China Monetary Policy Report

Q1 2022

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2022, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, regions across China and all government departments and agencies coordinated COVID-19 containment and social and economic development amid profound changes unseen in a century, which were compounded by the pandemic. The national economy had a smooth start to the year with the GDP and the CPI registering year-on-year growth of 4.8 percent and 1.1 percent, respectively, in Q1. 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. Seeking progress while ensuring stability, with the latter as a top priority, the PBC pursued a sound monetary policy, which was flexible and appropriate, and it introduced policies in a proactive way, thereby helping to maintain the stability of the national economy.

First, liquidity was kept adequate at a reasonable level. On April 15, the PBC announced a required reserve ratio (RRR) cut by 0.25 percentage points for financial institutions, which released about RMB530 billion of long-term liquidity. In the first four months, the PBC acted proactively and turned over its accumulated profits in the amount of RMB600 billion to the central government, which could be equal to an injection of base money of the same amount. In Q1, the PBC injected RMB400 billion of long-term liquidity in the market through the Medium-term Lending Facility (MLF) operations. Those moves were to guide financial institutions to make appropriate arrangements for loan issuances and enhance the stability of the aggregate credit growth. **Second,** monetary policy instruments were given full play in adjusting both the aggregate and the structure. The PBC made full use of the facilities supporting inclusive micro and small business (MSB) loans, increased central bank lending for agro-related businesses and MSBs, and ensured good use of the carbon emission reduction facility (CERF). In addition, it launched two new central bank lending facilities, one in the amount of RMB200 billion for sci-tech innovation and the other in the amount of RMB40 billion for inclusive elderly care services, and it provided an additional RMB100 billion quota for the central bank lending supporting coal development and utilization as well as reserve capacity enhancement. Multiple measures were rolled out to support coordinated development across regions. **Third,** the overall financing costs for businesses were guided to remain stable with a slight decline. In January, with the rates on 1-year MLF operations and 7-day open market operations (OMOs) both dropping 10 basis points (bps), the one-year and above-five-year loan prime rates (LPR) declined 10 bps and 5 bps, respectively, due to the effect of the LPR reform. Financial institutions were thus guided to forgo some profits to benefit the real economy. **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 macroeconomic management and as an auto stabilizer for the balance of payments. **Fifth,** important achievements were made in forestalling and defusing financial risks. The PBC upheld market principles and the rule of law for risk resolution, and financial risks were generally contained.

Overall, since the beginning of 2022, the monetary policy has been more forward-looking, precise, and independent backed by proactive measures, and the financial sector has been improving the quality and efficiency of its services for the real economy. In Q1, new RMB loans reached RMB8.3 trillion, RMB663.6 billion more than the growth during the same period of last year. At end-March, broad money (M2) and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 9.7 percent and 10.6 percent, respectively, an acceleration of 0.7 and 0.3 percentage points from end-2021. Key areas and weak links, such as sci-tech innovation, green development, and MSBs, received more support from the financial sector. At end-March, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 24.6 percent and 29.5 percent year on year, respectively. In Q1, the weighted average rate on corporate loans registered 4.4 percent, down 0.21 percentage points from 2021. 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 6.3482 at end-March, an appreciation of 0.4 percent from end-2021.

Recently, as risks and challenges rise due to COVID-19 and the Ukraine crisis, the environment for China's economic development has become more complex and severe, with greater uncertainties. However, it should also be noted that our development still enjoys a fairly large number of strategic advantages, such as a large-scale economy, ample room for policy adjustments, high resilience, and an enormous market. Therefore, the fundamentals for sound growth over the long run remain unchanged. 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 as well as the requirements set forth in the *Report on the Work of the Government*. Following the decisions and arrangements of the CPC

Central Committee and the State Council, the PBC will pursue progress while ensuring stability and take stability as its top priority. Applying the new development philosophy fully, faithfully, and comprehensively, it will speed up the building of a new development paradigm. It will work to ensure stability of growth, employment, and prices while deepening the supply-side structural reform. Meanwhile, it will develop a modern central banking system and improve the modern monetary policy framework. With these efforts, it will contribute to high-quality development and maintain macroeconomic stability.

The sound monetary policy will provide more support for the real economy. Giving top priority to stability, the PBC will take proactive measures to boost market confidence. With proper intertemporal adjustments, it will give play to the role of monetary policy instruments in adjusting both the aggregate and the structure. It will resolutely refrain from launching a deluge of strong stimulus policies. Financial policies and measures will be implemented to stabilize businesses and secure employment, and support will be focused on MSBs and COVID-stricken industries and vulnerable populations. Using a mix of monetary policy instruments, the PBC will see to it that the liquidity is adequate at a reasonable level, the credit aggregate grows at a steadier pace, the growths of M2 and the AFRE are basically in line with that of nominal GDP, and the macro leverage ratio is basically stable. The structural monetary policy tools are expected to play a supportive role in guiding financial institutions toward proper loan making and channeling more financial resources to key areas, weak links, as well as those businesses and industries that have been hit hard by COVID-19. An additional quota will be provided for central bank lending supporting agro-related businesses and MSBs when appropriate. The facilities supporting inclusive MSB loans, the central bank lending for sci-tech innovation and the special central bank lending for inclusive elderly care services will play their due roles, as will the CERF and the special central bank lending targeted for clean and efficient coal use. The PBC will improve the market-oriented interest rate formation and transmission mechanism and optimize the central bank policy rate system. While enhancing regulation over deposit rates, the PBC will ensure that the mechanism for market-oriented deposit rate adjustments plays an important role and contributes to stabilizing the liability costs for banks. The overall financing costs for business are expected to be brought down with the LPR reform continuing to unleash its potential. The PBC will keep a close watch on price movements and will support the production and supply of grains and energies so as to maintain overall price stability. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBC will strengthen macro-prudential management for cross-border capital flows, enhance expectation management, and guide market entities to be risk-neutral. With the smooth operation of the foreign exchange market, the RMB exchange rate will be kept basically stable at an adaptive and equilibrium level. While paying close attention to monetary policy shifts in the major advanced economies, the PBC will focus on domestic issues while properly balancing the internal and external equilibria. It will coordinate the efforts to prevent and resolve major financial risks and firmly defend the bottom line whereby no systemic risk will occur by improving the holistic approach and following market principles and the rule of law. With great efforts to stabilize the macro economy and to keep economic performance within a reasonable range, the PBC will set the stage for the 20th CPC National Congress.

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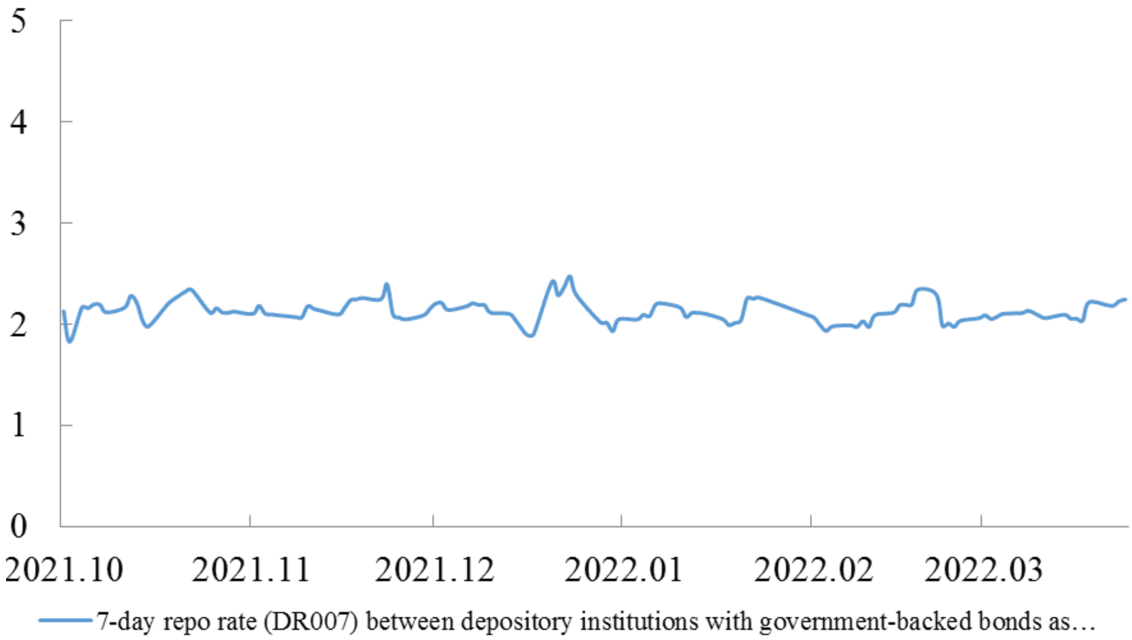
Since the beginning of 2022, the PBC has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and has implemented the guidelines of the 19th National Congress of the Communist Party of China (CPC), all plenary sessions of the 19th CPC Central Committee and the Central Economic Work Conference, and the requirements set forth in the *Report on the Work of the Government*. It has kept its sound monetary policy flexible and appropriate, and it has given full play to both aggregate and structural monetary policy instruments. Money, credit, and aggregate financing to the real economy (AFRE) have grown reasonably, the credit structure has improved continuously, and overall financing costs have steadily declined, with financial support for the real economy continuously enhanced.

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

Since the beginning of 2022, the PBC has given top priority to the stability of monetary policy, made progress while maintaining stability, and taken quick measures at an early stage based on developments of the macro situations. It has adopted a mix of tools, such as the required reserve ratio (RRR) cut, turning over profits, the Medium-term Lending Facility (MLF), central bank lending and discounts, and open market operations (OMOs) to provide liquidity. It has also managed the intensity and pace of OMOs in a flexible manner and has kept liquidity in the banking system adequate at a reasonable level. In January 2022, the PBC guided both OMO rates and MLF rates to go down by ten basis points. Short-term interest rates in the money market floated around the OMO rates with a further decline in its volatility, which provided proper liquidity for stabilizing the macro economy and keeping the economic indicators within a reasonable range. At end-March 2022, the excess reserve ratio of financial institutions registered 1.7 percent, up 0.1 percentage points year on year.

Figure 1 Movement of Money Market Interest Rates



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

II. Lending by financial institutions grew moderately, and loan interest rates decreased further

Stability of total credit growth was enhanced. In response to the implications of uncertainties at home and abroad, the PBC took proactive and quick measures at an early stage. It guided financial institutions to grant loans in a reasonable manner, facilitating a year-on-year acceleration of loans in Q1 2022 and thereby providing a robust back for stabilizing the macro economy. At end-March, outstanding loans issued by financial institutions in domestic and foreign currencies grew 11.0 percent year on year to RMB207.0 trillion, an increase of RMB8.5 trillion from the beginning of 2022, or a year-on-year acceleration of RMB466.3 billion. Outstanding RMB-denominated loans grew 11.4 percent year on year to RMB201.0 trillion, up RMB8.3 trillion from the beginning of 2022, or a year-on-year acceleration of RMB663.6 billion.

The credit structure improved continuously. At end-March, medium and long-term loans to enterprises and public entities grew by RMB3.9 trillion from the beginning of the year, accounting for 55.8 percent of total corporate loans. The year-on-year（YOY）growth of medium and long-term loans to the manufacturing sector registered 29.5 percent, 18.1 percentage points higher than the growth of total loans. Outstanding inclusive loans to micro and small businesses (MSBs) grew by 24.6 percent year on year to RMB20.8 trillion. These loans supported 50.39 million MSBs, a rise of 42.9 percent year on year.

Table 1 The Structure of RMB Loans in Q1 2022

Unit: RMB100 million

	Outstanding amount at end-March	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	2010111	11.4%	83355	6637
Households	723597	10.1%	12599	-13020
Enterprises and public entities	1275123	12.1%	70797	17267
Non-banking financial institutions	4194	38.0%	-81	2001
Overseas	7197	25.2%	40	389

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 Q1 2022

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks [1]	43401	11341
Chinese-funded small and medium-sized banks[2]	40236	-1018
Small-sized rural financial institutions[3]	11904	-81
Foreign-funded financial institutions	405	-629

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 1 Remarkable Progress in Improving the Modern Monetary Policy Framework

Improving the modern monetary policy framework is an important part of building a modern central banking system. It serves as an institutional base for implementing the sound monetary policy well and for conducting an intertemporal policy design, and it also satisfies the intrinsic need to promote high-quality development. In recent years, improvements in the modern monetary policy framework have made remarkable progress. According to the arrangements of the CPC Central Committee and the State Council, the PBC has improved the mechanism for money supply management, enhanced the market-oriented interest rate formation and transmission mechanism, innovated and expanded the system of monetary policy instruments, and optimized the RMB exchange rate formation mechanism.

First, the mechanism for money supply management has been improved. According to the guidelines of the Central Economic Work Conference and the requirements set forth in the *Report on the Work of the Government*, growth of broad money (M2) and outstanding AFRE should match the nominal economic growth. The PBC has precisely identified banks as the direct subject of money supply, and it has improved the mechanism for money supply management by bringing into shape long-term mechanisms for liquidity, capital, and interest rate constraints. It comprehensively utilizes a wide array of monetary policy instruments to keep liquidity adequate at a reasonable level and to alleviate liquidity constraints. From 2018 to 2021, the average growth of M2 in China was 9 percent. The PBC has seen perpetual bonds as a breakthrough in motivating banks to replenish capital via multiple channels so as to ease capital constraints. In January 2019, the first perpetual bond of the banking sector was issued. As of end-March 2022, banks have cumulatively issued RMB1.8915 trillion worth of perpetual bonds, motivating banks to issue loans of approximately RMB10 trillion. Overall corporate financing costs have dropped steadily, which has eased interest rate constraints. The weighted average interest rate on loans to enterprises gradually declined to 4.36 percent in March 2022, a record low since statistics became available. From 2018 to 2021, the average growth of M2 was virtually on par with the nominal GDP growth of 8.3 percent over the same period. This has contributed to the long-term optimized combination of economic growth, price stability, and full employment.

Second, the market-oriented interest rate formation and transmission mechanism has been enhanced. In line with the arrangements of the CPC Central Committee and the State Council, in August 2019 the PBC released a notice on the reform and improvement of the loan prime rate (LPR) formation mechanism. The reformed LPR is based on market-oriented quotes by panel banks that take into account the trend in market rates with reference to the MLF rate. This has not only made loan rates more market-based but it has also developed a transmission mechanism featuring "market rates+central bank's guidance→LPR→loan rates," making monetary policy transmission much more efficient. At present, the pricing of new loans basically uses the LPR as the benchmark, and the shift to the LPR as the pricing benchmark was completed in August 2020 for outstanding floating-rate loans. Meanwhile, the PBC continues to optimize regulation of deposit rates. In June 2021, it guided the self-regulatory mechanism for interest rates to modify the self-regulated ceiling of deposit rates by adding a margin to the benchmark interest rates. The PBC has strengthened regulation of non-standard deposit innovation products and has maintained orderly competition in the deposit market. In April 2022, it guided the self-regulatory mechanism for interest rates to establish a market-oriented adjustment mechanism of deposit rates, and it motivated banks to reasonably adjust deposit rates in accordance with the changes in market rates, which made deposit rates more market-oriented. In terms of effectiveness, since the LPR reform in August 2019, the weighted average rates on enterprise loans has declined from 5.32 percent in July 2019 to 4.36 percent in March 2022, or a cumulative drop of 0.96 percentage points, higher than the 0.55 percentage-point drop in the LPR over the same period. This has effectively promoted an ongoing notable drop in the real loan rates and has largely eased the financing difficulties long faced by the MSBs and has lowered their financing costs.

Third, the system of monetary policy instruments has been innovated and improved. The PBC has accommodated the intrinsic need for high-quality development, attached importance to introducing an incentive compatibility mechanism, innovated and applied structural monetary policy instruments, and guided financial institutions to step up support for relevant areas in line with the new development concept. Since 2018, it has cut the reserve requirement ratio (RRR) for 13 times, releasing long-term funding worth approximately RMB10.8 trillion. At end-April 2022, the average RRR for financial institutions stood at 8.1 percent, 6.8 percentage points lower than that at the beginning of 2018. Instruments such as central bank lending and discounts have been adopted. At the beginning of 2021, an additional RMB200 billion of central bank lending was made available to ten provinces (regions) with slow credit growth. To promote coordinated regional development, the PBC adopted a multi-pronged approach when guiding financial institutions to provide more credit to regions with slow credit growth. In November 2021, the Carbon Emission

Reduction Facility and the special central bank lending for the clean and efficient use of coal were launched in parallel to precisely promote green and low-carbon development. Since January 1, 2022, the two monetary policy instruments that directly support the real economy have been converted into market-oriented policy instruments in support of MSBs. In particular, the instrument supporting deferred repayments on inclusive MSB loans was converted into an instrument supporting inclusive MSB loans. For inclusive MSB loans issued by eligible locally incorporated banks, the PBC offers incentive funds, which are 1 percent of the increment in the MSB loan balance. The support plan for inclusive unsecured MSB loans was incorporated into management of central bank lending that supports rural development and MSBs. The RMB400 billion central bank lending originally arranged to support inclusive unsecured MSB loans can be rolled over. Recently, special central bank lending for sci-tech innovation and inclusive elderly care has been launched to motivate financial institutions to step up support for these two areas. At end-March 2022, outstanding inclusive loans to MSBs was RMB20.8 trillion, 2.5 times that at the beginning of 2018. These loans supported 50.39 million MSBs, 2.2 times that at end-2018. The weighted average interest rate on new inclusive loans to MSBs posted 4.93 percent in 2021, a drop of 0.22 percentage points from 2020 and of 1.38 percentage points from 2018.

Fourth, the market-oriented reform of the RMB exchange rate has been advanced so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBC has exited from regular interventions in the foreign exchange market, and market supply and demand now play a decisive role in the formation of the RMB exchange rate. While giving play to the exchange rate as a pricing signal, it has enhanced the efficiency of resource allocation. The PBC has stuck to the market-oriented reform, enhanced the RMB exchange rate flexibility, given play to the exchange rate as an automatic stabilizer for the macro economy and the balance of payments, and promoted a balance between internal and external equilibria. The PBC has established and has continuously improved macro-prudential management for cross-border financing, employed instruments such as the RRR for foreign currency deposits, and guided financial institutions to optimize management of foreign exchange assets. It has guided enterprises and financial institutions to be risk-neutral, enhanced expectation management, and maintained the smooth operation of the foreign exchange market. Since 2018, the RMB exchange rate has withstood a variety of major external shocks with enhanced flexibility and it has played its role as an automatic stabilizer for the macro economy and the balance of payments. The RMB exchange rate has witnessed appreciations and depreciations, moving in both directions and remaining basically stable at an adaptive and equilibrium level. From 2018 to 2021, there were 973 trading days on China’s foreign exchange market, during which the central parity of the RMB exchange rate against the US dollar appreciated on 485 days, depreciated on 487 days, and remained unchanged on one day. At end-March 2022, the central parity RMB exchange rate against the US dollar was 6.3482, appreciating 0.4 percent compared with the end of the previous year.

Going forward, the PBC will continue to improve the framework for a modern monetary policy, promote high-quality development, and accelerate the building of a new development paradigm with domestic circulation as the mainstay and domestic and international circulation reinforcing each other.

Loan interest rates decreased further. Since the beginning of 2022, the PBC has continuously deepened the market-oriented reform of interest rates. It has tapped into the effects of the LPR reform and given play to its role in guiding interest rates, thereby enhancing competition in the credit market. In the meantime, the PBC has improved regulation of deposit rates, promoted a further drop in actual loan rates, and guided financial institutions to cut profits in favor of the real economy. In March, the one-year LPR and the over-five-year LPR stood at 3.70 percent and 4.60 percent, respectively, down 0.10 percentage point and 0.05 percentage point from December 2021, respectively. In March, the weighted average lending rate recorded 4.65 percent, down 0.45 percentage point year on year. In particular, the weighted average interest rate on ordinary loans registered 4.98 percent, down 0.32 percentage point year on year, while that on corporate lending fell by 0.27 percentage point year on year to 4.36 percent.

Table 3 Weighted Average Interest Rates on New Loans Issued in March 2022

Unit: %

	March	Change from last December	YOY Change
Weighted average interest rate on new loans	4.65	-0.11	-0.45
on ordinary loans	4.98	-0.21	-0.32
of which: on corporate loans	4.36	-0.21	-0.27
on bill financing	2.40	0.22	-1.12
on mortgage loans	5.49	-0.14	0.12

Source: The People's Bank of China.

In March, the share of ordinary loans with rates above, at, or below the LPR registered 66.95 percent, 7.63 percent, and 25.42 percent, respectively. Compared with end-2021, as a whole, the floating range of RMB loan rates around the LPR moved downward.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to March 2022

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	24.15	6.72	69.14	18.20	23.88	12.90	7.74	6.41
February	27.19	6.79	66.02	16.55	21.39	11.76	7.72	8.61
March	25.42	7.63	66.95	17.18	22.95	13.24	7.40	6.18

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In March, the weighted average interest rates on demand large-value USD-denominated deposits and on large-value USD-denominated deposits with maturities within three months registered 0.12 percent and 0.53 percent, respectively, up 0.02 and 0.22 percentage points from December 2021, respectively. The weighted average interest rates on USD-denominated loans with maturities within three months and with maturities between three months (including three months) and six months registered 1.40 percent and 1.54 percent, respectively, up 0.29 percentage poinst and 0.43 percentage points from December 2021, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans from January to March 2022

Unit：%

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	0.12	0.31	0.59	0.91	1.01	1.28	1.04	1.11	1.04	1.14	2.09
February	0.11	0.31	0.67	0.97	1.31	1.62	1.17	1.29	1.37	1.47	2.10
March	0.12	0.53	1.00	1.41	1.52	1.44	1.40	1.54	1.70	1.60	2.20

Source: The People's Bank of China.

Deposits grew steadily. At end-March, outstanding deposits in domestic and foreign currencies of all financial institutions increased 9.9 percent year on year to RMB249.7 trillion, up RMB11.1 trillion from the beginning of 2022 and an acceleration of RMB2.3 trillion year on year. Outstanding RMB deposits grew 10.0 percent year on year to RMB243.1 trillion, an increase of RMB10.9 trillion from the beginning of 2022 and an acceleration of RMB2.5 trillion year on year. Outstanding deposits in foreign currencies stood at USD1.0 trillion, an increase of USD49.4 billion from the beginning of 2022 and a deceleration of USD18.1 billion.

Table 6 The Structure of RMB Deposits in Q1 2022

Unit: RMB100 million

	Outstanding deposits at end-March	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2430956	10.0%	108591	25078
Households	1103202	11.1%	78187	11419
Non-financial enterprises	709618	7.2%	13931	11357
Public entities	319694	5.5%	8341	4850
Fiscal entities	54025	25.2%	3426	5059
Non-banking financial institutions	230122	17.9%	5744	-6004
Overseas	14296	6.0%	-1038	-1603

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 RMB249.8 trillion at end-March, increasing 9.7 percent year on year. Outstanding M1 and M0 registered RMB64.5 trillion and RMB9.5 trillion, respectively, increasing 4.7 percent and 9.9 percent year on year. The first quarter of 2022 witnessed a net cash injection of RMB431.7 billion, which was RMB208.8 billion more than that in the same period of the previous year.

According to preliminary statistics, the outstanding AFRE reached RMB325.64 trillion at end-March. Year-on-year growth registered 10.6 percent, up 0.3 percentage points compared with the growth recorded at end-2021. The AFRE increment in Q1 2022 totaled RMB12.06 trillion, an increase of RMB1.77 trillion year on year. Growth of money supply and the AFRE featured the following: first, RMB loans witnessed a significantly larger year-on-year increase. In Q1, RMB loans issued to the real economy increased by RMB8.34 trillion, RMB425.8 billion more as compared to the same period of 2021. Second, government bonds, corporate bonds, and domestic equity financing by non-financial enterprises exhibited a larger year-on-year increase, RMB923.8 billion, RMB405 billion, and RMB51.5 billion more than those in the corresponding period of the previous year, respectively. Third, trust loans recorded a smaller year-on-year decrease, while undiscounted bankers' acceptances registered a smaller year-on-year increase. In Q1, the year-on-year increase of entrusted loans was RMB51 billion more than that in Q1 2021; the year-on-year decrease of trust loans was RMB187.9 billion less than that in Q1 2021; and the year-on-year increase of undiscounted bankers' acceptances was RMB245.4 billion less than that in Q1 2021. Fourth, asset-backed securities of depository institutions witnessed a larger year-on-year decrease, while loans written off exhibited a larger year-on-year increase.

Table 7 Aggregate Financing to the Real Economy in Q1 2022

	End-March 2022		Q1 2022	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
AFRE	325.64	10.6	120570	17681
Of which: RMB loans	199.85	11.3	83364	4258
Foreign-currency loans (RMB equivalent)	2.33	0.7	1750	-95
Entrusted loans	10.93	-1.0	460	510
Trust loans	4.18	-30.5	-1690	1879
Undiscounted bankers' acceptances	3.08	-19.5	791	-2454
Corporate bonds	31.06	10.2	13131	4050
Government bonds	54.65	17.0	15822	9238
Domestic equity financing by non-financial enterprises	9.76	14.9	2982	515
Other financing	9.59	16.3	1578	-214
Of which: Asset-backed securities of depository institutions	2.14	11.1	-370	-642
Loans written off	6.52	19.4	2041	310

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 "general local government bonds" into the AFRE and combining them with the existing "special local government bonds" under 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" into the "corporate bonds" item. To improve the AFRE statistical methodology, the PBC has incorporated "special local government bonds" into the AFRE since September 2018 and it has incorporated "asset-backed securities by depository institutions" and "loans written off" into the

AFRE statistics under the “other financing” item since July 2018. ③Year-on-year statistics in the table are on a comparable basis.

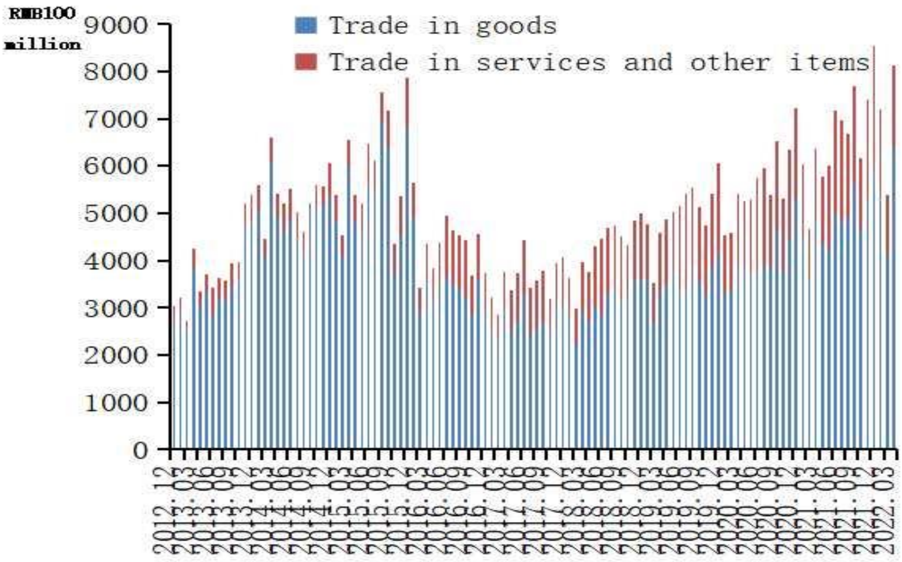
Sources: The People’s Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

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

Since the beginning of 2022, cross-border capital flows and foreign exchange supply and demand have been basically in equilibrium, and market expectations have been generally stable. The market has played a decisive role in the formation of the RMB exchange rate, and the RMB exchange rate has moved in both directions with enhanced flexibility, playing its role as an automatic stabilizer in adjusting the macro economy and the balance of payments. In Q1, based on market supply and demand, the RMB exchange rate appreciated modestly against a basket of currencies. At end-March, 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 104.28 and 102.11, respectively, both up 1.8 percent from end-2021. According to calculations by the Bank for International Settlements (BIS), from end-2021 to end-March 2022, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 2.2 percent and 0.6 percent, respectively, and from 2005 when reform of the exchange rate formation mechanism began to end-March 2022, appreciation of the NEER and the REER of the RMB registered 52 percent and 59.1 percent, respectively. In Q1, the RMB exchange rate against the US dollar witnessed a slight appreciation. At end-March, the central parity of the RMB against the US dollar was 6.3482, appreciating 0.4 percent from end-2021 and 30.4 percent on a cumulative basis since the reform of the exchange rate formation mechanism in 2005. In Q1, the annualized volatility rate of the RMB against the US dollar was 2.9 percent.

In Q1, cross-border RMB settlements increased 8 percent year on year to RMB9.7 trillion, with RMB receipts and payments posting RMB4.8 trillion and RMB4.9 trillion, respectively. Cross-border RMB settlements under the current account grew by 23 percent year on year to RMB2.1 trillion, among which RMB settlements of trade in goods registered RMB1.6 trillion, whereas RMB settlements of trade in services and under other items registered RMB478.3 billion. Cross-border RMB settlements under the capital account registered RMB7.6 trillion, increasing 5 percent year on year.

Figure 2 Monthly RMB Settlements under the Current Account



Source: The People’s Bank of China.

Part 2. Monetary Policy Operations

In Q1 2022, with resolute implementation of the decisions and arrangements made by the CPC Central Committee and the State Council, and in line with the requirements for pursuing stability as the top priority and seeking progress while ensuring stability, the PBC placed emphasis on the foresightedness of policy measures, kept the sound monetary policy flexible and appropriate, enhanced intertemporal adjustments, gave full play to the dual functions of monetary policy tools in adjusting the credit aggregate and structure, kept liquidity adequate at a reasonable level, strengthened stability of aggregate credit growth, further brought down actual lending rates from a relatively low basis, and guided financial institutions to ramp up support for the real economy, especially micro and small businesses (MSBs), tech innovation, and green development, thereby forcefully contributing to stabilizing the entire macro economy.

I. Conducting open market operations in a flexible manner

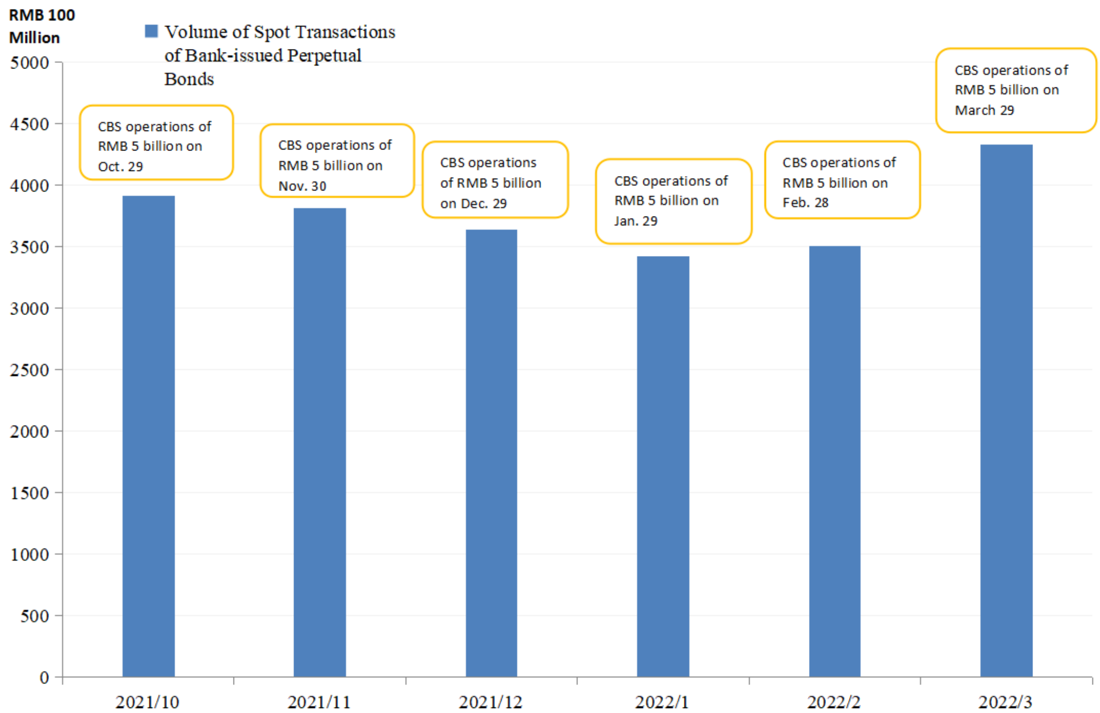
Keeping liquidity adequate at a reasonable level. In Q1, the PBC strengthened the monitoring and analysis of factors affecting liquidity supply and demand, such as cash injections during the Spring Festival, government bond issuances, and quarter-end regulatory assessments as well as development of COVID-19. The central bank made intertemporal arrangements, conducted open market operations in a flexible manner, and kept liquidity adequate at a reasonable level. Before the Spring Festival, it launched

14-day reverse repos in time to release cross-festival liquidity, and it managed the operation volume in a flexible manner so as to offset short-term disruptions, such as a cash injection peak, and to meet the institutions' cross-festival demand for liquidity. Meanwhile, by basically aligning the matured reverse repos with cash flowing back to the banking system after the Spring Festival, the PBC sought a balance of fund supply and demand, which was neither tight nor loose. After the Spring Festival, with comprehensive considerations of changes in market circumstances and expectations at home and abroad as well as with respect to COVID-19 and other factors, the central bank conducted reverse repo operations on a daily basis in the open market, and it managed the intensity and pace of these operations in a flexible manner so as to iron out short-term fluctuations, keep liquidity adequate at a reasonable level, and stabilize market expectations.

Guiding market rates to move stably around central bank policy rates. On January 17, the rates paid on the 1-year Medium-term Lending Facility (MLF) and the 7-day open-market operations both declined by 10 basis points to 2.85 percent and 2.10 percent, respectively, which was conducive to uplifting market confidence and to promoting a decline in overall financing costs. This demonstrated that the monetary policy measures were being taken in a proactive and foresighted manner. In Q1, the PBC guided market rates to stably move around the lowered open market operation rates and the MLF rates, and it realized the interest rate management goals. Money market rates remained stable during the Spring Festival season and at end-March.

Continuously conducting central bank bill swap (CBS) operations. In Q1 2022, the PBC conducted CBS operations on three occasions, with the total amount registering RMB15 billion. The maturity of each operation was three months, at a fixed rate of 0.10 percent. Since the beginning of 2022, the PBC has 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, in supporting the issuance of perpetual bonds to replenish capital by banks, especially by small and medium-sized banks, and in strengthening the credit supply capacities of 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. In Q1 2022, 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. Meanwhile, in Hong Kong, the RMB-denominated central bank bill repos market developed further, with the scope of the institutional participants continuously expanding. The regular issuance of central bank bills and the development of the central bank bill repos market 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.

II. Conducting Medium-term Lending Facility and Standing Lending Facility operations in a timely manner

Conducting MLF operations in a timely manner. In order to ensure an appropriate supply of medium and long-term liquidity and to give play to the signaling and interest rate guiding functions of medium-term policy rates, the PBC conducted a total of RMB1.20 trillion of MLF operations in Q1 2022, all with a maturity of one year and an interest rate of 2.85 percent, 0.1 percentage points lower than that at end-2021. At end-March, the outstanding MLF registered RMB4.95 trillion, RMB400 billion more than that at the beginning of 2022.

Further advancing the reforms of electronic SLF operations. The entire process of conducting SLF operations became electronic in an orderly manner, which boosted operational efficiency. Locally incorporated financial institutions were provided with a sufficient amount of short-term liquidity support as needed so as to stabilize market expectations, strengthen the stability of liquidity in the banking system, and forestall liquidity risks. In Q1, the PBC conducted a total of RMB6.43 billion SLF operations. At end-March, the balance of SLF operations registered RMB1.26 billion. The SLF rate played a role as the ceiling of the interest rate corridor, and it promoted smooth operation of the money market. At end-March, the overnight, 7-day, and 1-month SLF rates stood at 2.95 percent, 3.10 percent, and 3.45 percent, respectively, with the rates 0.1 percentage points lower those at end-2021.

III. Adjusting the required reserve ratio for financial institutions

The required reserve ratio for financial institutions was lowered 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 0.25 percentage points, effective on April 25, 2022 (not applicable to financial institutions that had already implemented a required reserve ratio (RRR) of 5 percent). In order to ramp up support for MSBs as well as agriculture, rural areas, and farmers, urban commercial banks operating businesses within the province of registration and rural commercial banks implementing an RRR of over 5 percent enjoyed an additional RRR cut of 0.25 percentage points. The RRR reduction released about RMB530 billion of long-term funds, and after the RRR cut, the weighted average RRR for financial institutions stood at 8.1 percent. The purposes of the RRR cut were as follows. First, it aimed to optimize the funding structure of financial institutions, expand their sources of long-term stable funding, enhance their capabilities to allocate funds, and ramp up support for the real economy. Second, it aimed to guide financial institutions to make good use of the funds released from the RRR cut to support industries as well as micro, small, and medium-sized enterprises (MSMEs) that were hard hit by COVID-19. Third, the RRR cut lowered the funding costs for financial institutions by approximately RMB6.5 billion per year, which would promote a reduction in overall financing costs through the transmission of financial institutions.

The foreign exchange required reserve ratio was lowered for financial institutions, and their foreign exchange allocation capabilities were enhanced. The PBC lowered the foreign exchange required reserve ratio by 1 percentage point, from 9 percent to 8 percent, effective on May 15, 2022, which would release around USD10 billion of foreign exchange liquidity.

IV. Further improving the macro prudential management framework

The role of the macro prudential assessment (MPA) was given full play to optimize the credit structure and to promote the supply-side structural reform of the financial sector. In Q1 2022, the PBC further optimized the MPA assessment framework and guided financial institutions to enhance the stability of growth of credit aggregates and to ramp up support for inclusive MSB loans, especially unsecured inclusive MSB loans, for medium and long-term loans to the manufacturing sector and for green development.

Administration on access of financial holding companies (FHCs) proceeded in a prudent and orderly manner. In March 2022, the PBC approved the establishment of China CITIC Financial Holdings (in preparation) and Beijing Financial Holdings Group. For a non-financial enterprise, establishing an FHC serves to effectively isolate the financial and non-financial business, prevent risk contagion, and facilitate well-regulated and sustainable development. Going forward, the PBC will, in accordance with the laws and regulations, proceed with the approval procedures for those FHCs whose applications have been accepted, and it will continue to promote other eligible enterprises to apply for FHC establishments in a prudent and orderly manner.

Box 2 Regulating Financial Holding Companies from a Macro Prudential Perspective

In recent years, some non-financial firms have entered the financial sector through investments or by establishing new companies. Some of them control various types of financial institutions and have features of financial holding companies (FHCs). Among them, some firms have been playing positive roles in providing financial services, enhancing the capital strength of financial institutions, and serving the real economy. But a small number of firms have controlled and extracted funds from financial institutions, resulting in an interplay of risks between financial and non-financial sectors. The CPC Central Committee and the State Council have reiterated the need to regulate cross-sector financial activities and the integration between industry and finance. In particular, FHCs should be subject to coordinated regulation to address regulatory shortfalls. In September 2020, with the release of the *Decisions of the State Council on Implementing Access Management of Financial Holding Companies* and *the Trial Measures on Regulation of Financial Holding Companies*, a general regulatory framework for FHCs was preliminarily established. It has been further improved with the release of detailed rules, such as the *Interim Regulations on Filing-based Management of Directors, Supervisors, and Senior Executives of Financial Holding Companies*.

Given the fact that FHCs are usually large in scale and have diversified business lines, a complex organizational structure, and strong risk spillover effects, it is necessary to regulate them from a macro, holistic and systemic regulatory perspective, which comprises an important part of macro prudential management. By enhancing macro prudential management on FHCs, we can get hold of the overall status of operation and the comprehensive risk profiles of financial holding groups, promoting the well-regulated and sustainable development of FHCs and enhancing their capacity to serve the real economy.

Based on the above considerations, efforts should be made to implement regulation of FHCs in the following respects. First, upholding the principle that finance is a franchise industry and ensuring good access management. If a non-financial firm has de facto control of two or more types of financial institutions, and asset scale of the financial institutions that are actually controlled reach a certain threshold, the firm should apply for approval to establish an FHC. The enterprise should place all its financial shares under unified management at the FHC, and all financial activities should be conducted by the corresponding financial institutions affiliated with the FHC, thereby effectively separating industrial and financial activities. Second, upholding the look-through principle to enforce regulation of shareholders and the shareholder structure. FHCs should have a simple and clear ownership structure, in which the actual controllers and ultimate beneficiaries are transparent and identifiable. Major shareholders should have strong capital strength and well-regulated business operations, and the source of funds they invest in the FHC shall be real and legitimate. Third, enforcing consolidated regulation and focusing on the risks of groups, such as conflicts of interest, risk concentration, and risk contagion. FHCs and their affiliated financial institutions should be guided to maintain adequate capital, improve the governance structure at all corporate levels, and enforce the management of related party transactions. Fourth, specifying risk isolation requirements. FHCs should establish a risk isolation mechanism among the major shareholders, the FHC and its affiliated institutions, and among the affiliated institutions, and build a stronger "firewall" to prevent cross-sector, cross-institution, and cross-market risk contagions.

Currently, work on access management and regulation of FHCs is making steady progress. In March 2022, the People's Bank of China (PBC) approved the establishment of China CITIC Financial Holdings Company (in preparation) and the Beijing Financial Holdings Group. In addition, a number of eligible enterprises are applying for becoming FHCs, whereby they can ascertain their business lines and facilitate the separation of financial and non-financial activities. In particular, they shall ensure that the shareholders are eligible, and the organizational structure and relevant management meet the requirements for establishment.

Going forward, the PBC will continue to uphold market-oriented and law-based principles, as well as the "Two Unwavering Commitments". The PBC will speed up the formulation of supplementary rules for FHC regulation, take sound and orderly steps to promote eligible enterprises to submit applications to set up FHCs, proceed with the approval of FHCs in accordance with laws and regulations, and carry out continuous regulation of approved FHCs. The PBC will enhance regulatory cooperation and information sharing with the relevant authorities to promote sound operation of FHCs so as to better serve high-quality development of the real economy and help keep the major economic indicators within a reasonable range.

***The Notice on the Exclusion of Loans for Government-subsidized Rental Housing from Real Estate Loan Concentration Management* was released.** The PBC and the China Banking and Insurance Regulatory Commission (CBIRC) released the *Notice* on February 8, 2022, which clarifies that loans for government-subsidized rental housing projects shall be excluded from real estate loan concentration management. Banking institutions were encouraged to scale up support for government-subsidized rental housing in accordance with the laws and regulations, while pursuing sound risk management and commercial sustainability, so as to underpin the construction of a housing support system and the establishment of a housing system with diversified suppliers, multiple supporting channels, and a dual emphasis on both housing purchases and housing rentals.

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

Actively using central bank lending that supports rural development, central bank lending for MSBs, and central bank discounts to guide financial institutions to enhance support for key areas and vulnerable spots in the national economy and for coordinated regional development. The PBC continued to leverage the role of central bank lending in providing targeted liquidity and as a positive incentive. It contributed to connecting the consolidation of achievements in poverty eradication with rural revitalization. Central bank lending for supporting rural development and MSBs was utilized to guide locally incorporated financial institutions to expand credit supply for rural revitalization. Central bank lending for poverty alleviation was rolled over according to the current regulations so as to support consolidation of the achievements in poverty alleviation. The PBC promoted coordinated regional development by guiding locally incorporated financial institutions in ten provinces with slow credit growth to make good use of central bank lending and expand credit supply for vulnerable parts of the economy within the region, including rural development, MSBs, and private businesses. More relief and assistance were provided for MSBs as the PBC guided locally incorporated financial institutions to utilize central bank lending for MSBs and to issue loans to MSBs and self-employed businesses heavily hit by mounting commodity prices and COVID-19, so as to reduce their financing costs. At end-March, outstanding central bank lending to support rural development posted

RMB516.1 billion. Outstanding central bank lending for MSBs and for poverty alleviation posted RMB1.3315 trillion and RMB171.3 billion, respectively. Outstanding central bank discounts registered RMB624.7 billion. In Q1 2022, the PBC made net withdrawals of Pledged Supplementary Lending (PSLs) in the amount of RMB65.4 billion from development and policy banks, with outstanding PSLs registering RMB2.7363 trillion at end-March.

Steadily advancing conversion of the two monetary policy instruments that directly support the real economy to bolster the development of MSBs. According to the decisions of the executive meetings of the State Council, the PBC converted the two instruments that provide direct support to the real economy into market-oriented instruments to strengthen support for MSBs. First, from 2022, the support plan for inclusive unsecured MSB loans was 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 will be rolled over, and locally incorporated banks will be encouraged to issue these loans. Second, the instrument supporting deferred repayments on inclusive MSB loans has been converted into the instrument supporting inclusive MSB loans. From the beginning of 2022 to end-June 2023, for inclusive MSB loans issued by locally incorporated banks, the PBC will provide funding on a quarterly basis in the amount of 1 percent of the incremental balance of these loans so as to encourage banks to extend inclusive MSB loans. In Q1, the PBC provided RMB4.349 billion of funding to locally incorporated financial institutions, facilitating an increase of RMB436.6 billion in inclusive MSB loans.

Continue implementing the carbon emission reduction facility (CERF) and special central bank lending facility for the clean and efficient use of coal, so as to support the green, low-carbon transition of the economy. Specifically, the CERF supports three major areas of carbon reduction: clean energy, energy conservation and environmental protection, and carbon reduction technology. The special central bank lending for the clean and efficient use of coal provides support in seven relevant areas, such as mass clean coal production and application of clean combustion technology. The quota of the special central bank lending was increased by RMB100 billion to support coal development and to use and boost the coal reserve capacity. Ensuring effective implementation of these two instruments and encouraging financial institutions to provide credit support for carbon emissions reductions and for the clean and efficient use of coal facilitate the transition to a green and low-carbon economy while ensuring security of the energy supply so as to contribute to the goal of carbon peaking and carbon neutrality in a scientific and orderly way. In Q1, through these two instruments, the PBC provided RMB53 billion and RMB19.8 billion, respectively, to relevant institutions, with a total of RMB72.8 billion. Since implementation of these instruments, the PBC has provided RMB138.6 billion and RMB22.5 billion, respectively, up to a total of RMB161.1 billion.

Establishing special central bank lending facilities for sci-tech innovation and inclusive elderly care to help build a robust country through sci-tech development and to help address population aging. To implement the decisions made at the State Council's executive meetings, with the aim of providing targeted liquidity and positive incentives and in line with market-oriented principles, the PBC established two special central bank lending facilities for sci-tech innovation and for inclusive elderly care. The facility for sci-tech innovation supports new- and high-tech enterprises, small and medium-sized enterprises with technical know-how, sophisticated operations, unique products, and innovative capabilities, national model enterprises for technological innovation, and champion enterprises in particular areas of the manufacturing sector. The facility for inclusive elderly care supports eligible institutions providing inclusive elderly care services. A pilot program has been carried out in five provinces including Zhejiang, Jiangsu, Henan, Hebei, and Jiangxi. In April, the PBC, the Ministry of Science and Technology, and the Ministry of Industry and Information Technology jointly issued the *Notice on Establishing Special Central Bank Lending for Sci-Tech Innovation* (Yinfa No.104 [2022]). The PBC and the National Development and Reform Commission (NDRC) jointly issued the *Notice on Establishing Special Central Bank Lending for Inclusive Elderly Care* (Yinfa No.107 [2022]). Both facilities adopt a "reimbursement" mechanism whereby financial institutions are "reimbursed" on a quarterly basis. Specifically, financial institutions are subject to their own decision-making at their own risk, and they can apply for funding support under the special central bank lending facilities after they grant loans to eligible enterprises in relevant industries. For qualified loans, the PBC provides low-cost funding for a certain proportion of the principal through central bank lending facilities. The "reimbursement" proportions of central bank lending for sci-tech innovation and for inclusive elderly care are 60 percent and 100 percent, respectively. The interest rate is 1.75 percent for both.

VI. Bringing into play the role of credit policy in guiding structural reforms

The quality and efficiency of financial services to MSMEs have been improving. Financial support to stabilize businesses and secure employment was further stepped up, the Project for Enhancing Capacity to Provide Financial Services for MSMEs was further advanced, while the establishment of a long-term mechanism whereby banks will have the confidence, willingness, ability, and professionalism to provide loans to MSMEs was further accelerated, aiming to guide financial institutions to improve their internal resource allocations and policy arrangements and to strengthen employment of sci-tech tools so as to sustainably improve financial services to MSMEs. As of end-March, outstanding inclusive loans to MSBs grew by 24.6 percent year on year to RMB20.8 trillion. These loans supported 50.39 million MSBs, up 42.9 percent year on year. The interest rate on new inclusive loans to MSBs posted 4.93 percent in March, dropping by 17 basis points from December 2021. In February, the PBC, NDRC, and other related departments jointly released the *Policies on Promoting the Recovery and Development of Industries with Difficulties in the Services Sector*, which provide inclusive relief and assistance measures to businesses with difficulties in the services sector and increase preferential support for five industries in extreme difficulties, including catering, retail, tourism, transportation, and civil aviation.

Financial services for rural revitalization were further promoted. The PBC conscientiously implemented the decisions and arrangements for promoting the rural revitalization strategy on all fronts and continuously enhanced the policy system of financial support for rural revitalization. The *Opinions on Efforts to Ensure Key Financial Support for Promoting Rural Revitalization on All Fronts in the Year 2022* were issued, aiming to guide financial institutions to optimize resource allocations, enhance financial resource inputs to vital agricultural products, rural industries, rural construction, and other key areas, and promote the steady growth of agro-related loan issuances. The PBC continued to promote financial support to consolidate and expand the achievements of poverty eradication through efforts to guide financial institutions to provide preferential financial resources for regions that had been lifted out of poverty, such as key counties that receive assistance to pursue rural revitalization so as to maintain a stable pace of loan issuances to regions and populations that had shaken off poverty. As of end-March 2022, outstanding agro-related loans nationwide increased 12.2 percent year on year to RMB45.63 trillion. In particular, outstanding rural household loans increased by 12.9 percent year on year to RMB14.05 trillion.

VII. Deepening the market-oriented interest rate reform

The benefits of the loan prime rate (LPR) reform were continuously unleashed, while the regulations over deposit interest rates were improved, further bringing down actual loan rates. **First,** the LPR reform was further promoted, and the guiding role of the LPR was brought into play. As a result, actual corporate loan rates remained stable with a slight decline, and corporate financing costs were lowered significantly. **Second,** the regulations over deposit rates were further strengthened, with deposit rate pricing behavior for agreement deposits and other deposit products further regulated. In February 2022, the PBC guided the Self-regulatory Mechanism for Market Rate Pricing to release the *Initiatives on Reinforcing Self-regulatory Management for Agreement Deposits*, urging and guiding financial institutions to conduct agreement deposit businesses in compliance with the laws and regulations. In April, the deposit rate market-oriented adjustment mechanism was improved, further promoting the pricing of deposit rates in a more market-oriented manner. **Third,** conversion of the financial market benchmark rate from the LIBOR in domestic markets was actively promoted. From January 1, 2022, some of the LIBOR businesses stopped quotations or lost their representative nature as scheduled. In Q1, major domestic banks have already arranged conversion of the pricing benchmark for all businesses affected by the LIBOR expiration, while most of the new foreign-currency-denominated floating rate businesses in the domestic market have switched their benchmark from the LIBOR to other alternative benchmark rates.

Box 3 Establishing a Market-oriented Adjustment Mechanism for Deposit Interest Rates

In October 2015, the PBC removed administrative control over deposit interest rates, and members of the Interest Rate Self-regulatory Mechanism (IRSRM) could autonomously set deposit rates within the self-regulatory ceiling of deposit interest rates. In June 2021, the PBC guided the IRSRM to optimize the formation mechanism of the self-regulatory ceiling of deposit interest rates, shifting from multiplying the benchmark deposit rates by a designated multiplier to adding basis points to the benchmark interest rates. This move has not only protected the autonomy of banks in pricing their deposit rates but also has been conducive to lowering the medium and long-term deposit interest rates, improving the maturity structure of time deposits, promoting orderly market competition, as well as enhancing the sustainability of the financial sector's support to the real economy. In March 2022, the weighted average interest rate for new time deposits stood at 2.37 percent, decreasing 0.08 percentage points year on year and 0.12 percentage points from May 2021 before the optimization. In particular, the interest rates for medium to long-term time deposits enjoyed a much larger decrease, with two-year, three-year, and five-year time deposit rates falling by 0.18, 0.43, and 0.45 percentage points from May 2021, respectively.

Due to the fierce competitions in the deposit market, many banks in practice set their time deposit rates and certificate deposit (CD) rates close to the self-regulatory ceiling. This, to some extent, has hampered the effective transmission of market interest rates, making it very difficult for deposit rates to follow the changes in market rates. In April 2022, the PBC guided the IRSRM to establish a market-oriented adjustment mechanism for deposit interest rates, whereby member banks of the IRSRM can adjust their deposit rates according to the bond market rates (represented by the 10-year government bond yield) and the loan market rates (represented by the 1-year LPR). Establishment of this new mechanism will help banks closely follow changes in market rates and enhance their market-based pricing ability for deposit rates, while preserving a benign competition order in the deposit market.

The key to setting up the market-oriented adjustment mechanism for deposit rates is to promote the market-based nature of deposit rate pricing, with flexible guidance to banks. Banks can autonomously determine the actual adjustment ranges to their deposit rates, according to their own circumstances and changes in market rates. For those financial institutions with timely and highly-efficient market-oriented adjustments for deposit rates, the PBC will offer appropriate incentive measures. After establishment of the new mechanism, the deposit rates of banks are priced in a more market-oriented manner, which, against the current backdrop of overall falling market rates, can help the banks maintain stable liability costs and thus further bring down actual loan rates. In practice, the ICBC, ABC, BOC, CCB, BCM, PSBC, and most of the joint stock banks, in late April had already lowered the rates for time deposits and CDs with maturities of over 1 year, and some locally-incorporated financial institutions also made corresponding adjustments. According to the latest survey data, in the last week of April (April 25 to May 1), the weighted average interest rate for new time deposits posted 2.37 percent, 10 basis points lower than that in the previous week.

Going forward, the PBC will continue to deepen the market-oriented interest rate reform, improve the formation and transmission mechanism for market-oriented interest rates, optimize the central bank policy rate system, strengthen regulations over deposit rates, strive to stabilize the liability costs of banks, unleash the benefits of the LPR reform, and thus bring down overall corporate financing costs .

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 Q1 2022, the highest and lowest RMB central parities against the USD were 6.3014 and 6.3800, respectively. During the 58 trading days, the RMB appreciated on 32 days and depreciated on 26 days. The biggest intraday appreciation and depreciation was 0.6 percent (394 bps) and 0.6 percent (364 bps), respectively. The RMB exchange rate appreciated against other major international currencies. At end-March, the central parities of the RMB against the dollar, the euro, the pound, and the Japanese yen appreciated 0.4 percent, 1.9 percent, 3.2 percent, and 6.6 percent, respectively, from end-2021. Since the reform of the RMB exchange rate formation mechanism that commenced in 2005 to end-March 2022, the RMB appreciated by a cumulative total of 30.4 percent, 41.4 percent, and 40.6 percent, respectively, against the dollar, the euro, and the Japanese yen. Meanwhile, direct RMB trading was rather buoyant in the interbank foreign exchange market with stable liquidity, which helped lower the exchange costs of microeconomic entities and facilitated bilateral trade and investment.

As of end-March, under the bilateral currency swap agreements between the PBC and the foreign monetary authorities, the foreign monetary authorities utilized a total of RMB60.375 billion and the PBC utilized foreign currencies equivalent to USD496 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 Q1 2022

Unit: RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	117475.72	3759.06	625.06	336.99	144.82	64.70	22.18
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	24.61	33.39	79.55	0.80	5.82	0.00	15.23
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	0.00	11.00	0.00	0.00	0.31	7.11	0.71
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	1.05	0.00	4.90	0	0	0	5.21

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 remained committed to addressing risks in a market- and law-based manner, with total financial risks decreasing. Addressing the risks of high-risk groups was steadily advanced, and financial risks in key regions and areas were orderly mitigated. The reduction of high-risk institutions was continuously advanced, with the number decreasing notably. The PBC conducted stress tests on over 4,000 banking financial institutions. The central bank rating of financial institutions in Q4 2021 was completed, with 4,398 banking financial institutions being rated throughout the nation. The rating results indicate that most institutions fell within the safety boundary (level 1 to level 7), and high-risk institutions (level 8 to D) dropped successively for six quarters, decreasing by more than half from the peak level. As of end-2021, there were no high-risk institutions in 11 provinces (municipalities or autonomous regions).

A long-term mechanism to safeguard financial stability was established. To implement the decisions and arrangements made by the CPC Central Committee and the State Council on forestalling and defusing financial risks and on improving the rule of law in the financial sector, and to establish a long-term mechanism to safeguard financial stability, the PBC drafted the *Law of the People's Republic of China on Financial Stability (Exposure Draft)*, which solicited public opinions in April.

Box 4 Accelerating Legislation on Financial Stability

In recent years, under the strong leadership of the CPC Central Committee and the State Council, the Financial Stability Development Committee (FSDC) under the State Council has coordinated and directed work at the forefront, and government departments and local authorities have made concerted efforts in fighting the tough battle of forestalling and defusing major financial risks and secured significant achievements. With long-accumulated risks effectively resolved, financial risks have been contained and on the whole have remained under control, thus reinforcing the foundation for financial stability and boosting the overall stable and sound development of the financial sector.

At present, China is striding toward its second centenary goal. Based on the "two overall situations", it is necessary to plan ahead by drafting the *Law of the People's Republic of China on Financial Stability (Exposure Draft)*, which began soliciting public opinions from April 6. The legislation on financial stability is essential and bears great significance. **First**, it implements the decisions and arrangements made by the CPC Central Committee and the State Council on forestalling and defusing financial risks and on improving the rule of law in the financial sector, thus effectively safeguarding China's economic and financial safety and social stability. **Second**, it summarizes experiences and practices proved effective in the tough battle against major financial risks and it establishes a long-term mechanism for safeguarding financial stability. **Third**, it establishes a legal system concerning financial stability with a holistic design and cross-departmental and cross-sectoral coordination, harmonizes scattered articles and principles, and sets regulatory standards for some important issues.

The *Law on Financial Stability* (Exposure Draft) has 48 articles in six chapters, which are General Provisions, Financial Risk Prevention, Financial Risk Defusing, Financial Risk Resolution, Legal Liabilities, and Supplementary Provisions. The following are the priorities:

First, improving the working mechanism for financial stability. Upholding the Party’s centralized and unified leadership, the mechanism for coordinating national financial stability and reform (the FSDC under the State Council) coordinates financial stability and reform and development, takes the lead in forestalling, defusing, and addressing major financial risks, and reports and reviews major issues according to procedures. Related financial regulatory departments and local authorities follow the division of work and the requirements of the FSDC and fulfill their duties on financial supervision and on forestalling, defusing and addressing financial risks. The Deposit Insurance Fund and industry protection funds perform their duties in monitoring and addressing risks to forge a bigger synergy to safeguard financial stability.

Second, ensuring that related parties fulfill their responsibilities in forestalling, defusing. and addressing financial risks. Ensure that financial institutions, their main shareholders, and the actual controllers fulfill their primary responsibilities. Strengthen prudential management obligations of financial institutions, and intensify market access and regulatory requirements for the main shareholders and the actual controllers. Ensure that local governments fulfill their responsibilities within their jurisdictions to maintain financial stability and promptly take proactive actions to defuse regional financial risks. Ensure that financial regulatory departments tighten regulation and fulfill their responsibilities for risk prevention and control in the respective industries and areas by rigorously preventing, correcting, and addressing risks at an early stage. The PBC will act as the lender of last resort to ensure that no systemic financial risks arise.

Third, specifying the arrangements of funds for addressing risks, which are fair and well-regulated, and featuring matched rights, responsibilities, and interests. The sequence of funds usage for resolving financial risks is outlined. Bail-outs are provided after the financial institutions' bail-in arrangements to reduce reliance on public funds. Failed institutions should conduct active bail-ins as the main shareholders and the actual controllers commit themselves to replenishing capital in line with the recovery and resolution plan or regulatory commitments, and the shareholders and actual controllers accountable for financial risks should fulfill their bail-in obligations in accordance with the law. Meanwhile, market-oriented funds are mobilized and channeled to the merger and restructuring of failed institutions, and the Deposit Insurance Fund and industry protection funds provide funding in accordance with the law. Local public resources are legally employed when financial risks endanger regional stability, and such risks are difficult to defuse after the exhaustion of market-oriented measures and the strict implementation of retrieving illegal gains and loss. When major financial risks that put financial stability in jeopardy, the Financial Stability Protection Fund provides funding support in line with the requirements to guard against moral hazards and to strictly enforce market discipline.

Fourth, establishing the Financial Stability Protection Fund. The Fund is positioned to provide back-up funds to address China's major financial risks that bear systemic significance. The Fund, coordinated and managed by the FSDC under the State Council, will be financed by financial institutions and financial infrastructure operators. It will also encompass funds from other sources as stipulated by the State Council. It is specified that the State Council will stipulate measures for the fundraising, management, and use of the Fund. The Fund, along with the Deposit Insurance Fund and industry protection funds comprise a "two-tier" system, and their coordination will buttress China's financial safety net.

Fifth, establishing a market- and law-based mechanism to resolve risks. Based on the actual resolution needs, a variety of measures are set with reference to international experience. These measures include but not limited to the execution of the right of operation and management, the transfer of assets and liabilities, the establishment of bridge banks and special purpose vehicles (SPVs), the suspension of close-out netting, the change of persons liable and claw-back of remunerations, the implementation of debt write-downs, equity write-downs, and debt-for-equity swaps, the suspension of overseas remittances and the repatriation of overseas assets, and the requirement to solicit support from parent groups by systemically important financial institutions (SIFIs). Meanwhile, the sequence of equity write-downs and debt write-downs is specified, and in principle the gains of creditors and interest-related parties through risk resolution will not be lower than the gains through bankruptcy liquidation. Moreover, supporting arrangements for resolution are linked with the judicial process.

Sixth, those who violate the laws and rules will be held accountable. It is specified that those who violate laws and regulations that lead to the outbreak and spread of financial risks will be held accountable in accordance with the law. It sets out the punishment for activities in violation of the laws and regulations amid the rise and resolution of financial risks by financial institutions, their major shareholders, and their actual controllers. Public officials who fail to perform their duties will be held accountable in accordance with the law. If they commit crimes, they will be held criminally responsible.

In the next step, the PBC will work with the relevant authorities to fully incorporate public feedback into the revision of the draft law, and it will cooperate with the legislature on subsequent work in accordance with legislative procedures so as to release the *Law on Financial Stability* in due course.

Reform of development and policy financial institutions was continuously deepened. The PBC worked to comprehensively implement 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 business, and give full play to their role in supporting economic restructuring and high-quality development on the basis of strengthened risk prevention and control.

X. Deepening reform of foreign exchange arrangements

The coverage and quality of policies to facilitate trade-related foreign exchange payments and receipts of quality enterprises were enhanced. The policies were steadily expanded to cover more firms. These policies and measures were improved to expand the business scope and to enhance the filing requirements of banks and firms. During the first three months of 2022, six regions were newly added for such firms to conduct facilitated foreign exchange payments and receipts. By end-March, these facilitation policies were expanded to cover 32 regions, 146 banks, and 1,828 firms.

The solid implementation of a pilot high-level opening up was advanced in key regions. Implementation of pilot policies on a high-level opening up of cross-border trade and investment was closely monitored in an attempt to streamline procedures in business operations, to lower the settlement costs of foreign exchange funds, and to boost the turnover of capital. By end-March 2022, 19 pilot banks had filed relevant materials in four regions, including Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone, benefiting the pilot current account business in manufacturing, energy and chemical, high-tech industries and other industries.

The overseas lending business by domestic banks was supported and regulated. In January 2022, the PBC and the SAFE released the *Notice on the Overseas Lending Business by Banking Institutions (Yinfa No.27[2022])* to boost the coordinated management of banks' overseas loans with cross-border guarantees and outbound direct investments.

Part 3. Financial Market Conditions

In Q1 2022, performance of the financial market was generally stable. Money market interest rates fluctuated around the interest rates of open market operations, featuring an overall downward movement and active market transactions. Bond issuances increased with a surge in local government bonds. The bond market witnessed active transactions, stable rates, and expanded term spreads. The stock market index went down, with increased turnover and decreased funds raised.

I. Financial market overview

1. Money market interest rates generally declined with active market transactions. In March 2022, the monthly weighted average interest rate for interbank lending was 2.07 percent, and the monthly weighted average interest rate of pledged repos posted 2.08 percent, 5 basis points higher and 1 basis point lower than those in December 2021, respectively. The monthly weighted average interest rate of government-backed bond pledged repos among depository institutions posted 1.96 percent, 12 basis points lower than the monthly weighted average interest rate of pledged repos in the interbank market. At end-March, the overnight and 7-day Shibor posted 2.01 percent and 2.20 percent, respectively, down 12 and 7 basis points from end-2021, respectively.

Market transactions were active. In Q1 2022, the volume of bond repos trading on the interbank market reached RMB287.9 trillion, representing an average daily turnover of RMB4.8 trillion, up 29 percent year on year. The volume of cumulative trading in interbank lending registered RMB30.4 trillion, with an average daily turnover of RMB506.7 billion and a year-on-year increase of 4.4 percent. In terms of the maturity structure, overnight repos accounted for 85.4 percent of the total turnover in bond repos, increasing 2 percentage points year on year, and overnight lending constituted 87.7 percent of the total turnover in interbank lending, down 1.3 percentage points year on year. The volume of bond repos trading on the exchange markets increased 27.3 percent year on year to RMB96.6 trillion.

Table 9 Fund Flows Among Financial Institutions in Q1 2022

Unit: RMB100 million

	Repos		Interbank lending	
	Q1 2022	Q1 2021	Q1 2022	Q1 2021
Chinese-funded large banks①	-817,054	-458,527	-82,755	-71,853
Chinese-funded medium-sized banks②	-365,252	-360,253	-20,852	-25,082
Chinese-funded small-sized banks③	-46,373	3,076	20,499	27,961
Securities institutions④	367,101	268,204	66,452	49,169
Insurance institutions⑤	39,034	19,196	93	0
Foreign-funded banks	20,756	15,918	-3,549	-7,502
Other financial institutions and vehicles⑥	801,787	512,387	20,113	27,307

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 orderly. In Q1 2022, about 6,866 interbank CDs were issued on the interbank market, raising RMB5.4 trillion. The volume of trading on the secondary market totaled RMB47.9 trillion. At end-March, outstanding interbank CDs reached RMB14.7 trillion. The weighted average interest rate of 3-month interbank CDs was 2.40 percent, 2 basis points lower than that of the 3-month Shibor. In Q1 2022, about 17,000 negotiable CDs were issued by financial institutions, raising RMB4.5 trillion, an increase of RMB700 billion year on year.

Interest rate swap transactions witnessed a contraction. In Q1 2022, the RMB interest rate swap market witnessed 55,000 transactions, decreasing 27.4 percent year on year, with the volume of the notional principal totaling RMB4.4 trillion, a decrease of 18.3 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 RMB2.8 trillion, accounting for 64.4 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 87.8 percent and 10.9 percent, respectively, of the total notional principal of the interest rate swaps. In Q1 2022, interest rate swaps anchored to the loan prime rate (LPR) witnessed 302 transactions, with RMB50.36 billion of the notional principal, up 4.1 percent and 74.5 percent year on year, respectively.

Table 10 Interest Rate Swap Transactions in Q1 2022

	Transactions	Notional principal (RMB100 million)
Q1 2022	54,795	43,812.8
Q1 2021	75,460	53,620.9

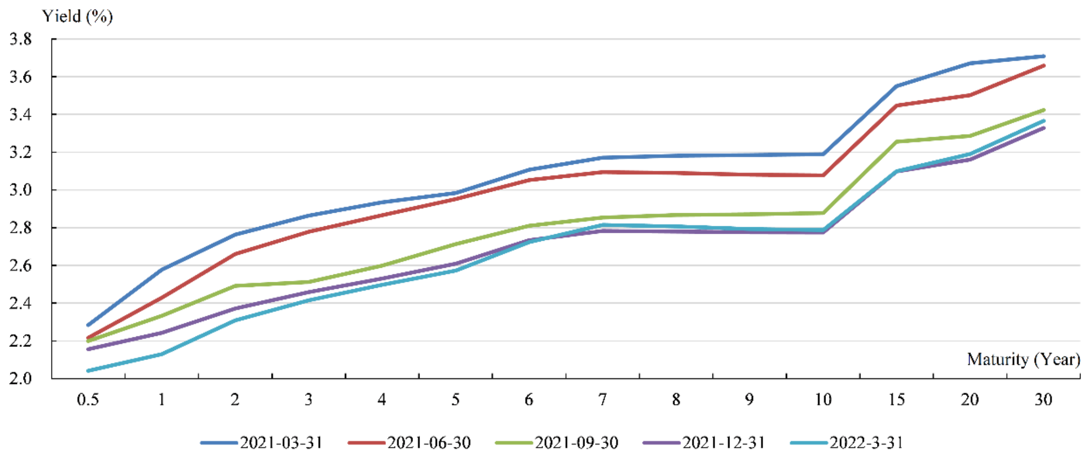
Source: China Foreign Exchange Trade System.

The interest rate option business developed steadily. The LPR option business was officially launched on the interbank market in March 2020 and the fixing repo rate (FDR) options were newly added to the interbank market on March 29, 2021. In Q1 2022, a total of 141 interest rate option transactions were concluded, totaling RMB19.994 billion, and all were interest rate cap/floor option transactions anchored to the LPR.

2. Rates of bonds were generally stable, while bond issuances expanded with active trading of spot bonds

Coupon rates of bonds declined. In March 2022, the yield on 10-year government securities issued by the Ministry of Finance was 2.81 percent, 1 basis point lower than that in December 2021. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 2.99 percent, 3 basis points lower than the rate in December 2021. There was one 1-year short-term financing bill (bond rating A-1, enterprises rating AAA) issued in March 2022, with a coupon rate of 2.06 percent, 101 basis points lower than the average rate in December 2021.

Figure 4 Yield Curves of Government Securities on the Interbank Market



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

Government securities yields went up before going down, with term spreads expanding. At end-March 2022, yields on 1-year, 3-year, and 5-year government securities decreased by 11 basis points, 4 basis points, and 4 basis points to 2.13 percent, 2.42 percent, and 2.57 percent from end-2021, respectively; yields on 7-year and 10-year government securities increased by 3 basis points and 1 basis point to 2.82 percent and 2.79 percent, respectively, from end-2021. The term spread between 1-year and 10-year government securities was 66 basis points, expanding 13 basis points from end-2021.

Bond issuances increased. In Q1 2022, the cumulative value of bond issuances increased by 6.1 percent, or RMB869.6 billion, year on year to RMB15.0 trillion, driven mostly by surges in government bonds and debt-financing instruments issued by non-financial institutions. At end-March 2022, outstanding bonds held in custody amounted to RMB137.8 trillion, representing an increase of 14.8 percent year on year.

The volume of spot bond transactions witnessed rapid growth. In Q1 2022, the value of cash bonds trading on the bond market posted RMB69.7 trillion, registering an increase of 35.8 percent year on year. Specifically, the value of cash bonds trading on the interbank market was RMB61.7 trillion, representing an increase of 33.9 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB8 trillion, an increase of 51.8 percent year on year.

Table 11 Bond Issuances in Q1 2022

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government securities	16,059	1,701
Local government bonds	18,246	9,295
Central bank bills	0	0
Financial bonds①	78,685	-3,095
Of which: Financial bonds issued by the CDB and policy financial bonds	13,725	-2,277
Interbank certificates of deposit	53,845	-1,559
Corporate credit bonds②	37,194	744
Of which: Debt-financing instruments of non-financial enterprises	26,404	1,653
Enterprise bonds	1,381	197
Corporate bonds	6,824	-978
Bonds issued by international institutions	240	50
Total	150,425	8,696

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. Updated with the latest data from the providers.

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

The bill acceptance business recorded stable growth. In Q1 2022, commercial drafts issued by enterprises totaled RMB7.0 trillion, rising 13.8 percent year on year. At end-Q1, outstanding commercial drafts stood at RMB15.8 trillion, increasing by 11.8 percent year on year. Outstanding commercial draft acceptances grew steadily, with the outstanding at the end of March increasing by RMB774.6 billion compared to the beginning of 2022. 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 Q1 2022, total discounts by financial institutions amounted to RMB13.4 trillion, growing 18.2 percent year on year. At end-March, the balance of bill financing was RMB10.7 trillion, up 35.3 percent year on year. The balance accounted for 5.3 percent of the total outstanding loans, up 0.9 percentage points year on year. In Q1 2022, the interest rates for bill financing first increased and then decreased, remaining generally stable.

4. Stock indices went down with the amount of funds raised decreasing, while turnover expanded year on year

The stock indices went down. At end-March 2022, the Shanghai Stock Exchange Composite Index closed at 3,252 points, decreasing by 10.6 percent from end-2021. The Shenzhen Stock Exchange Component Index closed at 12,118 points, decreasing by 18.4 percent from end-2021. In Q1 2022, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB58.5 trillion, and the average daily turnover was RMB1 trillion, representing an increase of 6.5 percent year on year. The amount of funds raised on the stock markets decreased year on year. In Q1, a cumulative fund of RMB333.7 billion was raised, decreasing by 1.9 percent year on year.

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

In Q1 2022, total premium income in the insurance sector amounted to RMB1.8 trillion, down 1 percent year on year, a deceleration of 0.2 percentage points from end-2021. Claim and benefit payments totaled RMB451.3 billion, representing a year-on-year increase of 14.2 percent. Specifically, total property insurance claims and benefit payments increased by 4.8 percent year on year, and total life insurance claims and benefit payments went up by 21.3 percent year on year.

Table 12 Asset Allocations in the Insurance Sector at End-March 2022

Unit: RMB100 million, %

	Balance	As a share of total assets

	End-March 2022	End-March 2021	End-March 2022	End-March 2021
Total assets	256,723	242,584	100.0	100.0
Of which: Bank deposits	28,370	27,615	11.1	11.4
Investments	206,988	197,266	80.6	81.3

Source: China Banking and Insurance Regulatory Commission.

The growth of assets in the insurance sector slowed down. At end-Q1 2022, total assets in the insurance sector increased 5.8 percent year on year to RMB25.7 trillion, a deceleration of 1 percentage point from end-2021. Specifically, bank deposits increased by 2.7 percent, while investment-linked assets increased by 4 percent year on year.

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

In Q1 2022, the cumulative turnover of spot RMB/foreign exchange transactions registered USD1.9 trillion, a decrease of 17.7 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD5.4 trillion, an increase of 19.9 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD3.4 trillion, accounting for 62.8 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD27.4 billion, rising 6.3 percent year on year. The turnover of foreign currency pair transactions totaled USD380 billion, increasing by 21.5 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 61.9 percent of the total market share.

7. The volume of gold trading expanded year on year, and prices went up

At end-March 2022, international gold prices closed at USD1,942.15 per ounce, representing growth of 8.3 percent from end-2021. The Au99.99 on the Shanghai Gold Exchange closed at RMB394.14 per gram, increasing by 5.4 percent from end-2021. In Q1 2022, the volume of gold traded on the Shanghai Gold Exchange was 9,579.04 tons, representing growth of 2.6 percent year on year. The turnover posted RMB3.69 trillion, representing growth of 5.2 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

Institutional arrangements for bond lending were improved. In February 2022, the PBC released the *Measures for the Administration of Bond Lending in the Interbank Bond*

Market (*Announcement No.1 [2022] of the PBC*). The Measures improve the institutional arrangements for bond lending in the interbank bond market by unifying the content of bond lending agreements, launching central bond lending, and improving the mechanism for default resolution. Requirements on risk prevention are also clarified in the Measures, involving such aspects as the reporting of high-value lending, information disclosures, risk monitoring, and self-regulation, aiming to protect the legitimate rights and interests of market participants, increase bond market liquidity, and enable the better functioning and sound development of the financial market.

2. Reform and institutional arrangements in the securities market

The rule of law was strengthened in the capital market. In January 2022, the Supreme People’s Court released the *Several Provisions of the Supreme People's Court on the Trial of Civil Cases for Damages for the Tort of Misrepresentation in the Securities Market*, which raise the costs for unlawful acts in the capital market, ensure investors’ right to remedy, and provide a solid legal foundation for all market participants to perform their respective duties. In the same month, the CSRC released the *Provisions on the Implementation of the Rules for the Undertakings Made by Parties to Securities and Futures Administrative Law Enforcement*. The Provisions give full play to the merits of the rules for the undertakings made by the administrative law enforcement parties, provide investors with a new channel to get timely and effective remedies, and improve the quality and efficiency of administrative law enforcement.

The quality of information disclosures in the capital market was improved. In January 2021, the CSRC released the *Guiding Opinions on Improving the Quality of Information Disclosures in Prospectuses under the Registration System*, which urges issuers and agencies to perform their duties by making the prospectuses more readable, investment decisions more relevant, and information disclosures more targeted.

The capital market was further opened up. In February 2022, the CSRC released the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges.* The Provisions expand the channels for two-way financing, promote the global distribution of elements, and improve the competitiveness of China’s capital market and its capability to serve the real economy.

3. Institutional arrangements in the insurance market

The related-party transactions of insurance institutions were regulated. In January 2022, the CBIRC released the *Rules on Related-Party Transactions of Banking and Insurance Institutions*, which introduce requirements on the number and scale of related-party transactions. Following the principle of substance over form and penetrating regulation, they improve the recognition of related parties and their transactions, focusing particularly on the risks of tunneling that directs profits to shareholders and their related parties. The Rules also require institutions to shoulder primary responsibility for managing related-party transactions and specify the punishment of institutions and their directors, supervisors, and senior executives for violations.

The underwriting and claim payments of agricultural insurance were regulated. In February 2022, the CBIRC released the *Rules on Underwriting and Claim Payments of Agriculture Insurance*. Based on the *Interim Rules on Underwriting and Claim Payments of Agriculture Insurance* and the experience gained in the reform, and the development and regulatory practice of agricultural insurance in recent years, the newly-introduced Rules center more on serving agriculture, rural areas, and rural residents, and include forest insurance as an object of regulation. They also further clarify the content and requirements of insuring information and stipulate different inspection targets of the subject-matter insured according to different types of insurance. Furthermore, the Rules cover such aspects as unifying time limits for loss assessments, stressing the prohibition of swindling premium subsidies, and highlighting insurance technology.

The regulatory arrangements of reserves of the non-life insurance business were improved. In March 2022, the CBIRC released the *Implementation Measures of the Rules on Reserves of the Non-life Insurance Business of Insurance Companies (Nos.1–7)*. Targeting new cases and problems such as the discretionary adjustments of branches' reserves and adjusting profits through reserves in some insurance companies, the Measures make clear the principles and methodology of reserve assessments and strengthen the institutional weak links by regulating the treatment of risk margins and discounting in reserve assessments, the reserve management of insurance company branches, and the retrospective analysis of reserves.

Part 4. Macroeconomic Overview

I. Global economic and financial developments

The global economy slowed down in the first quarter due to, among others, the resurgence of COVID-19, growing geopolitical tensions, and faster tightening of monetary policy in the major advanced economies. Overseas inflationary pressures continued to rise, and the price of energy, metals, and agricultural products surged. Volatility has increased in global financial markets, and the prospects for a global economic recovery have become increasingly complex and uncertain.

1. Economic performance and financial markets in the major economies

Downward pressures on global growth have emerged. COVID-19 resurged sharply earlier this year, with the global daily confirmed cases approaching 4 million once in January. Though the number of confirmed cases dropped notably in March and April, the future path of COVID-19 still remains uncertain. In February, escalation of geopolitical tensions put a further drag on the global economic recovery. In March, the consumer confidence index in the US, the euro area, and Japan fell by 11.2, 10.3, and 6.3 percentage points, respectively, from December 2021. The manufacturing purchasing managers' index (PMI) dropped from 58.8, 58.0, and 54.3 in December 2021 to 57.1, 56.5, and 54.1. In April, the International Monetary Fund (IMF) and the World Bank revised downward their global growth forecasts for this year, both expressing concerns about the economic slowdown.

The recovery of labor supply was sluggish in the advanced economies, and inflation continued to rise. Job vacancies in the US hit 11.266 million in February, exceeding 10 million for eight consecutive months. The average hourly wage in the US increased by 5.6 percent year on year in March, while the average weekly wage in the UK went up by 5.4 percent year on year in February, both way higher than the less than 3 percent average annual growth in the three years prior to the outbreak of COVID-19. The wage-price spiral was more pronounced in the advanced economies, which persistently pushed up inflation. In March, the Consumer Price Index (CPI) was up by 8.5 percent in the US and by 7.0 percent in the UK compared with the previous year, reaching a 40-year and 30-year high, respectively. In April, the Harmonized Indices of Consumer Prices (HICP) in the euro area rose by 7.5 percent over the prior year, a new record high since the statistics became available. Inflation also continued in some emerging economies. In March, the IPCA in Brazil and the CPI in India were up by 11.3 percent and 7.0 percent year on year, respectively.

Volatility increased in global financial markets. First, geopolitical conflicts have sent the price of energy, metals, and other commodities on a roller-coaster ride. In the first quarter, the price of Brent crude oil was once close to USD140 per barrel, a new record high since 2008, and it finished the quarter by jumping 36 percent. Given the sharp swings in the price of nickel, the London Metal Exchange on one occasion suspended the trading of nickel futures and changed the trading rules. Second, major stock indices declined across the board. The Dow Jones Industrial Average, the STOXX50, and the Nikkei 225 dropped 4.6 percent, 9.2 percent, and 3.4 percent, respectively, in the first quarter, reflecting heightened volatility. Third, the yield on government bonds rose sharply as the major advanced economies quickened the pace of their monetary policy tightening. In the first quarter, the yields on 10-year government bonds in the US, Germany, and the UK went up by 60 to 80 basis points (bps). The yield on 10-year US Treasuries rose to 2.3 percent at the end of March, and hit 3.1 percent on May 6, an all-time high since November 2018.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q1 2021			Q2 2021			Q3 2021			Q4 2021			Q1 2022		
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	Real GDP Growth (annualized quarterly rate, %)	6.3			6.7			2.3			6.9			-1.4		
	Unemployment Rate (%)	6.4	6.2	6.0	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6
	CPI (year-on-year, %)	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5
	DJ Industrial Average (end of the period)	29983	30932	32982	33875	34529	34503	34935	35361	33844	35820	34484	36338	35132	33893	34678
Euro Area	Real GDP Growth (year-on-year, %)	-0.9			14.6			4.1			4.7			5.0		
	Unemployment Rate (%)	8.3	8.2	8.2	8.2	8.1	7.9	7.6	7.5	7.3	7.2	7.1	7.0	6.9	6.8	-
	HICP (year-on-year, %)	0.9	0.9	1.3	1.6	2.0	1.9	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.4
	EURO STOXX 50 (end of the period)	3481	3636	3919	3975	4039	4064	4089	4196	4048	4251	4063	4298	4175	3924	3903
United Kingdom	Real GDP Growth (year-on year, %)	-5.0			24.5			6.9			6.6			-		
	Unemployment Rate (%)	5.1	5.0	4.9	4.8	4.8	4.7	4.6	4.5	4.3	4.2	4.1	4.1	3.9	3.8	-
	CPI (year-on-year, %)	0.7	0.4	0.7	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0
	FTSE 100 (end of the period)	6407	6483	6714	6970	7023	7037	7032	7120	7086	7238	7059	7385	7464	7458	7516
Japan	Real GDP Growth (annualized quarterly rate, %)	-2.2			2.4			-2.8			4.6			-		
	Unemployment Rate (%)	3.0	2.9	2.7	2.8	2.9	2.9	2.8	2.8	2.8	2.7	2.8	2.7	2.8	2.7	2.6
	CPI (year-on-year, %)	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2
	Nikkei 225 (end of the period)	27663	28966	29179	28813	28860	28792	27284	28090	29453	28893	27822	28792	27002	26527	27821

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

2. Monetary policies of the major economies

The major advanced economies quickened their pace of monetary policy tightening. The Federal Reserve (Fed) hiked the federal funds rate by 25 bps in March and by 50 bps in May to a target range of 0.75–1 percent, kicking off a new cycle of rate hikes since December 2018. In its March dot plot, the median forecast for the federal funds rate at the end of 2022 was 1.75–2 percent, which means a total hike of 175 bps this year. Seven of the 16 members argued for bigger rate increases. In addition, the Fed finished asset purchases in March and announced during the Federal

Open Market Committee meeting in May that it would begin reducing its holdings of Treasury securities and agency mortgage-backed securities on June 1 initially by USD30 billion and USD17.5 billion per month, respectively, which would then increase to USD60 billion and USD35 billion after three months, respectively. The European Central Bank kept its key policy rates unchanged. It discontinued net purchases under the pandemic emergency purchase program at the end of March and decided to finish the asset purchase program earlier. Monthly net purchases stood at EUR40 billion, EUR30 billion, and EUR20 billion respectively in the second quarter, smaller than the original plan of EUR40 billion for each month. It may end net purchases in the third quarter. After starting to raise rates last December, the Bank of England (BOE) raised the Bank Rate in February, March, and May of this year, each by 25 bps to 1.0 percent. When it met in February, the BOE's Monetary Policy Committee (MPC) voted unanimously to begin reducing the Bank's balance sheet. The MPC announced in May that it would consider beginning the process of selling UK government bonds. The Bank of Japan maintained a loose monetary policy. Among the other central banks, the Bank of Canada, the Reserve Bank of New Zealand, and the Bank of Korea all raised rates on one occasion in the first quarter, each by 25 bps, and hiked rates on one occasion in April again by 50 bps, 50 bps, and 25 bps respectively.

Several emerging economies continued to raise interest rates. To address domestic inflationary pressures and the risk of capital outflows, some emerging economies continued with rate hikes. In the first quarter, the central banks of Brazil, Mexico, and South Africa increased their rates twice by a total of 250 bps, 100 bps, and 50 bps, respectively, while the central banks of India, Indonesia, and Turkey kept their benchmark rates unchanged.

3. Issues and trends that merit attention

Rising geopolitical tensions are weighing down on the global economic recovery. Escalating geopolitical tensions have led to higher commodity prices, such as energy and metals. Growing trade and supply chain disruptions may further push up global inflation and derail the economic recovery, adding more uncertainties to the global economy whose recovery has already been uneven and insufficient. They have also triggered both supply and demand shocks, dampened the momentum for recovery, and prolonged the high inflation in overseas markets. Financial market volatility may also be amplified substantially.

The implications of a faster monetary policy tightening in the major advanced economies are emerging. Against the backdrop of a faster monetary policy shift in the major advanced economies since 2022, volatility has increased sharply in global equity, bonds, and foreign exchange markets. Policy spillovers have been felt, as cross-border capital flows are becoming more unstable. However, the tightening of monetary policy in the advanced economies has just started. How it will evolve down the road and the implications thereof merit close attention.

The global recovery remains highly diverse, with the developing countries facing challenges. On the one hand, supply strains in raw materials and basic agricultural products may deal a systematic blow to global food and energy security. In particular, import-dependent developing countries face bigger pressures. On the other hand, limited capacity for COVID-19 prevention, coupled with the slower economic recovery, huge debt overhang, and tighter global liquidity will put the debt-servicing capacity of the developing countries to a test. Nor should cross-border capital flows, financial market adjustments, and other financial security issues be neglected. According to the IMF, half of the low-income countries are in or at a high risk of debt distress.

II. Macroeconomic developments in China

In Q1 2022, faced with multiple tests brought about by the increasingly complex and severe international environment and the frequent occurrences of COVID-19 domestically, China's economy continued to recover steadily, and the quality of development continued to improve. The national economy got off to a generally steady start. According to preliminary statistics, GDP in Q1 2022 grew by 4.8 percent year on year to RMB27.0178 trillion on a comparable basis, up 0.8 percentage points from Q4 2021.

1. Consumption and investments were stable, and imports and exports recorded rapid growth

The increase in residents' income kept pace with economic growth, and consumption maintained growth. In Q1, China's per capita disposable income reached RMB10345, increasing by 6.3 percent year on year in nominal terms, or 5.1 percent in real terms. 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 Q1, 23.7 percent of residents were inclined to "consume more," down 1 percentage point from Q4 2021 and up 1.4 percentage points year on year, respectively. In Q1, total retail sales of consumer goods grew by 3.3 percent year on year.

Investments grew steadily with an improved structure. In Q1, total fixed-asset investments throughout China (excluding those by rural households) increased by 9.3 percent year on year. In terms of sectors, investments in manufacturing increased by 15.6 percent, 6.3 percentage points higher than the growth of total investments. Investments in infrastructure and real estate development increased by 8.5 percent and 0.7 percent year on year, respectively, both lower than the growth of total investments. In terms of industries, investments in the high-tech industry grew by 27.0 percent year on year, 17.7 percentage points higher than the growth of total investments. Investments in health and education grew by 23.8 percent and 17.2 percent year on year, respectively.

Imports and exports recorded rapid growth. In Q1, imports and exports of goods grew by 10.7 percent year on year. Specifically, exports grew by 13.4 percent year on year and imports grew by 7.5 percent year on year, with the trade surplus in goods posting RMB1.0369 trillion. The trade structure continued to improve, with the share of imports and exports under general trade increasing by 1.8 percentage points year on year. Exports of machinery and electronics and high-tech products increased by 9.8 percent and 10.6 percent year on year, respectively, accounting for 58.4 percent and 29.2 percent of total exports, respectively. Our trading partners are becoming more diversified. Imports and exports to the countries along the Belt and Road and the RCEP (Regional Comprehensive Economic Partnership) trading partners grew by 16.7 percent and 6.9 percent, respectively.

Foreign direct investments (FDI) continued to gather in the high-tech industries. In Q1, actually utilized FDI increased by 25.6 percent year on year to RMB379.87 billion (equivalent to USD59.09 billion), growing by 31.7 percent year on year (excluding investments in banking, securities, and the insurance industry). In terms of sectors, FDI in the high-tech industry and the services industry grew rapidly. In Q1 2021, actually utilized FDI in the high-tech industry grew by 52.9 percent year on year. Specifically, actually utilized FDI in the high-tech services industry grew by 57.8 percent year on year and actually utilized FDI in the high-tech manufacturing industry grew by 35.7 percent year on year. Actually utilized FDI in the services industry grew by 17.1 percent year on year.

2. Agricultural production made stable progress, industrial production grew rapidly, and the service industry continued to recover

In Q1, the value-added of the primary, secondary, and tertiary industries in the national economy grew by 6.0 percent, 5.8 percent, and 4.0 percent year on year, respectively, accounting for 4.1 percent, 39.3 percent, and 56.6 percent of GDP, respectively.

Agricultural production was stable, and animal husbandry grew steadily. Preparations for spring ploughing were carried out smoothly and orderly, the intended sowing area of wheat and rice was generally stable, and the intended sowing area of soybeans increased significantly. Annual grain output has been over 650 million tons for seven successive years, with sufficient total grain supply and abundant inventory. Hogs available for slaughter continued to grow and the production of beef and lamb grew steadily. In Q1, the value-added of agriculture increased by 4.8 percent year on year and hogs available for slaughter increased by 14.1 percent year on year. The output of pork, beef, lamb, and poultry grew by 8.8 percent year on year.

Industrial production grew rapidly, and the high-tech manufacturing sector continued to play a leading role. In Q1, the value-added of Industrial Enterprises Above a

Designated Size (IEDS) increased by 6.5 percent year on year. Specifically, the value-added of the mining sector increased by 10.7 percent year on year. The manufacturing sector increased by 6.2 percent year on year. The electricity, heat, gas and water production, and supply sectors increased by 6.1 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 14.2 percent and 8.1 percent year on year, which were 7.7 percentage points and 1.6 percentage points higher, respectively, than that of the IEDS. New energy cars, solar cells, and industrial robots grew by 140.8 percent, 24.3 percent, and 10.2 percent year on year, respectively. The profits of industrial enterprises increased steadily. In Q1, total profits of the IEDS increased by 8.5 percent year on year.

Growth in the service industry continued to recover. In Q1, the value-added of the service industry grew by 4.0 percent year on year. The Index of Service Production (ISP) increased by 2.5 percent year on year. Affected notably by the recent COVID-19 outbreaks, shopping malls, restaurants, and entertainment places in some areas closed down. (The recent COVID-19 outbreaks had a major impact on contact-based consumption, with shopping malls, restaurants, and entertainment venues closed in some areas.) In March, the retail sales of goods decreased by 2.1 percent year on year, and catering revenue decreased by 16.4 percent year on year. At the same time, due to poor logistics transportation and passenger transport running at a low level, the volume of business freight decreased by 1.9 percent and passenger flows decreased by 43.5 percent year on year in March. The growth of a modern service industry attained a good momentum, and telecommunications, radio and television and satellite transmission services, monetary and financial services and the insurance industry were still within a prosperous range. In Q1, the value-added of electronic information transmission/software/information technology services and the financial industry grew by 10.8 percent and 5.1 percent year on year, respectively.

3. Consumer prices increased moderately, and the increase in producer prices receded from the previous high level

Consumer prices increased moderately. In Q1, the CPI increased by 1.1 percent year on year. Specifically, the CPI in January and February increased by 0.9 percent year on year and rose by 1.5 percent year on year in March. The increase in international energy prices accelerated the rise in domestic fuel prices, and non-food prices increased by 2.1 percent year on year. Driven by declines in the price of pork, food prices decreased by 3.1 percent year on year. The year-on-year increase of producer prices receded from the previous high level. In Q1, the Producer Price Index (PPI) increased by 8.7 percent. Specifically, the growth rate of the PPI in January, February, and March registered 9.1 percent, 8.8 percent, and 8.3 percent, respectively, representing a downward trend. Policies aiming to ensure stable supplies and prices continued taking effect. The price increases in the coal sector and the steel sector declined slightly from the previous level.

The Purchasing Price Index for Industrial Products (PPIRM) increased by a cumulative 11.3 percent year on year, accelerating by 0.3 percentage points from 2021.

4. Fiscal revenue rose steadily, and expenditures accelerated

In Q1, revenue in the national general public budget posted RMB6203.71 billion, increasing by 8.6 percent year on year. Specifically, tax revenue amounted to RMB5245.16 billion, up 7.7 percent year on year. Non-tax revenue registered RMB958.55 billion, up 14.2 percent year on year. Among the main taxes, the domestic value-added tax increased by 3.6 percent year on year. Growth slowed down due to the continuation of tax deferrals for small and medium-sized manufacturing enterprises (SMEs). (Among the main taxes, due to the continuation of tax deferrals for manufacturing SMEs, growth of the domestic value-added tax slowed to 3.6 percent year on year.) The domestic consumption tax, business income tax, and personal income tax went up by 15.8 percent, 9.8 percent, and 16.5 percent year on year, respectively. In Q1, expenditures in the national general budget posted RMB6358.68 billion, increasing by 8.3 percent and an acceleration of 2.1 percentage points from the same period of the previous year. In terms of the structure of expenditures, expenditures related to disaster prevention and control, and emergency management, science and technology, and transportation grew quickly, registering year-on-year growth of 35.4 percent, 22.4 percent, and 10.9 percent, respectively. People's livelihood and other key areas were supported effectively. Expenditures on education, agriculture/forestry/water resource projects, social security and employment, and public health increased by 8.5 percent, 8.4 percent, 6.8 percent, and 6.2 percent, respectively.

5. The employment situation remained generally stable

New employment in the urban areas expanded and the surveyed unemployment rate increased slightly. In Q1, 2.85 million people were newly employed, and the surveyed unemployment rate averaged 5.5 percent, up 0.1 percentage points year on year. Specifically, the average surveyed unemployment rate among the main labor group between the ages of 25 and 59 was 4.9 percent, and the average unemployment rate among the population with local household registrations was 5.5 percent, both unchanged from 2021. Under the impact of COVID-19, several labor groups faced increasing employment pressures. In March, the unemployment rate among the migrant population with agricultural household registrations increased to 5.9 percent, higher than the urban unemployment rate for two consecutive months.

6. The balance of payments and the external debt

A basic equilibrium was maintained in the balance of payments in China. According to preliminary statistics, in Q1 2022, China's current account surplus registered USD89.5 billion, accounting for 2.1 percent of GDP, continuously staying within a reasonable range. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD145 billion, an increase of 18 percent year on year, whereas trade in services recorded a deficit of USD18.2 billion, down 30 percent year on year. A basic equilibrium was maintained in cross-border capital flows. Specifically, direct investments recorded a surplus of USD65 billion. At end-Q1 2022, foreign exchange reserves registered USD3.188 trillion, down USD62.2 billion from that at end-Q2021, mainly due to the depreciation of non-US currency against the US dollar, and the decline in global asset prices. The risks of foreign debt were generally controllable. By the end of 2021, the balance in the all-system foreign debt (denominated in both domestic and foreign currencies) posted USD2.7466 trillion, and medium- and long-term foreign debt accounted for 47 percent of all foreign debt. The Debt to GDP Ratio (the ratio of the total outstanding foreign debt to current GDP) was 15.5 percent. The Debt to Export Ratio (the ratio of total outstanding foreign debt to exports for the current year) was 77.3 percent. The Debt Service Ratio (the ratio of foreign debt service, including principal and interest payments due, to exports for the current year) was 5.9 percent. The ratio of short-term debt to foreign exchange reserves was 44.5 percent. All of the ratios were under the internationally recognized safe level.

7. Analysis by sector

7.1 The real estate sector

In March 2022, among 70 medium and large-sized cities nationwide, newly built residential housing prices increased by 0.7 percent year on year, decelerating by 1.3 percentage points from end-2021. Second-hand residential housing prices decreased by 0.9 percent year on year, decelerating by 1.9 percentage points from end-2021. In Q1 2022, total floor area of sold units decreased by 13.8 percent year on year. Housing sales decreased by 22.7 percent year on year. Investments in real estate development grew by 0.7 percent year on year. Specifically, investments in residential housing development rose by 0.7 percent year on year, accounting for 74.8 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 Q1 2022

	Floor area (100 million square meters)	YOY growth (%)	YOY acceleration (percentage points)
Floor area of newly started real estate projects	3.0	-17.5	-6.1
Floor area of real estate projects under construction	80.6	1.0	-4.2
Floor area of completed real estate projects	1.7	-11.5	-22.7

Source: National Bureau of Statistics of China.

At end-March 2022, outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) grew by 6 percent year on year to RMB53.2 trillion, a deceleration of 1.9 percentage points from end-2021. Specifically, outstanding individual housing loans grew by 8.9 percent year on year to RMB38.8 trillion, a deceleration of 2.4 percentage points from end-2021. Outstanding housing development loans dropped by 1.3 percent year on year to RMB9.5 trillion, a deceleration of 1.8 percentage points from end-2021.

7.2 The construction industry transforming toward the "30·60 goals"

Construction, covering housing construction, civil construction, installation, decoration, and others, is a pillar industry in the economy. In 2021, the construction industry contributed 7 percent to China's national GDP and employed more than 50 million people. In recent years, the industry rose up to the challenges brought about by the pandemic and other factors and ran smoothly. In Q1 2022, the industry remained an economic pillar as gross output rose by 9.2 percent year on year and the floor area of projects under construction grew by 3 percent year on year.

In the meantime, whole-life carbon emissions in the construction industry, counted in building material production, building construction, and building operations, accounted for 50.6 percent of the total carbon emissions in China,[1] which made the industry a key segment for achieving the "30·60 goals" and posed a number of challenges to its transition. First, the production of building materials emits much carbon. Whole-life carbon emissions in the construction industry amounted to 5 billion tons in China, with the production of building materials including cement and steel taking up 55 percent. Second, the large number of existing buildings and those under construction places great pressures on carbon emissions control. China has the largest number of existing buildings and newly built buildings within a year, with the urban building stock standing at 65 billion square meters and newly-started construction in 2021 registering 2 billion square meters. Third, there is still room for improvement in design philosophy and building technology, as well as in the policies, technologies, and implementation systems of green buildings. In addition, pressure is mounting in the construction industry as the development model in real estate is shifting and the costs of raw materials and labor are climbing. In 2021, the growth rate of construction enterprises' profits posted only 1.3 percent year on year. As for the industry, the profit-output ratio[2] dropped to 2.9 percent and the number of employees decreased by 1.6 percent year on year, respectively.

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[1] The data are from the *China Building Energy Consumption Annual Report (2021)*, compiled by the Professional Committee of Building Energy and Emissions.

[2] The profit-output ratio refers to the ratio of gross profits to gross production value.

Moving forward, following *The 14th Five-year Plan for the Development of the Construction Industry* and the *14th Five-year Plan for Building Energy Efficiency and Green Building Development,* it is suggested that the building performance should be continuously improved, the green and low-carbon transformation of the construction industry should be greatly boosted, and the coordinated development of intelligent construction and new construction industrialization should be accelerated. To achieve these, the following efforts are needed. First, advocating a green and low-carbon design philosophy for buildings, strengthening research and development of generic and core technology, and enabling better development and energy conservation for green construction. Second, transforming more buildings into green and energy-saving buildings and promoting the large-scale development of green buildings. It also helps by making existing residential buildings more energy efficient, strictly controlling the construction of high energy-consuming public buildings, and piloting the construction of zero carbon buildings. Third, improving the mechanism of the construction market by upgrading the management system of enterprise qualifications, strengthening the research and development of core technology, building a system of standards for advanced and applicable intelligent construction, and establishing a regulatory mechanism for the new construction market.

Part 5. Monetary Policy Outlook

I. Outlook for the Chinese economy

In Q1, GDP saw year-on-year growth of 4.8 percent, and the Chinese economy was off to an overall stable start. Agricultural production was stable, and preparations for spring ploughing and sowing proceeded in an orderly manner. Industrial production grew rapidly, the momentum for innovation development continued, and industrial upgrading was a prominent driving force. Growth of the value-added of the high-tech manufacturing sector and the equipment manufacturing sector were significantly higher than that of all Industrial Enterprises Above a Designated Size (IEDS). The people's livelihood and residential income continued to improve. Investments in the manufacturing sector maintained rapid growth, and investments in infrastructure rebounded strongly. Green transformation proceeded steadily, with energy consumption per GDP continuing to decline. Foreign investment and foreign trade continued to achieve double-digit growth, an equilibrium was maintained in the balance of payments, and foreign exchange reserves remained stable at over USD3.1 trillion. Macro policies were proactive, a sound monetary policy was implemented to intensify intertemporal adjustments, and the financial aggregate increased stably, providing stronger support for the real economy. The quality and efficiency of the proactive fiscal policy were enhanced, and effective investments were significantly accelerated.

Overall, consumer prices are stable. In Q1 2022, due to the continuous decline of domestic pork prices, the CPI growth remained at a relatively low level, with a cumulative year-on-year increase of 1.1 percent. Specifically, the year-on-year increase in March registered 1.5 percent. In the future, the CPI may increase moderately compared with last year, but it will continue to move within a reasonable range. At the same time, year-on-year growth of the PPI in each month of Q1 moderated. Specifically, the PPI grew by 8.3 percent year on year in March, narrowing 5.2 percentage points from last year's highest point. In the future, the overall downward trend of the PPI may continue, but it also needs to guard against the pressures of imported inflation brought about by the rise in global commodity prices. Overall, China's economic performance remains within a reasonable range. The supply of industrial and agricultural products and services is generally adequate, the demand for consumption and investment is still in the recovery zone, and monetary policy remains sound, all of which are conducive to keeping prices stable for the medium and long term.

Recently, COVID-19 and the crisis in Ukraine have led to an increase in risks and challenges, and the development environment of the Chinese economy is becoming more complex and severe, with increasing uncertainties. From an external perspective, first, the international geopolitical tensions have not only disrupted global food and energy supplies, resulting in large fluctuations in commodity prices, but also have disrupted supply chains and international trade, hindering the process of globalization. Second, inflation in the major developed economies has hit a decade high, and the developed countries are accelerating and stepping up efforts to tighten monetary policy, which may bring about new disruptions and spillover effects. Third, the global pandemic is still spreading, bringing disruptions and challenges to the world economic recovery. In April, the World Bank and the International Monetary Fund lowered the global economic growth forecasts for 2022 by 0.9 and 0.8 percentage points to 3.2 and 3.6 percent, respectively. **From a domestic perspective,** the Chinese economy is still faced with triple pressures from shrinking demand, supply shocks, and weakening expectations. An outstanding manifestation is that the recent outbreak of the pandemic has appeared in many places, with broad coverage and frequent occurrences, and it has a greater impact on economic performance. First, contact-based consumption in sectors such as catering, retail, and tourism is weakening, and investment in some sectors has not bottomed out. Second, some enterprises have halted or reduced production, and difficulties faced by market entities have obviously increased. Third, frictions appear in freight logistics and operations of the industrial chain and supply chain, which have constrained the smooth flow of economic circulation.

However, it should be noted that there are many strategic advantages to China's development at present. The Chinese economy is enormous in size with large room for policy maneuvering and it is highly resilient and vigorous. It also has a super-large market, and the fundamentals for long-term steady growth remain unchanged. We have the capability and the conditions to overcome the difficulties and challenges and to achieve sustainable and healthy economic development. In response to the difficulties, we should remain confident, take proactive and decisive actions to cope with the changes and to overcome the difficulties, coordinate pandemic containment and socio-economic development, deepen reform and opening-up, ensure the people's basic livelihood, and strive to stabilize the macro economy.

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, as well as the requirements set out in the *Report on the Work of the Government*. In line with the decisions and arrangements of the CPC Central Committee and the State Council, it will adhere to the principle of giving top priority to stability while pursuing progress, apply the new development philosophy fully, faithfully, and comprehensively, and accelerate the building of a new development paradigm. It will deepen the supply-side structural reform and support the efforts to stabilize growth, employment, and prices. Furthermore, it will build a modern central banking system, improve the modern monetary policy framework, and promote high-quality development. Striving to maintain macroeconomic stability, the PBC will keep the economic indicators within a reasonable range and do its part to set the stage for the upcoming 20th CPC National Congress.

In pursuing a sound monetary policy, the PBC will step up support for the real economy, give top priority to stability, and act proactively to boost confidence. It will conduct intertemporal adjustments, resolutely refrain from launching a deluge of strong stimulus policies, and give play to the monetary policy tools in adjusting both the aggregate and the structure. It will effectively implement the financial policy measures aimed at stabilizing enterprises and securing employment, with a focus on giving support to micro and small businesses (MSBs) and COVID-stricken industries and groups. Through the proper use of monetary policy tools of different types, the PBC will keep liquidity adequate at a reasonable level and make the growth of credit aggregates more stable, so 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 the macro leverage ratio will remain basically stable. By actively using structural monetary policy tools to provide additional support, the PBC will guide financial institutions to issue loans reasonably so as to channel more financial resources to key fields and weak links as well as to those enterprises and industries hit hard by COVID-19. It will increase, when appropriate, the quotas of central bank lending for the agricultural and rural sector and MSBs, while making good use of the inclusive MSB lending facility, the central bank lending for sci-tech innovation, and the special central bank lending for inclusive elderly care services. Concrete work will be done to put into use the carbon emission reduction facility (CERF) and the special central bank lending for clean and efficient use of coal. In addition, the PBC will enhance the market-oriented interest rate formation and transmission mechanism by optimizing the central bank policy rate system, strengthening the regulation of deposit rates, and bringing into play the important role of the mechanism for market-oriented deposit rate adjustments. It will put more efforts into stabilizing bank liability costs, further tap into the loan prime rate (LPR) reform and bring down the overall financing costs for enterprises. Keeping a close watch on price movements, it will provide support for sufficient production and supply of food and energy and keep prices generally stable. Committed to a managed floating exchange- rate regime that is based on market supply and demand with reference to a basket of currencies, the PBC will strengthen macro-prudential management of cross-border capital flows, enhance expectation management, and guide market entities to be risk-neutral, thereby maintaining the normal operation of the foreign exchange market and keeping the RMB exchange rate basically stable at an adaptive and equilibrium level. While paying close attention to monetary policy shifts in the major advanced economies, the PBC will focus on domestic conditions and properly balance internal and external equilibria. In the meantime, it will uphold bottom-line thinking, improve the holistic approach, and make coordinated efforts to forestall and defuse major financial risks based on market principles and the rule of law. With these efforts, it will firmly defend the bottom line whereby no systemic risk will occur.

First, the PBC will maintain stable growth in money, credit, and the AFRE. It will closely follow the development of a number of uncertainties at home and abroad to make in-depth analysis of liquidity supply and demand. While a mix of monetary policy tools will be used to keep liquidity adequate at a reasonable level, it will further improve the foresightedness, flexibility, and effectiveness of its operations to better stabilize market expectations. Moreover, 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 issue loans in a reasonable manner, and make the growth of credit aggregates more stable. In this way, the growth rates of money supply and the AFRE are expected to remain basically in line with nominal economic growth. The PBC will also 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 make effective use of the policies on central bank lending and discounts for the agricultural and rural sector and MSBs, increase the quotas of such lending when appropriate, and give play to the inclusive MSB lending facility. At the same time, it will ramp up support for agro-related entities, for the service industries requiring direct contacts, such as the hotel and catering industry, wholesale, retail, and tourism, which have been severely affected by COVID-19, and for other industries that have prospects but have met with temporary difficulties due to the impact of COVID-19. The PBC will continue to put into operation the special central bank lending for clean and efficient use of coal, meet the reasonable demands regarding production and construction for coal security, coal purchases by power companies, coal reserves, and other fields of the like, and will help ensure the stable supply of energy, such as electricity and coal. With the practical application of the CERF, the PBC will increase support for major wind and photovoltaic power bases and the upgrading of the supporting coal-fired power plants. The aim is to promote the transition to a green and low-carbon economy while ensuring a secure energy supply. In addition, the PBC will pick up pace in moving ahead with the implementation of the two lending facilities, i.e., the special central bank lending for sci-tech innovation and that for inclusive elderly care services, which will provide support for the issuance of loans that meet the criteria. These measures will guide financial institutions to intensify financial support for enterprises in their technological development and transformation and for institutions offering inclusive elderly care services.

Third, the PBC will build the systems and mechanisms needed to provide effective financial support for the real economy. More work will be done to implement the financial relief policies already introduced. The PBC will urge and guide financial institutions to act in a proactive and targeted manner and issue loans reasonably. It will require financial institutions to make every effort to support MSBs in difficulty and provide differentiated financial services for COVID-stricken sectors. It will step up financial support for core enterprises in the industrial and supply chains and support the healthy development of private businesses. All-out efforts will be made to provide financial safeguards for food security as well as the production and sales of major agricultural products. Moreover, the PBC will provide financial services to support the supply of coal and other energies while stepping up financial support for the smooth operation of logistics and transport as well as for effective investment. It will push for the implementation of the circular on providing financial support for the priority work in rural revitalization, guide financial institutions to optimize resource allocations, take targeted measures early on, and effectively ramp up financial support for the agricultural sector, rural areas, and farmers, thereby moving further ahead with rural revitalization. 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 keeping land prices, housing prices, and expectations stable. It will prudently implement the regulations on prudential management of real estate finance and support fine-tuning of real estate policies based on local realities to meet the rigid demand for housing and the needs to improve living conditions. Meanwhile, it will increase financial support for the rental of housing, protect the legitimate rights and interests of consumers in the market, 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 improve the market-oriented interest rate formation and transmission mechanism by optimizing the central bank policy rate system and guiding market rates to move around the policy rates. The PBC will strengthen the regulation of deposit rates and bring into play the important role of the mechanism for market-oriented deposit rate adjustments. It will put more efforts into stabilizing bank liability costs, further tap into the LPR reform, and bring down the overall financing costs for enterprises. Taking steady steps to deepen the market-oriented exchange rate reform, the PBC will improve the managed floating exchange rate regime that is based on market supply and demand with reference to a basket of currencies, enhance the RMB exchange rate flexibility, and give play to 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 improve the services of exchange rate risk management for enterprises, offer guidance to financial institutions on providing services of exchange rate risk hedging for micro, small, and medium-sized enterprises with authentic needs based on a risk-neutral concept, on reducing the costs of risk hedging for enterprises, 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 the 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 advance 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. By doing so, 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 a higher-quality opening-up of the bond market. It will also enhance the efficiency and interconnectivity of the multi-tiered market system, cultivate diversified and qualified investors, and boost innovation in the bond market to intensify its support for key fields and weak links. 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 reinforce monitoring and resolution of bond market risks and act in a timely way to forestall and defuse the risks. It will step up efforts on unified law enforcement in the bond market, and crack down on illegal and irregular conduct.

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 and to enrich the macro-prudential policy tools in the toolkit. The PBC will improve the regulation of systemically important financial institutions. It will push systemically important banks to meet the additional regulatory requirements as scheduled. At the same time, it will pick up pace in pushing China's global systemically important banks to establish and improve their total loss-absorbing capacity so as to effectively enhance their risk prevention abilities. Coordinated efforts will be made to supervise and regulate financial holding companies. Work will move on stably to implement the requirement that non-financial enterprises which fall under the prescribed circumstances should apply for the establishment of financial holding companies according to the law. And the PBC will continue to improve the relevant rules and regulations to promote the well-regulated and sustainable development of financial holding companies. Furthermore, it will strengthen the financial legal system. With the drafting of the *Law on Financial Stability* and the establishment of the Financial Stability Fund, it will institutionalize and further improve the long-term mechanisms for financial risk prevention, mitigation, and resolution, aiming to put in place a routine mechanism for risk resolution that is market-oriented and law-based. Continuing to follow the principles of "maintaining overall stability, taking a coordinated approach, adopting differentiated measures, and defusing bombs with precision," the PBC will prevent and defuse financial risks by focusing on its top priorities. It will adopt differentiated approaches in the process, reduce existing risks, and strictly guard against emerging risks. It will keep a close watch on risks in key fields and enhance the foresightedness, timeliness, and effectiveness of risk identification, while enriching and improving early corrective measures. It will leverage regulatory resources and risk resolution resources in a coordinated manner by strengthening both horizontal and vertical coordination. The PBC will work to ensure that financial institutions and their shareholders, local governments, and financial regulators fulfill their respective responsibilities so as to join efforts in risk resolution and effectively implement the corresponding measures. It will also improve the mechanism for financial risk accountability and hold accountable those responsible for major financial risks to effectively prevent moral hazards, thereby defending the bottom line whereby no systemic risk will occur.