industry in China rose to the challenges triggered by COVID-19 and the supply-chain shocks such as the chip shortage. In general, the automobile industry operated smoothly with the following characteristics. First, both production and sales maintained steady growth. In 2021, the volume of automobile production and sales reached 26.082 million and 26.275 million, respectively, increasing by 3.4 percent and 3.8 percent year on year, respectively. Second, profitability remained relatively stable. According to the National Bureau of Statistics of China, in 2021 revenue in the automobile manufacturing industry rose by 6.7 percent year on year. Total profits, even with the increased raw material prices, still expanded by 1.9 percent. Third, the rapid growth in automobile exports continued. In 2021, a total of 2.015 million automobiles were exported, a rise of 101.1 percent from 2020. Fourth, production and sales of new

energy vehicles surged. In 2021, the volume of new energy vehicle production and sales both increased by 160 percent year on year to 3.545 million and 3.521 million, respectively, accounting for 13.4 percent of market share.

However, as COVID-19 resurged globally and repeatedly, chip shortages posed a significant threat to production chains in the automobile industry in the following respects. First, affected by the COVID-19 disruption and several events in chip production areas such as the earthquake in Japan and the blizzard in Texas, major chip producers in the world faced reduced production to varying degrees or even halted production. Even though some producers, including the Taiwan Semiconductor Manufacturing Company, announced plans to expand production, it still took time for the extra chips to be manufactured. Second, a variety of chips is needed for a finished automobile. Although manufacturers proactively purchased chips, there were serious structural mismatches in the various chips required for automobile manufacturing. Third, development of the stay-at-home economy sped up against the backdrop of COVID-19, so the demand for chips for electronics and smart products grew. This squeezed some production capacity of automotive chips to deliver lower profits. The chip shortage is forecast to likely last until the second half of 2022.

Coupled with the said issues, China's automobile industry faces some other challenges in the "14th Five-Year Plan" period. For one thing, the new energy technology is yet to be mature, so the green and low-carbon transition faces great pressures. The costs for a finished new energy vehicle are still too high. The industry faces problems such as a lack of security, practicability, and facility in its overall development as well as a shortage of raw materials, such as lithium, cobalt, and nickel. While carbon emissions are remarkably lower from driving electric vehicles, they remain high in the production process. For another, the trade of automobiles lacks efficiency. There are still noticeable disparities between mature international automobile markets and China's automobile markets, including the markets of new automobiles, second-hand automobiles, scrapped automobiles, and the automobile aftermarket. According to the statistics of Verband der Automobilindustrie (VDA), in 2021 the ratio of the volume of second-hand automobile trade to that of new automobile trade in China was only one-sixth of that in the U.S.

The automobile industry is one of the pillars of the economy and because its carbon emissions account for 7.5 percent of total carbon emissions in China, it remains a focus for achieving the carbon emissions peak before 2030 and carbon neutrality before 2060. Moving forward, following the *Mid-to Long-term Development Plan for the Automobile Industry* and the *Development Plan for the New Energy Vehicle Industry (2021-2035)*, China's automobile industry will develop in a high-quality and sustainable manner with the following measures. First, the supply-chain system will be

built, improved, and elevated to shore up the weak link in chips. Technology, as the key, will be emphasized. The country will hasten the pace of researching and developing critical technologies such as automotive chips, and it will guide enterprises to upgrade their supply-chain arrangements to enhance stability, security, and competitiveness. Second, research and development for new energy technology will accelerate with coordinated arrangements for carbon emissions reductions in all links. More resources will be channeled to researching and developing core technologies like fuel cells and intelligent connected vehicles. Also, the supply of raw materials as well as new materials and appliances will be secured further. The development and application of new materials and devices will be improved. Third, China will pick up speed in boosting intelligent manufacturing, diversifying transportation services, greening the life cycle of automobile products, and building a new ecological system for the automobile industry characterized by full connectedness, good coordination, high efficiency, situational awareness, and intelligent decisions.

## **Part 5. Monetary Policy Outlook**

### **I. Outlook for the Chinese economy**

The year 2021 is a milestone in the history of China and the Communist Party of China (CPC). We celebrated the 100th anniversary of the CPC, accomplished the first Centennial Goal, and started the march toward our second centenary. Facing COVID-19, changes unseen in a century as well as complex domestic and global situations, China maintained a leading status in both economic growth and COVID-19 control under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core. GDP in China in 2021 recorded year-on-year growth of 8.1 percent, contributing about 25 percent to global economic growth. Per capita GDP reached USD12,500. In addition, the CPI grew 0.9 percent year on year, and the newly-employed urban population reached 12.69 million, achieving an optimized combination of relatively high growth, low inflation, and high employment. With new progress in high-quality development, the 14th Five-Year Plan opened to a good start.

**The Chinese economy recovered and stabilized in Q4 2021. GDP grew 4.0 percent year on year, averaging 5.2 percent for the past two years and rising 0.3 percentage points from Q3.** Agriculture in Q4 maintained rapid growth, the industrial sector continued to grow, and the service sector steadily recovered. Residential income was basically in line with economic growth, and consumption potential continued to accumulate. The structure of fixed-asset investments improved, while manufacturing and high-tech industries were a prominent force driving investment. Exports witnessed strong momentum and a growing share of the global market. Employment was stable

overall, and support for the people's livelihood was effective. The sound monetary policy was flexible, targeted, reasonable, and appropriate. Priority was given to inter-temporal adjustments and cross-year policy arrangements. Monetary policy was more forward-looking, stable, targeted, effective, and independent. Money and credit maintained steady growth. Rates on corporate loans were the lowest since the reform and opening-up was introduced more than forty years ago. The financial sector continued to provide solid support for the real economy. Meanwhile, a deluge of strong stimulus was avoided, and the macro leverage ratio dropped for a fifth consecutive quarter. The RMB exchange rate remained basically stable at an adaptive and equilibrium level, playing the role of an auto stabilizer for the macro economy and the balance of payments.

**However, it should be noted that the Chinese economy is facing combined pressures from shrinking demand, supply shocks, and waning expectations, and the external environment is becoming more serious and complex with increased uncertainties.** COVID-19, inflation, and the policy adjustments of the advanced economies are the three major sources of uncertainty. The Omicron variant spread rapidly in Europe, America, and other countries. The highest number of daily global cases approached four million. The IMF and the World Bank lowered growth projections for 2022 as the global economic outlook became uncertain. Inflation is rising in the major advanced economies, and supply bottlenecks have not been resolved. As the Federal Reserve expressed that it would raise interest rates and shrink its balance sheet, the market expects a faster tightening of its policy, thereby increasing the risks related to global capital flows and financial market adjustments. The domestic economy faces downward pressures as COVID-19 unfolds with uncertainty and therefore suppresses consumption. In addition, investments in some sectors have not bottomed out, and there are medium-to long-term challenges including slower potential economic growth and population growth, and the low-carbon transition. In response, it is necessary to remain confident while being aware of the difficulties. The fundamentals for long-term steady growth are unchanged, and the favorable conditions for building a new development paradigm are unchanged. Therefore, the PBC will focus on fulfilling its responsibilities to achieve high-quality development.

**Inflation pressures are generally controllable.** The CPI in 2021 averaged 0.9 percent. Its average range in the next stage will likely rise moderately from the past year and continue to fit within a reasonable range. Meanwhile, year-on-year PPI growth dropped after a temporary surge. The global supply-demand gap will likely close up in the coming stage. Combined with a gradually emerging high-base effect, PPI growth in 2022 is expected to continue to decline. Overall, supply and demand in the Chinese economy are basically stable. The PBC is carrying out a normal monetary policy, which will help price movements to remain stable for the medium and long term.

## **II. Outlook for monetary policy in the next stage**

In the next stage, continuing to follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBC will implement the guidelines made at the 19th CPC National Congress, the plenary sessions of the 19th CPC Central Committee, and the Central Economic Work Conference. In line with the decisions and arrangements of the CPC Central Committee and the State Council, it will apply the new development philosophy fully, faithfully, and comprehensively, deepen the supply-side structural reform, accelerate the building of a new development paradigm, build a modern central banking system, improve the modern monetary policy framework, and promote high-quality development. Adhering to the principle of giving top priority to stability while pursuing progress, the PBC will take active measures to implement the guidelines of the Central Economic Work Conference. It will step up financial support for the real economy and continue to do its part well in ensuring stability on six fronts, namely, employment, the financial sector, foreign trade, foreign investment, domestic investment, and expectations, and in maintaining security in six areas, namely, employment, people's basic livelihood, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments. Striving to maintain macroeconomic stability, the PBC will create a favorable monetary and financial environment to keep economic indicators within a reasonable range and to gear up for the opening of the 20th CPC National Congress.

The PBC will pursue a sound monetary policy that is flexible and appropriate, strengthen intertemporal adjustments, and give proper play to the dual role of monetary policy tools in both aggregate and structural terms. Placing emphasis on the adequacy, targetedness, and foresightedness of policy measures, it will meet the reasonable and bona fide financing demands of the real economy while refraining from adopting a deluge of strong stimulus measures, and it will focus on stepping up financial support for key fields and weak links to achieve both stable aggregates and an optimal structure. The first aim is to maintain stable growth in monetary and credit aggregates. The PBC will improve the mechanism for money supply management, keep liquidity adequate at a reasonable level, guide financial institutions to vigorously increase credit supply, and make the growth of credit aggregates more stable. With these efforts, it is expected that the growth rates of money supply and aggregate financing to the real economy (AFRE) will continue to be basically in line with nominal economic growth and that the macro leverage ratio will remain basically stable. The second aim is to steadily optimize the credit structure. Structural monetary policy tools will be used actively to provide additional support as needed. The PBC will put into operation the market-oriented policy tools supporting micro and small businesses (MSBs), and it will make effective use of the Carbon Emissions Reduction Facility as well as targeted central bank lending for clean and efficient use of coal. Financial institutions will be guided to ramp up credit



supply to regions with slow credit growth and to intensify targeted support for MSBs, sci-tech innovation, green development, and other key fields as well as weak links. The third aim is to bring down the overall financing costs for businesses. The PBC will enhance the market-oriented interest rate formation and transmission mechanism by tapping into the loan prime rate (LPR) reform, stabilizing bank liability costs, and guiding loan rates for businesses to move downwards. The fourth aim is to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Focusing on domestic conditions and based on market supply and demand, the PBC will enhance RMB exchange rate flexibility and bring into play the role of the exchange rate in macroeconomic management and as an automatic stabilizer for the balance of payments. It will strengthen macro-prudential management of cross-border capital flows, stress expectation management, guide market entities to be risk-neutral, and properly balance internal and external equilibria. In the meantime, the PBC will uphold bottom-line thinking, enhance systemic awareness, and make coordinated efforts to forestall and defuse major financial risks based on market principles and the rule of law.

**First, the PBC will maintain reasonable growth in money and credit.** It will keep a close watch on marginal changes in the economic and financial situations at home and abroad while reinforcing monitoring and analysis of uncertainties, such as fiscal revenue and expenditures, issuances of government bonds, cash injections and withdrawals, and monetary policy adjustments made by the major economies. A mix of monetary policy tools will be used to keep liquidity adequate at a reasonable level and to guide market rates to move around the policy rates. The PBC will improve the mechanism for money supply management, continue to ease liquidity, capital, and interest rate constraints on bank credit supply, cultivate and stimulate credit demand from the real economy, guide financial institutions to vigorously increase credit supply, and make the growth of credit aggregates more stable so that the growth rates of money supply and the AFRE will be basically in line with nominal economic growth. It will improve the mechanism for sustainable capital replenishment by replenishing capital for commercial banks through multiple channels and stepping up support for small and medium-sized banks in their issuance of perpetual bonds and other capital replenishment instruments, thereby improving the capacity of banks to serve the real economy and to forestall and defuse financial risks.

**Second, the PBC will continue to bring into play the guiding role of structural monetary policy tools.** It will keep central bank lending and discount policies stable to carry on inclusive and sustained funding support for agro-related businesses, MSBs, and private enterprises while guiding financial institutions to increase credit supply to regions with slow credit growth. The PBC will implement the arrangements for the conversion of the two monetary policy tools providing direct support for the real economy, intensify financial support for MSBs, and make continued efforts to increase

the volume, lower the prices, and expand the coverage of inclusive loans to MSBs so that they can play a bigger role in stabilizing businesses and safeguarding employment. Effective steps will be taken to put into operation the Carbon Emissions Reduction Facility as well as targeted central bank lending for clean and efficient use of coal. Eligible financial institutions will be encouraged to lend at preferential interest rates to key projects that significantly reduce carbon emissions. Moreover, the PBC will support clean and efficient use of coal as well as coal-fired power and will promote the transition to a green and low-carbon economy while ensuring a secure energy supply.

**Third, the PBC will build the systems and mechanisms needed to provide effective financial support for the real economy.** It will strengthen capacity building to improve financial services for micro, small, and medium-sized enterprises (MSMEs) and will guide financial institutions to continue ramping up their issuances of first-time loans, renewed loans and unsecured loans, aiming to set up a long-term mechanism whereby banks will have the confidence, willingness, ability, and professionalism to provide loans. It will increase the availability of supply-chain financing to MSMEs and improve the supporting mechanisms for MSME financing. With more work to be done to consolidate and expand the achievements in poverty eradication, the PBC will promote financial support for the development of the seed industry, new types of agribusinesses, agricultural and rural infrastructure development, and other key fields, and it will guide financial institutions to come up with innovative services and products in order to better meet the diversified financing needs of agro-related businesses. Firmly adhering to the principle that housing is for living in, not for speculation, and that the real estate market shall not be used to provide a short-term stimulus to the economy, the PBC will remain committed to stabilizing land prices, housing prices, and expectations and to implementing the regulations on prudential management of real estate finance. It will increase financial support for the rental of housing, protect the legitimate rights and interests of consumers in the market, better meet the reasonable housing needs of home buyers, and promote the healthy development of the real estate market to foster a virtuous circle.

**Fourth, the PBC will deepen the market-oriented interest rate and exchange rate reforms to smooth the channels of monetary policy transmission.** It will enhance the market-oriented interest rate formation and transmission mechanism by improving the central bank policy rate system and guiding market rates to move around the policy rates. The PBC will tap into the LPR reform and give full play to its role in optimizing resource allocations. It will push financial institutions by market means to allocate more financial resources to MSBs so that competition will rise in the MSB loan market and the overall financing costs for MSBs will stabilize and fall. By encouraging the implementation of measures to improve the oversight of deposit rates, the PBC will regulate competition in the deposit market, stabilize bank liability costs, guide loan

rates for businesses to move downwards, and be committed to reducing the overall financing costs for businesses. Taking steady steps to deepen the market-oriented exchange rate reform, the PBC will improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, enhance the RMB exchange rate flexibility, and bring into play the role of the exchange rate in macroeconomic management and as an automatic stabilizer for the balance of payments. Furthermore, it will strengthen expectation management and keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBC will continue to develop the foreign exchange market. Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing services of exchange rate risk hedging for the MSMEs with authentic needs based on a risk-neutral concept, on reducing the costs of exchange rate risk hedging for the MSMEs, and on strengthening risk management of their foreign exchange businesses, thereby maintaining the stable and sound development of the foreign exchange market. The PBC will continue to advance RMB internationalization stably and prudently by further expanding use of the RMB in cross-border trade and investment, deepening international monetary cooperation, and developing offshore RMB markets. In addition, it will conduct pilot projects for the high-quality opening-up of cross-border trade and investment, further liberalize and facilitate cross-border trade and investment, and steadily move ahead with the convertibility of the RMB under the capital account.

**Fifth, the PBC will make continued efforts to deepen financial reform, and it will accelerate steps to move ahead with financial market institutional building.**

Focusing on strengthening corporate governance, it will deepen the reform of large commercial banks and establish a modern financial enterprise system with Chinese characteristics. The reform of development financial institutions and policy financial institutions will continue, whereby they will be required to carry out category-based management of businesses and separate accounting, to strengthen capital constraints as well as risk management, to enhance incentives, and to fulfill their responsibilities. In this way, they will better play their roles in serving the real economy and supporting national strategies. The PBC will optimize the administrative framework for the issuance of financial bonds and steadily promote the higher-quality opening-up of the bond market. It will also enhance the efficiency and interconnectivity of the multi-tiered market system and cultivate diversified and qualified investors. More work will be done to improve the legal system for the bond market, to tighten requirements for information disclosures, and to strengthen regulation over intermediary institutions. Meanwhile, the PBC will act in a timely way to forestall and defuse bond market risks. Based on market principles and the rule of law, it will see to it that all concerned parties fulfill their responsibilities. It will continue to put into practice the newly formed mechanisms for bond default resolution, improve the mechanism for unified law enforcement, and crack down on illegal and irregular conduct in the bond market.

**Sixth, the PBC will improve the systems of financial risk prevention, early warning, resolution, and accountability, and it will build a long-term mechanism to forestall and defuse financial risks.** Further steps will be taken to improve the macro-prudential management system as well as the capacity for systemic risk monitoring, assessment, and early warning. The PBC will strengthen regulation over systemically important financial institutions and will pick up pace in pushing China's global systemically important banks to establish a sound long-term mechanism for the management of total loss-absorbing capacity and to effectively enhance their risk prevention abilities. It will give further play to the role of deposit insurance as a platform for market-oriented resolution while exploring a number of market-oriented and law-based approaches to support small and medium-sized banks in defusing risks and replenishing capital. The PBC will accelerate its work to improve the system of modern financial regulations, act quickly to shore up the weaknesses in the regulatory framework, and strengthen regulation over financial holding companies. Continuing to follow the principles of "maintaining overall stability, making coordinated efforts, taking different approaches based on different conditions, and defusing bombs with precision," it will resolve the risks of institutions of concern in a prudent and orderly manner, improve regulatory coordination, and contain any possible resurgence of risks. The PBC will work to ensure that all concerned parties fulfill their respective responsibilities, and it will promote a mechanism for fiscal and financial risk resolution led by major local officials in order to join efforts in risk resolution. It will also improve the mechanism for financial risk accountability to hold to account those responsible for major financial risks and to effectively prevent moral hazards.