China Monetary Policy Report

Q2 2022

(August 10, 2022)

Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2022, against the backdrop of the complex and severe international environment and in the face of the arduous task of pressing ahead with reform and development while ensuring stability at home, China has coordinated COVID-19 containment and social and economic development and has strengthened macro policy adjustments under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core. Pandemic containment has achieved positive results, and social and economic development has made new progress. The GDP achieved positive growth against pressures, registering year-on-year growth of 2.5 percent in H1 and 0.4 percent in Q2. Prices remained stable amid global inflation surge, with the CPI recording year-on-year growth of 1.7 percent in H1. 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. It sought progress while giving top priority to stability, pursued a sound monetary policy that was flexible and appropriate, and effectively implemented a package of policies and measures to stabilize the economy. It was firm in contributing to the stability of the national economy.

First, liquidity was kept adequate at a reasonable level. In H1, the PBC lowered the required reserve ratio (RRR) by 0.25 percentage points, turned over RMB900 billion of its accumulated profits to the central government, and injected liquidity through multiple channels, such as central bank lending and discounts, the Medium-term Lending Facility (MLF) operations, and open market operations (OMOs), in a bid to enhance the stability of aggregate credit growth. It increased the credit quota for development and policy banks by RMB800 billion and facilitated the launch of policy-based and developmental financial instruments at a scale of RMB300 billion to support medium- and long-term loans for infrastructure. **Second,** the structural monetary policy toolkit was enriched and improved. Incentive funding support for inclusive micro and small business (MSB) loan facilities was raised from 1 percent to 2 percent, an additional RMB100 billion was provided for special central bank lending for clean and efficient coal use, three new structural tools were launched, namely central bank lending for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics, and the credit line was increased for emergency loans for civil aviation. With these measures, the PBC encouraged financial institutions to improve their credit structure and to provide targeted support for key areas. **Third,** overall financing costs for businesses were guided to remain stable with a slight decline. The PBC guided an appropriate decline of 7-day repo rates, MLF rates, and the one-year and above-five-year loan prime rates (LPR) by tapping into the LPR reform effects and its guiding role. A mechanism for market-oriented adjustment of deposit rates was established to enhance supervision of deposit rates and to stabilize liability costs for banks. **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 the decisive role of the market in the RMB exchange rate formation, 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,** the bottom line whereby no systemic risks will occur was firmly defended. The PBC upheld market principles and the rule of law for risk resolution, in a bid to continuously mitigate financial risks.

Overall, since the beginning of 2022, following the requirements to contain the pandemic, to stabilize the economy, and to ensure safe development, the PBC has intensified implementation of a sound monetary policy and rendered stronger support to the real economy. In H1, new RMB loans reached RMB13.68 trillion, RMB919.2 billion more than their growth in the same period of the last year. At end-June, broad money (M2) and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 11.4 percent and 10.8 percent, respectively, an acceleration of 2.4 and 0.5 percentage points, respectively, from end-2021. Key areas and weak links, such as MSBs and sci-tech innovation, received more support from the financial sector. At end-June, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 23.8 percent and 29.7 percent year on year, respectively. In June, the weighted average rate on corporate loans registered 4.16 percent, down 0.42 percentage points from the same period of the last year, representing a record low. The RMB exchange rate moved in both directions and remained basically stable at an adaptive and equilibrium level.

It should also be noted that globally, with slower economic growth, elevated inflation, and persistent geopolitical tensions, the external environment has become more severe and complicated, while domestically, the foundation for economic recovery has yet to be strengthened and structural inflation pressures are likely to rise. In spite of this, on the whole the fundamentals for China's sound economic growth over the long run remain unchanged. The economy remains highly resilient, and there are abundant macro policy adjustment tools and favorable conditions for promoting high-quality economic development. Therefore, we should stand firm strategically and focus on our own affairs. 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, it will pursue progress while ensuring stability and it will 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 deepen the supply-side structural reform, develop a modern central banking system, and improve the framework for a modern monetary policy. In addition, the PBC will ensure solid implementation of policies and measures, work to stabilize employment and prices, and give effective investment a key role so as to consolidate the economic rebound.

The PBC will strengthen implementation of the sound monetary policy and give play to the role of monetary policy instruments in adjusting both the aggregate and the structure. It will take proactive measures to boost confidence. With proper intertemporal adjustments, it will balance short-term and long-term perspectives, economic growth and price stability, as well as internal and external equilibria. It will resolutely refrain from launching a deluge of strong stimulus policies and there will be no excessive money supply. With these efforts, it will provide stronger and higher-quality support for the real economy. While keeping liquidity adequate at a reasonable level, the PBC will encourage greater credit support for businesses. With policy-based and developmental financial instruments in place, key support will be directed toward infrastructure construction. Meanwhile, the PBC will maintain reasonable growth of M2 and the AFRE. The aim is to achieve the best possible economic performance. Keeping a close watch on inflationary situations both at home and abroad, the PBC will work to consolidate favorable conditions for stable and growing grain production and for smooth functioning of the energy market at home. With proper preparations and management, it will keep prices basically stable. Structural monetary policy tools will play a supportive role so that more support will be provided for inclusive MSB loans and for stable employment in micro, small, and medium-sized enterprises. The PBC will make good use of the carbon emission reduction facility (CERF) as well as central bank lending for clean and efficient coal use, for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics. More financial resources will be channeled to key areas, weak links, as well as to those businesses and industries that have been hard hit by COVID-19, and new economic growth points will be cultivated. The PBC will improve the market-oriented interest rate formation and transmission mechanism and will optimize the central bank policy rate system. While enhancing regulation over deposit rates, it will ensure that the mechanism for market-oriented adjustments of deposit rates will play an important role and will contribute to stabilizing the liability costs for banks.

The overall financing costs for businesses are expected to drop, with the LPR reform continuing to unleash its potential and playing a guiding role. The PBC will pay close attention to economic developments in the developed economies as well as to the spillover effects of their monetary policy shifts, and it will focus on domestic issues while properly balancing internal and external equilibria. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBC will maintain bottom-line thinking and strengthen macro-prudential management for cross-border capital flows so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Following market principles and the rule of law, it will coordinate efforts for economic development and risk prevention, keep the financial system generally stable, and firmly defend the bottom line whereby no systemic risks will occur. With great efforts to stabilize the macro economy, to keep economic performance within a reasonable range, and to achieve the best possible outcome, the PBC will do its part to set the stage for the 20th CPC National Congress.

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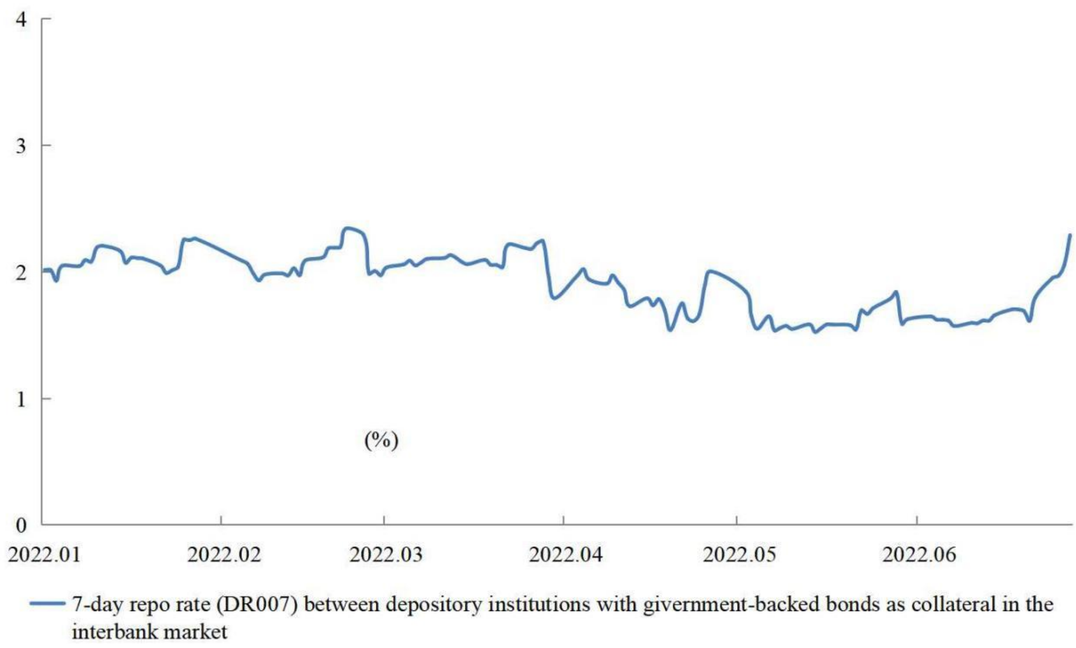
I. Liquidity in the banking system was adequate at a reasonable level

Since the beginning of 2022, the PBC has given top priority to the stability of monetary policy, made progress while maintaining stability, and taken prompt measures at an early stage based on changes in the macro situation. It has adopted a mix of instruments, such as the required reserve ratio (RRR) cut, turning over profits to the central treasury, the medium-term lending facility (MLF), central bank lending and discounts, and open market operations (OMOs), to inject liquidity into the market. It has also managed the intensity and pace of OMOs in a flexible manner, kept liquidity in the banking system adequate at a reasonable level, and brought down money market interest rates, creating a favorable liquidity environment for stabilizing the macro economy and keeping the economic indicators within a reasonable range. At end-June 2022, the excess reserve ratio of financial institutions registered 1.5 percent, up 0.1 percentage points year on year.

Figure 1 Movement of Money Market Interest Rates



Source: www.chinamoney.com.cn.

II. Lending by financial institutions grew rapidly, and lending rates remained at low levels

Credit support for the real economy was strengthened. Since the beginning of Q2, due to the outbreak of COVID-19 and the downward pressures on the economy, enterprises, especially micro, small, and medium-sized enterprises (MSMEs), have been faced with increasing operational difficulties, For a period of time, their demands for credit have been waning and the growth of loans has slowed down. In response, the PBC successively held a number of symposia on the monetary and credit situations, inviting participation by major financial institutions, the PBC branches at various levels, and its affiliated institutions, as well as the heads of the policy banks, respectively. Financial institutions were encouraged to increase lending based on prudent operations and in line with market-based principles. With the accelerated implementation of a package of policies and measures to stabilize the economy, positive results have been achieved to contain COVID-19, market expectations have been improving, and marginal demand for credit has been picking up since late May. RMB-denominated loans witnessed a substantial year-on-year increase in both May and June. At end-June, outstanding loans issued by financial institutions in domestic and foreign currencies grew 10.8 percent year on year to RMB212.3 trillion, an increase of RMB13.8 trillion from the beginning of 2022, or a year-on-year acceleration of RMB629.2 billion. Outstanding RMB-denominated loans grew 11.2 percent year on year to RMB206.4 trillion, up RMB13.7 trillion from the beginning of 2022, or a year-on-year acceleration of RMB919.2 billion.

Box 1 Implementation of Financial Policies to Facilitate an Economic Recovery

Since the beginning of 2022, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBC has, implemented the decisions and arrangements of the CPC Central Committee and the State Council by attaching more importance to stabilizing growth. It has enhanced implementation of sound monetary policies, given better play to both aggregate and structural monetary policy tools, strengthened the guiding role of credit policies, and provided relief for market entities so as to prop up the macro economy.

First, credit support for the real economy has been increased. The PBC has adopted a mix of tools, such as the RRR cut, the MLF, central bank lending and discounts, and OMOs, to inject more liquidity into the economy and to keep liquidity adequate at a reasonable level. The PBC has also accelerated the pace of turning over surplus profits to the central budget, which reached RMB1 trillion as of end-July, with the effects equivalent to a sweeping RRR cut of 0.5 percentage points. It has held a series of meetings, attended by heads of policy banks, major financial institutions, and the PBC branches and affiliated institutions, to analyze the monetary and credit situations, and to encourage financial institutions to issue more loans in accordance with market-based principles as long as they abide by operational prudence.

Second, financial institutions have been encouraged to allow market entities affected by COVID-19 to defer repayments of principal and interest. On April 18, the PBC and the State Administration of Foreign Exchange (SAFE) jointly released *Notice on Strengthening Financial Services for COVID-19 Containment and Socio-Economic Development,* supporting the affected populations by encouraging flexible adjustments to repayment plans for their mortgage and other personal loans, such as appropriately deferring the repayment deadlines, extending the loan terms, and postponing repayment of the principal. As a measure in the policy package of the State Council to stabilize the economy, financial institutions have also been encouraged to allow deferred repayment of principal and interest on loans to MSMEs, self-employed businesses, and truck drivers, as well as on mortgage loans, consumer loans, and other loans to individuals affected by COVID-19. Financial bonds for freight and logistics have been rolled out to support bond issuances by three types of non-bank financial institutions, including auto group finance companies, auto financial companies, and financial leasing companies. The money raised will be used exclusively to support deferred repayments of loans by truck owners and logistics firms and to provide them with additional funds.

Third, structural monetary policy instruments have provided targeted liquidity support. The PBC has continued to make good use of central bank lending and discounts to support inclusive finance. At end-June, central bank lending to support rural development and micro and small businesses (MSBs) registered RMB540.4 billion and RMB1.3997 trillion, respectively, while central bank discounts posted RMB614.5 billion, with the three totaling RMB2.5546 trillion. The PBC has enhanced the support plan for inclusive MSB loans. It has strengthened positive incentives, increasing the share of funding support for the plan from 1 percent to 2 percent. It has also launched the carbon emission reduction facility (CERF) and the special central bank lending facility for the clean and efficient use of coal, and it has increased the quota of the latter by RMB100 billion to support coal development and use and to boost the coal reserve capacity. In addition, it has established special central bank lending facilities for sci-tech innovation, inclusive elderly care, and transportation and logistics so as to mobilize more support from financial institutions.

Fourth, enterprise financing costs have been reduced. The one-year and five-year loan prime rates (LPR) have fallen by 0.1 percentage points and 0.2 percentage points respectively, since the beginning of this year. The monetary policy transmission mechanism featuring "market rates+central bank guidance→LPR→lending rates" has been increasingly facilitated. As a result, lending rates for businesses have hit a record low. Under the guidance of the PBC, the self-regulatory mechanism for interest rates has improved the formation of the self-regulated ceiling of deposit rates, established a market-based adjustment mechanism of deposit rates, and encouraged deposit rates to float with the market rates. The PBC has also guided the self-regulatory mechanism to release the *Initiatives on Reinforcing Self-Regulatory Management for Agreement Deposits*, in a bid to regulate the pricing of interest rates on agreement deposits and other deposit products, to urge the orderly reduction of malpractices, and to uphold benign competition in the deposit market.

Fifth, diversified financing channels have been expanded. Financial institutions are encouraged to issue special financial bonds for agriculture, rural areas, and farmers, and for MSBs, so as to expand their available sources of funds for lending. Since the beginning of this year, twenty commercial banks have issued a total of RMB215.5 billion special financial bonds for MSBs, while four commercial banks have issued a total of RMB8.4 billion of special financial bonds for agriculture, rural areas, and farmers. The raised funds are used to grant MSB and agro-related loans. The Unified Registration of Security Interests Over Movable Properties and Rights, Receivable Financing Service Platform of the Credit Reference Center (CRC), and the Supply Chain Commercial Paper Platform have been brought into full play to enhance the circulation efficiency of enterprise receivables. Due to these platforms, 365,000 entries of receivable financing had been processed by end-June 2022, totaling RMB16.7 trillion. Specifically, the number and value of MSB financing reached 295,000 deals and RMB13 trillion, respectively.

Sixth, financial institutions have been encouraged to enhance support for the development of infrastructure and major projects. The PBC has worked along with the relevant departments to enhance the connections between banks and enterprises. A list of major projects was developed for key sectors, such as transportation, energy, and water conservancy, with reference to which financial institutions could match the supply of medium- and long-term loans with effective demand. The credit line for development and policy banks has been raised by RMB800 billion, and RMB300 billion worth of policy and development financial instruments have been launched so as to support the issuance of medium- and long-term infrastructure loans. Development and policy banks have also been guided to accelerate project reserves, to break down tasks, to enhance assessment and incentives, and to streamline procedures for the granting of loans, in an effort to enhance the capability of lending to infrastructure. In the meantime, syndicated loans and a PPP model have been leveraged to mobilize funding from commercial banks and social capital.

Overall, since the beginning of 2022 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. Money and credit have grown at a reasonable pace. At end-June, broad money M2, outstanding AFRE, and outstanding RMB loans grew by 11.4 percent, 10.8 percent, and 11.2 percent year on year, respectively, all remaining at a high level of above 10 percent, thus indicating stronger financial support for the real economy. Financing costs for businesses have declined remarkably. In June, the weighted average rate on corporate loans registered 4.16 percent, hitting a record low. The credit structure has continued to improve. At end-June, outstanding inclusive MSB loans reached RMB22 trillion, up 23.8 percent year on year, maintaining growth of over 20 percent for thirty-eight consecutive months. The credit supply of financial institutions for sectors affected by COVID-19 has increased steadily. At end-June, outstanding loans to the accommodations and catering sector, wholesale and retail sector, transportation, warehousing, and postal sector, culture, and sports and entertainment sector totaled RMB30.69 trillion, representing an increase of RMB1.81 trillion from the beginning of the year, RMB173 billion more than the increase during the same period in 2021. A national directory containing a total of 685,000 enterprises in sectors affected by COVID-19 and key enterprises in the supply chain has been established. RMB10.2 trillion in loans has been issued to these enterprises, helping 39.5 million people retain and find jobs.

The credit structure improved continuously. At end-June, medium and long-term loans to enterprises and public entities grew by RMB6.2 trillion, compared with those at the beginning of the year, accounting for 54.6 percent of total corporate loans. The year-on-year (YOY) growth of medium and long-term loans to the manufacturing sector registered 29.7 percent, 18.5 percentage points higher than that of total loans. Outstanding inclusive loans to MSBs grew by 23.8 percent year on year, 12.6 percentage points higher than that of total loans, to support 52.39 million MSBs, a rise of 36.8 percent year on year.

Table 1 Structure of RMB Loans in H1 2022

Unit: RMB100 million

	Outstanding amount at end-June	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	2063512	11.2%	136756	9192
Households	732838	8.2%	21840	-23935
Enterprises and public entities	1318283	12.9%	113957	30273
Non-banking financial institutions	4378	33.1%	103	1935
Overseas	8013	32.8%	856	920

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 from Financial Institutions in H1 2022

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks [1]	73599	17114
Chinese-funded small and medium-sized banks[2]	66245	-2147

Small-sized rural financial institutions[3]	18383	-550
Foreign-funded financial institutions	-106	-1440

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.

The weighted average interest rate of loans was at a statistically low level. The PBC has continuously deepened the market-oriented reform of interest rates and has given play to the role of the LPR reform, thereby enhancing competition in the credit market. In the meantime, the PBC has improved regulation of deposit interest rates and it has set up a market-based adjustment mechanism for deposit interest rates so as to maintain benign competitive order in the market, to stabilize costs of bank liabilities, and to continuously bring down lending rates. In June, the one-year LPR and the over-five-year LPR stood at 3.70 percent and 4.45 percent, respectively, down 0.10 percentage points and 0.20 percentage points from December 2021, respectively. In June, the weighted average lending rate recorded 4.41 percent, down 0.52 percentage point year on year. In particular, the weighted average interest rate on ordinary loans registered 4.76 percent, down 0.44 percentage points year on year, while that on corporate lending fell by 0.42 percentage points year on year to 4.16 percent. On the whole, the interest rates on RMB-denominated loans witnessed a further decline from those in March, manifesting robust financial support for the real economy.

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

Unit: %

	June	Change from the previous December	YOY Change
Weighted average interest rate on new loans	4.41	-0.35	-0.52
on ordinary loans	4.76	-0.43	-0.44
of which: on corporate loans	4.16	-0.41	-0.42

on bill financing	1.86	-0.32	-1.08
on mortgage loans	4.62	-1.01	-0.80

Source: The People's Bank of China.

In June, the share of ordinary loans with rates above, at, or below the LPR registered 62.39 percent, 7.82 percent, and 29.80 percent, respectively.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to June 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
April	24.79	6.89	68.31	15.92	22.44	13.66	8.37	7.92
May	28.40	6.60	65.00	16.07	21.24	12.75	7.63	7.32
June	29.80	7.82	62.39	17.15	20.98	12.10	6.64	5.52

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In June, 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 0.28 percent and 1.49 percent, respectively, up 0.18 percentage points and 1.19 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 2.34 percent and 2.58 percent, up 1.23 and 1.46 percentage points from December 2021, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to June 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
April	0.13	0.70	1.19	1.85	2.10	1.67	1.69	1.95	2.02	1.87	3.10
May	0.18	1.01	1.65	2.15	2.49	2.34	1.99	2.25	2.33	2.25	3.14
June	0.28	1.49	2.07	2.85	3.19	3.28	2.34	2.58	2.79	3.00	3.81

Source: The People’s Bank of China.

The growth of deposits picked up steadily. At end-June, outstanding deposits in domestic and foreign currencies of all financial institutions increased 10.5 percent year on year to RMB257.7 trillion, up RMB19.1 trillion from the beginning of 2022 and an acceleration of RMB4.3 trillion year on year. Outstanding RMB deposits grew 10.8 percent year on year to RMB251.1 trillion, an increase of RMB18.8 trillion from the beginning of 2022 and an acceleration of RMB4.8 trillion year on year. Outstanding deposits in foreign currencies stood at USD986.7 billion, a decrease of USD10.3 billion from the beginning of 2022 and a deceleration of USD140 billion.

Table 6 Structure of RMB Deposits in H1 2022

Unit: RMB100 million

	Outstanding deposits at end-March	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2510547	10.8%	188182	47729
Households	1128280	12.8%	103265	28800

Non-financial enterprises	748704	9.8%	53018	30471
Public entities	328338	5.8%	16985	6226
Fiscal entities	55660	2.8%	5061	-4338
Non-banking financial institutions	233891	13.9%	9513	-12349
Overseas	15674	9.3%	341	-1082

Source: The People's Bank of China.

III. Money supply and the AFRE grew at a reasonable pace

Money and credit aggregates maintained reasonable growth, providing robust support for the real economy. At end-June, outstanding broad money M2, narrow money M1, and currency in circulation M0 registered RMB258.1 trillion, RMB67.4 trillion, and RMB9.6 trillion, respectively, up 11.4 percent, 5.8 percent, and 13.8 percent year on year, respectively. The first half of 2022 witnessed a net cash injection of RMB518.6 billion, RMB515.4 billion more than that in the same period of 2021.

According to preliminary statistics, the outstanding AFRE reached RMB334.27 trillion at end-June. Its year-on-year growth registered 10.8 percent, up 0.5 percentage points compared with that at end-2021. In the first half of 2022, the AFRE increment totaled RMB21 trillion, RMB3.2 trillion more than that in the same period of 2021. The structure of the AFRE featured the following: first, the increment of RMB loans grew significantly year on year. In the first half of 2022, the increment of RMB loans issued by financial institutions to the real economy grew by RMB632.9 billion year on year to RMB13.58 trillion, accounting for 64.6 percent of the AFRE increment during the same period. Second, the increment of government bonds and corporate bonds increased year on year, and they were RMB2.2 trillion and RMB391.3 billion more than those in the corresponding period of the previous year, respectively. Third, off-balance-sheet financing decreased at a slower pace. Specifically, in the first half of 2022 the decreases in entrusted and trust loans were RMB109.1 billion and RMB348.7 billion less than those in the first half of 2021 respectively, while the decrease in undiscounted bankers' acceptances was RMB171.4 billion more than that in the same period of 2021. Fourth, asset-backed securities of depository institutions decreased by a larger margin year on year, while loans written off grew more than in the previous year.

Table 7 Aggregate Financing to the Real Economy in H1 2022

	End-June 2022		H1 2022	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
AFRE	334.27	10.8	210037	32039
Of which: RMB loans	205.09	11.1	135751	6329
Foreign-currency loans (RMB equivalent)	2.33	0.5	458	-1823
Entrusted loans	10.88	-0.5	-54	1091
Trust loans	3.97	-29.6	-3752	3487
Undiscounted bankers’ acceptances	2.83	-19.2	-1768	-1714
Corporate bonds	31.48	10.1	19468	3913
Government bonds	57.72	19.0	46532	22000
Domestic equity financing by non-financial enterprises	9.96	14.0	5028	73
Other financing	9.81	14.5	3812	-1204
Of which: Asset-backed securities of depository institutions	2.09	6.7	-800	-1470
Loans written off	6.80	18.8	4777	433

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 the 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. ③ Year-on-year statistics in the table are on a comparable basis.

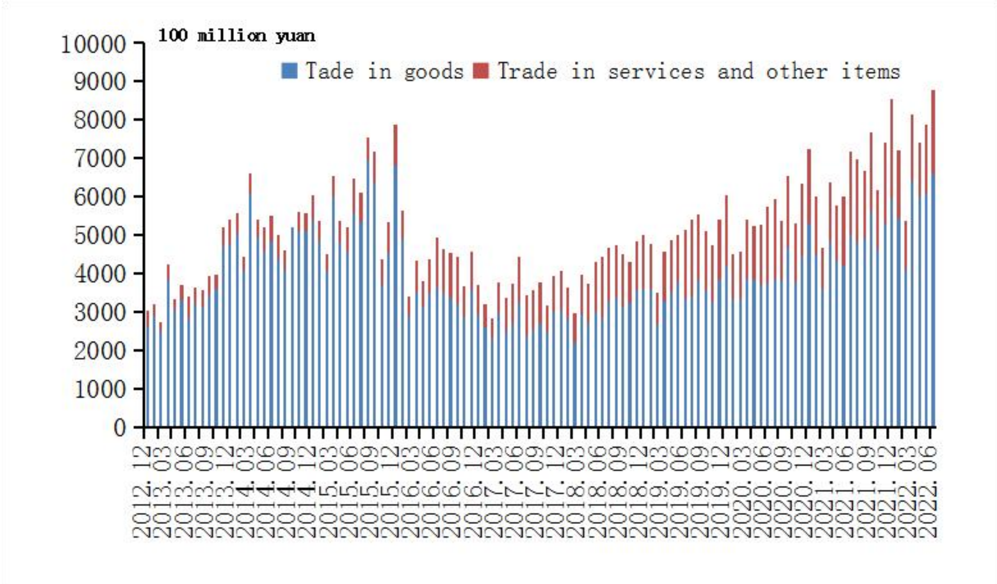
Sources: The People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

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 the first half of the year, based on market supply and demand, the RMB exchange rate witnessed both an appreciation and a depreciation against a basket of currencies. At end-June, the China Foreign Exchange Trade System (CFETS) RMB exchange rate index and the RMB exchange rate index based on the special drawing rights (SDRs) basket closed at 102.01 and 100.61, respectively, down 0.5 percent and up 0.3 percent from end-2021, respectively. According to calculations by the Bank for International Settlements (BIS), from end of 2021 to end-June 2022, the nominal effective exchange rate (NEER) of the RMB remained flat, while the real effective exchange rate (REER) of the RMB depreciated 4.0 percent. From 2005, when the reform of RMB exchange rate formation regime began, to end-June 2022, the NEER and the REER of the RMB appreciated 48.7 percent and 51.8 percent, respectively. In the first half of this year, the RMB exchange rate against the US dollar depreciated slightly. At end-June, the central parity of the RMB against the US dollar was 6.7114, depreciating 5.0 percent from end-2021 and appreciating 23.3 percent on a cumulative basis since the beginning of the reform of the exchange rate formation regime in 2005. In the first half of 2022, the annualized volatility rate of the RMB against the US dollar was 5.2 percent.

In the first half of 2022, cross-border RMB settlements increased 16 percent year on year to RMB20.3 trillion, with RMB receipts and payments posting RMB10.0 trillion and RMB10.3 trillion, respectively. Cross-border RMB settlements under the current account grew by 27 percent year on year to RMB4.6 trillion. Specifically, RMB settlements of trade in goods registered RMB3.5 trillion, while RMB settlements of trade in services and under other items registered RMB1.1 trillion. Cross-border RMB settlements under the capital account registered RMB15.7 trillion, increasing 13 percent year on year.

Figure 2 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Box 2 The Weight of the Renminbi Raised in the SDR Currency Basket

On May 11, 2022, the Executive Board of the International Monetary Fund (IMF) completed its quinquennial review of the SDR valuation, and it decided to raise the weight of the RMB in the SDR currency basket from 10.92 percent to 12.28 percent, still ranking third. The Executive Board decided that the new SDR currency basket would come into effect on August 1, 2022.

The SDR, created as a supplementary reserve asset by the IMF in 1969, composes international reserves along with other reserves such as gold and foreign currencies. It also serves as the unit of account for the IMF and other international organizations. At present, the SDR has been mainly used for transactions between IMF members with the IMF or other international financial organizations, which can be used to exchange for freely usable currencies, to repay loans of the IMF, to pay interest, and to pay for the share incurred by the increase in capital. Effective on October 1, 2016, the RMB joined the US dollar, euro, Japanese yen, and British pound sterling in the SDR basket, with a weight of 10.92 percent.

The criteria for the SDR valuation reviews by the IMF mainly fall into two categories. First, the export criterion means the exports of goods and services by some country or region must rank among the top of the world. Second, the currencies are freely usable, which means that they are widely used to make payments for international transactions and they are widely traded in the principal exchange markets. In practice, it is calculated by the proportion of the currency in official reserves, in foreign exchange transactions, and in the liabilities of the international debt securities and banking industry. The formula for determining the currency weights in the SDR basket is as follows: the currency weight = 1/2*the proportion of a country's exports against the world+1/6*the proportion of the currency in the official reserves+1/6*the proportion of the foreign exchange transactions denominated in the currency+1/6*the proportion of the international debt securities and outstanding liabilities of international banking industries denominated in the currency.

This was the first review since the RMB was included in the SDR basket in 2016. During this review period, all the indicators of the RMB witnessed rises, except for the international debt securities. Specifically, in terms of exports, the proportion of China's exports increased from 10.5 percent during the previous review period to 12 percent during the present review period. During the past few years, China has overcome the impact of COVID-19 and it has witnessed steady growth in the volume of its exports. In terms of the proportion in official reserves, the proportion of RMB has increased form 1.2 percent in 2017 to 2.88 percent in Q1 2022. In terms of foreign exchange transactions, and according to the three-yearly BIS survey on foreign exchange and the derivatives, the proportion of RMB foreign exchange transactions has risen from 2.0 percent in 2016 to 2.2 percent in 2019, ranking number eight worldwide. In terms of the liabilities of international debt securities and the banking industry, since 2017 the proportion of international debt securities denominated in RMB has remained at 0.3 percent, and that of the liabilities in the international banking industry denominated in RMB has edged up from 0.8 percent to 1.1 percent, which still has room for growth.

Since the official inclusion of the RMB in the SDR basket in 2016, in line with the arrangements of the CPC Central Committee and the State Council, the PBC, together with the relevant departments, has had the courage to take on responsibilities and overcome difficulties by continuously promoting the reform and opening-up of the financial sector and cross-border use of the RMB. Major progress has been made in the market-oriented reform of the RMB interest rates and exchange rate. The opening-up of the financial market has been continuously enhanced. Constant efforts have been made to broaden the investment channels, to enrich the portfolio of investable assets, and to simplify the investment procedures. With continued improvement in the business environment, RMB assets investments by overseas investors have been further facilitated. Currently, overseas investors can trade in the Chinese bond market through channels such as the Northbound Trading, direct trading, and the QFII/RQFII, and they can trade in the Chinese stock market through channels such as the Shanghai-Hong Kong Stock Connect/Shenzhen-Hong Kong Stock Connect and the QFII/RQFII. In addition, they can participate in the trading of Chinese wealth management products and commodity futures through the Cross-boundary Wealth Management Connect and designated futures trading. As of end-June 2022, outstanding RMB financial assets held by overseas investors posted RMB 10.1 trillion. Specifically, the volume of both stocks and bonds stood at RMB 3.6 trillion, 5.5 times and 4.3 times those at end-2016, respectively. Meanwhile, the RMB is regarded as the official reserve currency by more economies, and use of the RMB by domestic and overseas entities in cross-border settlements has witnessed steady growth. According to the Currency Composition of Official Foreign Exchange Reserves (COFER) statistics released by the IMF, as of end-Q1 2022, the volume of global RMB reserves amounted to USD336.39 billion, accounting for 2.88 percent of official global reserves. Since 2017, the annual growth of cross-border receipts and payments of the RMB under trade in goods and trade in services averaged 15 percent and 17 percent, respectively.

The increase in the weight of the RMB means the international community acknowledges the achievements of China in reform and opening-up, which is conducive to further enhancing the role of the RMB as an international reserve currency and to strengthening the international appeal of RMB assets. Going forward, under the unified arrangements of the CPC Central Committee and the State Council, together with other financial regulators, the PBC will continue to steadfastly promote China's reform and opening-up of the financial sector, further simplify the procedures for overseas investors to enter the Chinese market, enrich the portfolio of investable assets, improve the disclosure of data, continuously improve the business environment, extend the trading hours of the interbank foreign exchange market, and constantly facilitate investment in the Chinese market, so as to create a more favorable environment for overseas investors and international institutions to invest in China.

Part 2. Monetary Policy Operations

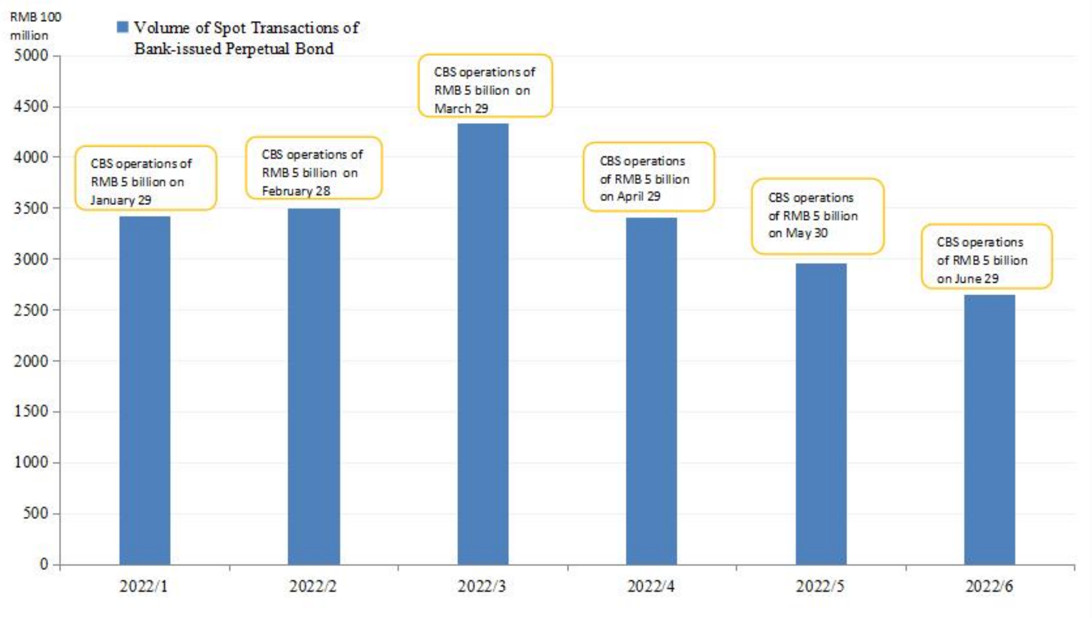
In Q2 2022, with resolute implementation of the decisions and arrangements made by the CPC Central Committee and the State Council, and in line with the requirements that COVID-19 should be contained, the economy should be stabilized, and the development should be safe, the PBC soundly conducted a package of policies and measures, enhanced implementation of the sound monetary policy, gave full play to the dual functions of monetary policy tools in adjusting the credit aggregate and structure, guided financial institutions to ramp up support for the real economy, especially for micro and small businesses (MSBs), green development, and tech innovation, earnestly served the real economy, and effectively prevented and contained financial risks, thereby contributing to sustaining stable macroeconomic performance.

I. Conducting open market operations in a flexible manner

Flexible operations to keep liquidity adequate at a reasonable level. In Q2 2022, the PBC paid close attention to the changes in the macroeconomic and financial circumstances at home and abroad and took into full consideration the impact of multiple factors related to liquidity supply, such as the Russia-Ukraine conflict, the sporadic COVID-19 resurgences in China, and the advance issuance of government bonds. Adopting a mix of tools, such as the required reserve ratio (RRR) cut, the medium-term lending facility (MLF), central bank lending, and the turning over of surplus profits, the PBC injected medium and long-term liquidity into the banking system. It continued to conduct open market operations on a daily basis, and it kept liquidity adequate at a reasonable level, providing a favorable liquidity environment for the successful issuance of government bonds and for the financial sector to serve the real economy. Due to the sufficient funding supply in the money market, since Q2 the demand of primary dealers for reverse repos operations has witnessed an overall decline in the open market. With respect to fund supply and demand, the PBC flexibly adjusted the scale of open market operations and further enhanced the flexibility and precision of operations. In Q2, the weighted average interest rates of the 7-day repos (DR007) posted 1.72 percent, decreasing 37 basis points and 44 basis points from Q1 and the previous Q2, respectively. Since July, the bidding volume of primary dealers continuously declined, and the PBC correspondingly reduced the volume of repos operations, which could fully satisfy the demand of the bidding institutions. Open-market operations by the PBC is a tool used to adjust short-term liquidity, and it is a normal phenomenon to flexibly adjust the volume with respect to changes in the supply and demand of liquidity. Starting from Q2 2022, the rates paid on the 7-day repos and the MLF have both remained unchanged, which has been conducive to achieving an internal and external equilibrium under the backdrop of interest rate hikes by the major global central banks.

Continuously conducting central bank bill swap (CBS) operations. In Q2 2022, the PBC conducted three batches of CBS operations, totaling 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 credit supply capacities.

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



Issuing central bank bills in Hong Kong on a regular basis. In Q2 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. 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.

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 guiding functions of medium-term policy rates for interest rates, the PBC conducted a total of RMB1.65 trillion of MLF operations in H1 2022, all with a maturity of one year and an interest rate of 2.85 percent, which was on par with that at end-2021. In particular, MLF operations conducted in Q2 amounted to RMB450 billion. At end-June, the outstanding MLF registered RMB4.95 trillion, RMB400 billion more than that at the beginning of 2022.

Conducting well-timed SLF operations. 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 H1, the PBC conducted a total of RMB8.38 billion of standing lending facility (SLF) operations, of which operations in Q2 registered RMB1.96 billion. The balance of SLF operations at end-June posted RMB1.34 billion. The SLF rate served as the ceiling of the interest rate corridor and promoted the smooth operation of the money market. At end-June, the overnight, 7-day, and 1-month SLF rates stood at 2.95 percent, 3.10 percent, and 3.45 percent, respectively, unchanged from those at end-March.

III. Lowering 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 in overall financing costs. The PBC reduced the RRR by 0.25 percentage points, effective on April 25, 2022 (not applicable to financial institutions that had already implemented an 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 by 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 so as to enhance their foreign exchange allocation capabilities. 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 H1 2022, the PBC further optimized the MPA assessment framework and guided financial institutions to enhance stability in the 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.

The regulatory framework for systemically important financial institutions was improved. To implement the *Guiding Opinions on Improving Regulation of Systemically Important Financial Institutions*, the PBC and the CBIRC jointly drafted *the Assessment Methodology of Systemically Important Insurance Companies (Exposure Draft)*, soliciting public comments from July 8. The exposure draft stipulates the coverage, methods, procedures, thresholds, and standards for the assessment of China's systemically important insurance companies. The top ten largest insurance companies (groups) by assets were proposed for assessment in terms of four respects, including business scale, relevance, assets realization, and substitutability.

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

Actively using central bank lending that supports rural development and MSBs, central bank discounts, and other policy instruments 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, which 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 current regulations so as to consolidate achievements in poverty alleviation. The PBC promoted coordinated regional development by continuously guiding locally incorporated financial institutions in ten provinces to make good use of policy instruments, such as central bank lending, and to expand credit supply for vulnerable parts of the economy within the region, including rural development, MSBs, and private enterprises. Stepped-up efforts were made to provide relief and assistance for MSBs, and locally incorporated financial institutions were guided to employ central bank lending for MSBs and self-employed businesses that were heavily hit by surging commodity prices and COVID-19, so as to reduce their financing costs. At end-June, outstanding central bank lending to support rural development posted RMB540.4 billion. Outstanding central bank lending for MSBs and for poverty alleviation posted RMB1.3997 trillion and RMB165.6 billion, respectively. Outstanding central bank discounts registered RMB614.5 billion. In H1 2022, the PBC made net withdrawals of pledged supplementary lending (PSLs) in the amount of RMB181.4 billion from development and policy banks, with the outstanding PSLs registering RMB2.6203 trillion at end-June.

Continuously implementing instruments in support of inclusive MSB loans to bolster the development of MSBs. In January, according to the decisions of the executive meetings of the State Council, from the beginning of 2022 to end-June 2023, for inclusive MSB loans issued by locally incorporated banks, the PBC would 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 May, according to the new decisions of the executive meetings of the State Council, the PBC made an adjustment to the aforementioned supportive policy, lifting the proportion of funding support from 1 percent to 2 percent, effective from the beginning of Q2 2022. In Q2, the PBC provided RMB8.337 billion of funding to locally incorporated financial institutions, facilitating an increase of RMB419.3 billion in inclusive MSB loans.

Simultaneously implementing both the carbon emission reduction facility (CERF) and the special central bank lending facility for the clean and efficient use of coal, so as to support the green and low-carbon transition of the economy. In May, the quota for special central bank lending was increased by RMB100 billion to support sectors relevant to the development and use of coal and the enhancement of the coal reserve capacity. In Q2, through these two instruments, the PBC provided relevant institutions with RMB44.1 billion and RMB14.8 billion, respectively, or total funding of RMB58.9 billion. Since implementation of these two instruments, the PBC has cumulatively provided RMB182.7 billion and RMB35.7 billion, respectively, up to a total of RMB218.4 billion.

Establishing the special central bank lending facility for the transport and logistics sectors to support road freight transport enterprises and truck drivers that were severely hit by COVID-19. According to the decisions of 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 the special central bank lending facility for the transport and logistics sectors. In May, the PBC and the Ministry of Transport jointly issued *Notice on Establishing Special Central Bank Lending for the Transport and Logistics Sectors* (Yinfa No.120 [2022]). The facility adopts 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 from the PBC under the special central bank lending facility after they grant loans to eligible enterprises in the relevant industries. For qualified loans, the PBC provides funding for 100 percent of the principal through central bank lending, with an interest rate of 1.75 percent.

Accelerating implementation of the three policy instruments for sci-tech innovation, inclusive elderly care, and the transport and logistics sectors, respectively. As scheduled, the first application of the special central bank lending facilities for sci-tech innovation, inclusive elderly care, and the transport and logistics sectors will be open in July, and the PBC is now making orderly preparations for it.

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

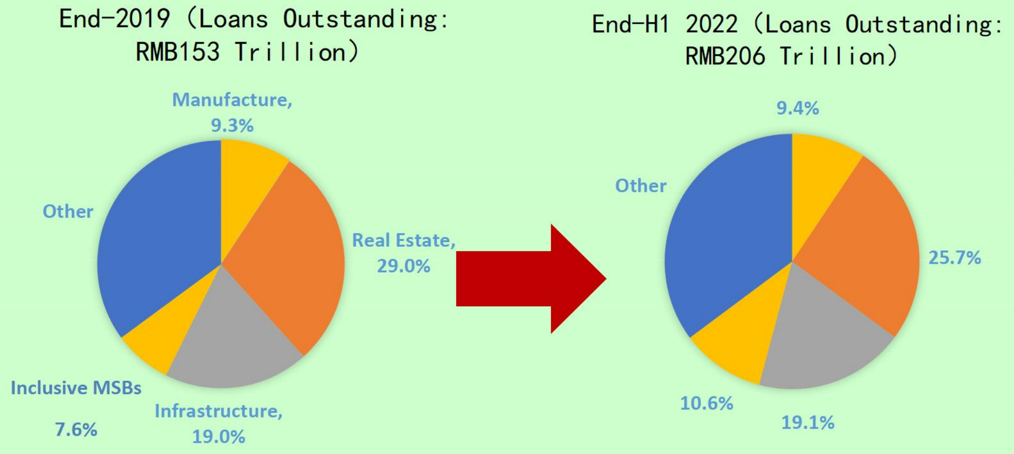
The long-term mechanisms for providing financial services for MSBs are taking shape. To address the financial institutions' lack of intrinsic motivations to serve MSBs and inefficient external incentives and restraints, the PBC issued the *Notice on Promoting the Establishment of Long-Term Mechanisms for Boosting the Confidence, Willingness, Capability, and Professionalism of Financial Institutions to Lend to Micro and Small Businesses*. The *Notice* urges financial institutions to improve error tolerance and risk mitigation mechanisms, boost positive incentives and evaluation and assessment criteria, ensure funds availability and build funding channels, promote technological empowerment and product innovation, and enhance their willingness, capacity, and sustainability to serve MSBs, so as to boost the volume and coverage of financing for MSBs and to reduce the costs. As of end-June, outstanding inclusive loans to MSBs registered RMB22 trillion, with a year-on-year growth of 23.8 percent. The loans supported 52.39 million MSBs, increasing 36.8 percent year on year. The weighted average rate on new inclusive MSB loans posted 4.82 percent in June, dropping 37 basis points from May.

Financial support for rural revitalization has been enhanced. The PBC facilitated implementation of the *Opinions on Ensuring Financial Support for Full Promotion of Key Rural Revitalization Initiatives in 2022* to guide financial institutions to strengthen financial safeguards for food security, increase financial support for a strong foundation for modern agriculture, and for the sustainable development of rural industries, and to encourage all types of financial institutions to tap into medium- and long-term credit models in support of agricultural and rural infrastructure. The PBC conducted appraisals and evaluations of financial institutions serving rural revitalization for 2021. Application of the evaluation results has been strengthened to further improve the quality and efficiency of financial services in promotion of rural revitalization. As of end-June 2022, outstanding agro-related loans registered RMB47.1 trillion, growing 13.1 percent year on year.

Box 3 Changes in the Credit Structure in Recent Years

Changes in the credit structure reflect changes in the economic structure. They also promote development of the real economy. Since 2010, facilitated by accelerating urbanization, economic transition, as well as stabilization and structural policies, the credit structure in China witnessed changes featuring the following characteristics: the share of loans to the manufacturing sector bottomed out; the share of inclusive loans to MSBs steadily increased; the share of loans to the infrastructure sector dropped slowly from a high level; and the share of loans to the real estate sector first surged and then turned downward. The credit structure has improved, particularly since 2019. Roughly speaking, of the RMB206 trillion loans outstanding at end-June 2022, inclusive MSB loans and loans to the manufacturing sector comprised 10 percent each, and loans to infrastructure and real estate comprised 20 percent and 25 percent, respectively. Financial support for inclusive MSBs has been increasing in recent years.

Figure: Changes in the Credit Structure in China



From a credit demand perspective, an improved economic structure and the need for high-quality development were the main driving forces toward credit structure optimization. This is reflected first in the bottom-out and rebound of the proportion of manufacturing sector loans. The 14th Five-Year Plan set for a basically stable proportion of the manufacturing industry, relying on support from the financial sector. Under efforts by various parties, the downward trend in the proportion of manufacturing sector loans was put to a stop after the figure dropped from 17 percent in 2010 to 9 percent in 2020. It then increased to 9.4 percent at end-June 2022. In particular, medium- and long-term loans to the manufacturing sector maintained high growth of more than 20 percent since June 2020. The combined growing quantity and improved term structure buttressed the bottom-out of the manufacturing value added as a share of GDP, which recovered from its lowest point of 26.3 percent in 2020 to 29 percent at end-June 2022. Second, inclusive loans to MSBs surged and delivered significant corporate and public benefits. Outstanding inclusive MSB loans at end-June 2022 posted RMB22 trillion, which was 2.7 times the amount at end-2018. The proportion of these loans at end-June rose to 10.6 percent. Meanwhile, the number of MSBs granted these loans reached 52.39 million, 2.9 times the number at end-2018. Third, the credit demand of capital-intensive industries, including infrastructure and real estate, turned downward. As the infrastructure investment structure leaned toward urban renovation, utilities, and other public welfare areas, credit demand for traditional infrastructure projects such as railways and highways subdued. The proportion of loans to this sector dropped accordingly, from 25 percent in 2010 to about 19 percent since 2019. The proportion of real estate loans also declined from the peak of 29 percent in 2019 to 25.7 percent at end-June 2022.

From a credit supply perspective, the PBC continuously improved the structural monetary policy instruments to meet the demand for high-quality economic development and to leverage the role of credit policy in guiding structural reforms. The PBC increased the quota for central bank lending for rural development,and MSBs and central bank discounts, and set up a number of structural monetary instruments, including support instruments for inclusive MSB loans, the CERF and special central bank lending for clean and efficient coal use, central bank lending for sci-tech innovation, special central bank lending for inclusive elderly care, and special central bank lending for transportation and logistics. These structural policy instruments are focused, reasonable, appropriate, and flexible. Meanwhile, a working mechanism was established under which financial institutions issue loans independently and practice ledger management; the PBC offers reimbursements and sets the limits; and relevant authorities specify loan purposes and carry out random inspections. This connected loans issued by financial institutions to central bank lending. It created an incentive-compatible mechanism through low-cost central bank lending or incentive funds, which encourages financial institutions to improve their credit structure and channels more financial resources to inclusive finance, green development, and sci-tech innovation. Since 2018, together with the China Banking and Insurance Regulatory Commission, the PBC guided financial institutions to strengthen support for inclusive finance and MSBs through a mix of policy measures and regulatory appraisals. The PBC promoted the establishment of long-term mechanisms for supporting MSBs and played its role in precisely guiding optimization of the credit structure.

Looking forward, credit growth will be adaptive to Chinese economic progress gearing from high growth to quality growth. A stable aggregate and sound structure will be prioritized. It should be noted that the marginal deceleration of urbanization and the changing trend in long-term real estate cycles have weakened the traditionally massive demand for loans to the infrastructure and real estate sectors. Meanwhile, as inclusive MSB loans and loans to high-tech manufacturing are still small in volume and direct financing is on the rise, credit growth may drop during the shift of growth drivers and in the adjustment process of the financing structure.

However, this is consistent with the economy's new normal. It does not mean that financial support to the real economy is diminishing, and the growth of money supply and aggregate financing to the economy will still be in line with nominal economic growth. In the medium to long term, credit growth in China will focus more on stable aggregates and sound structures. New growth drivers, such as green investment, new infrastructure, new urbanization initiatives, and major projects, can to some extent provide support for credit growth. In addition, credit resources will continue leaning toward key areas and weak links, and the quality and suitability of financial support for new growth drivers will be steadily improved. According to relevant research institutes, the investment demand in China's green transition toward emissions peak and carbon neutrality exceeds RMB100 trillion. In the 14th Five-Year Plan period, new infrastructure investment is estimated to be more than RMB10 trillion. Therefore, these investments will likely deliver an annual average of RMB5 trillion in the upcoming period. In the next stage, the PBC will adapt to the requirements of the new development stage, maintain the sound monetary policy, further facilitate improvement in the credit structure, ensure more efficient financial resource allocations, accelerate building and improving systems and mechanisms needed to provide effective financial support for the real economy, and work to achieve a dynamic equilibrium between stable aggregates and sound structures. To achieve this, first, it is necessary for the PBC to properly manage the relationship between traditional growth drivers and new structural growth potentials by "simultaneously phasing out the old and setting up the new, and securing faster progress on the latter," so as to enhance the stability of credit aggregate growth and save time for fostering new growth drivers. Second, it is necessary to seize a favorable time window for "setting up" new growth drivers. The PBC will guide credit resources toward key areas of economic transition and delve into green investment, the renovation of old urban communities, high-tech manufacturing, sci-tech innovation, and other structural potentials, so as to facilitate a virtuous circle between finance and the real economy.

VII. Deepening the market-oriented interest rate reform

Since the beginning of 2022, the PBC has continued to deepen 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, thus further bringing down the actual loan rates. **First,** the LPR reform was further promoted, and the guiding role of the LPR was brought into play. The PBC guided the one-year and above-five-year LPR to decrease by 0.1 and 0.2 percentage points, respectively, while it lowered the SLF rate by 0.1 percentage points. As a result, actual corporate loan rates remained stable with a slight decline, and corporate financing costs were lowered significantly. In June, the weighted average lending rate dropped by 0.52 percentage points year on year to 4.41 percent, and the weighted average interest rate on corporate loans fell by 0.42 percentage points to 4.16 percent. **Second,** the market-oriented adjustment mechanism for deposit rates was established, further promoting the market-oriented pricing of deposit rates. The monitoring of deposit rates was further strengthened, with deposit rate pricing behavior for agreement deposits and other deposit products further regulated, urging financial institutions to conduct agreement deposit businesses in compliance with the laws and regulations. **Third,** conversion of the domestic financial market benchmark rate from the LIBOR was actively promoted. Major domestic banks have already been prepared for the conversion of the pricing benchmark for businesses affected by the LIBOR expiration, while most of the new foreign-currency-denominated floating-rate businesses in domestic markets have switched their benchmark from the LIBOR to alternative benchmark rates.

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. The PBC attached importance to guiding expectations, enhanced the flexibility of the RMB exchange rate, and kept the RMB exchange rate basically stable at an adaptive and equilibrium level, while giving play to the role of the exchange rate as an automatic stabilizer in adjusting the macro economy and the balance of payments.

In H1 2022, the highest and lowest RMB central parities against the USD were 6.3014 and 6.7898, respectively. During the 117 trading days, the RMB appreciated on 58 days and depreciated on 59 days. The biggest intraday appreciation and depreciation was 1.1 percent (731 bps) and 1.0 percent (681 bps), respectively. The RMB exchange rate against major international currencies experienced both appreciations and depreciations, floating in both directions. At end-June, the central parity of the RMB against the dollar depreciated 5.0 percent from end-2021, while the central parities of the RMB against the euro, the pound, and the Japanese yen appreciated 3.0 percent, 5.8 percent, and 12.8 percent, respectively, during the same period. Since the reform of the RMB exchange rate formation mechanism that commenced in 2005 to end-June 2022, the RMB appreciated by a cumulative total of 23.3 percent, 42.9 percent, and 48.7 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-June, under the bilateral currency swap agreements between the PBC and the foreign monetary authorities, the foreign monetary authorities utilized a total of RMB59.906 billion and the PBC utilized foreign currencies equivalent to USD381 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 H1 2022

Unit: RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	237929.40	7225.45	1075.37	764.76	199.63	91.01	32.95
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	41.65	63.99	98.59	1.75	9.70	0.00	27.03
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	0.06	17.04	0.00	0.06	17.04	0.00	0.06
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	1.05	0.00	11.07	0	0	0	9.67

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, risks associated with small and medium-sized banks were prevented and defused, and financial risks in key regions and areas were orderly mitigated. The results from the central bank rating of financial institutions in Q4 2021 indicated that, among the 4,398 banking financial institutions being rated throughout the nation, financial institutions within the safety boundary took up 93 percent of the total number and 99 percent of the total assets of all rated institutions, with central bank ratings for the overwhelming majority of small and medium-sized banks staying within the safety range. Meanwhile, the central bank rating of financial institutions in Q1 2022 has also been completed. The PBC strengthened risk monitoring and early-warning on banks and it conducted stress tests on over 4,000 banking financial institutions. In response to the emerging problems of banks with early warnings, the PBC made timely corrections to ensure early identification and resolution of risks.

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 scopes, apply classified accounting, improve corporate governance, strengthen restraint mechanisms, and prevent financial risks. The PBC guided development and policy financial institutions to fulfill their responsibilities, focus on their main businesses, and give full play to their roles in supporting economic restructuring and high-quality development on the basis of strengthened risk prevention and control.

X. Deepening the reform of foreign exchange arrangements

Stepping up facilitation for foreign exchange business. On April 18, the PBC and the State Administration of Foreign Exchange (SAFE) jointly issued the *Notice on Strengthening Financial Services for COVID-19 Containment and Socio-Economic Development* to roll out a batch of foreign exchange supporting measures, such as expanding the policy for facilitating trade-related foreign exchange payments and receipts of quality enterprises nationwide, carrying out the pilot program on external debt facilitation quotas, allowing the sale and use of foreign currency–denominated loans that are domestically issued with an export trading background, and improving exchange-rate risk management services for enterprises.

Supporting cross-border financing for high-tech enterprises and "specialized, sophisticated, distinctive, and innovative" companies. On May 31, the SAFE issued the *Notice on Supporting High-tech Enterprises and SSDI* (*Specialized, Sophisticated, Distinctive, and Innovative) Companies for Carrying Out Pilot Programs to Facilitate Cross-border Financing*. According to the *Notice*, the pilot programs will be expanded to facilitate independent overseas borrowing within a certain quota by more eligible enterprises, thus helping such enterprises to accelerate their innovation and development. **First**, more regions will be included, with the coverage expanding from specific areas in nine provinces and cities to the whole areas of seventeen provinces and cities; **Second**, more types of enterprises will be encompassed, with SSDI companies added in addition to high-tech enterprises. **Third**, the amount of overseas borrowing will be increased, and the facilitation quota of USD10 million will apply to all eligible enterprises, including high-tech enterprises and SSDI companies in nine provinces and cities that have already carried out the pilot programs.

Enhancing the coverage and quality of facilitation policies for quality enterprises. The policy for facilitating trade-related foreign exchange payments and receipts of quality enterprises was expanded nationwide, with the four provinces and autonomous regions of Heilongjiang, Tibet, Ningxia, and Guizhou added in the second quarter. Trade-related foreign exchange settlements for quality enterprises now feature "application in seconds, and completion in minutes." As of end-June, 202 banks have conducted 1.215 million business facilitations for 2,869 enterprises, with the amount totaling USD770.4 billion.

Part 3. Financial Market Conditions

In H1 2022, performance of the financial market was generally stable. Money market interest rates featured a downward movement, with transaction activities picking up. The scale of bond issuances rose year on year, with government bonds delivering notable results. Yield curves of government securities moved downward. The stock market rallied, with turnover increasing year on year. In the insurance industry, premium revenue declined year on year, while asset growth accelerated.

I. Financial market overview

1. Money market interest rates witnessed a marked decline, with active market transactions

In June 2022, the monthly weighted average interest rate for interbank lending was 1.56 percent, and the monthly weighted average interest rate for pledged repos posted 1.57 percent, 46 basis points, and 52 basis points lower than those in December 2021, respectively. The monthly weighted average interest rate of government-backed bond pledged repos among depository institutions posted 1.44 percent, 13 basis points lower than the monthly weighted average interest rate of pledged repos in the interbank market. At end-June, the overnight and 7-day Shibor posted 1.90 percent and 2.20 percent, respectively, down 23 basis points and 7 basis points from end-December 2021, respectively.

Market transactions were active. In H1 2022, the volume of bond repos trading on the interbank market reached RMB630 trillion, representing an average daily turnover of RMB5.2 trillion, up 33.7 percent year on year. The volume of cumulative trading in interbank lending registered RMB67.3 trillion, with an average daily turnover of RMB551.5 billion and a year-on-year increase of 15.8 percent. In terms of the maturity structure, overnight repos accounted for 85.6 percent of the total turnover in bond repos, increasing 2 percentage points year on year, and overnight lending constituted 88.3 percent of the total turnover in interbank lending, down 0.9 percentage points year on year. The volume of bond repos trading on the exchange markets increased 23.4 percent year on year to RMB192.8 trillion.

Table 9 Fund Flows Among Financial Institutions in H1 2022

Unit: RMB100 million

	Repos		Interbank lending	
	H1 2022	H1 2021	H1 2022	H1 2021
Chinese-funded large banks①	-2,010,169	-935,415	-197,651	-145,893
Chinese-funded medium-sized banks②	-819,288	-777,320	-78,357	-49,245
Chinese-funded small-sized banks③	1,363	62,461	38,862	51,987
Securities institutions④	811,036	601,295	185,566	105,388
Insurance institutions⑤	94,317	48,897	604	131
Foreign-funded banks	39,356	35,594	-6,167	-12,808
Other financial institutions and vehicles⑥	1,883,386	964,488	57,141	50,439

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 the 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. ④ Securities 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 Deposits (CDs) and negotiable CD businesses operated orderly. In H1 2022, about 13,000 interbank CDs were issued on the interbank market, raising RMB10.8 trillion. The total volume of trading on the secondary market registered RMB107.7 trillion. At end-June, outstanding interbank CDs reached RMB14.7 trillion. The weighted average interest rate of 3-month interbank CDs was 2.25 percent, 2 basis points lower than that of the 3-month Shibor. In H1 2022, about 30,000 negotiable CDs were issued by financial institutions, raising RMB7.5 trillion, an increase of RMB1.3 trillion year on year.

Interest rate swap transactions decreased. In H1 2022, the RMB interest rate swap market witnessed 105,000 transactions, decreasing 25.7 percent year on year, with the volume of the notional principal totaling RMB8.4 trillion, a decrease of 24.1 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 RMB5.5 trillion, accounting for 65.0 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 88.1 percent and 10.9 percent, respectively, of the total notional principal of the interest rate swaps. In H1 2022, interest rate swaps anchored to the loan prime rate (LPR) witnessed 488 transactions, with RMB75.46 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in H1 2022

	Transactions	Notional principal (RMB100 million)
H1 2022	105,227	84,433.6
H1 2021	141,605	111,163.5

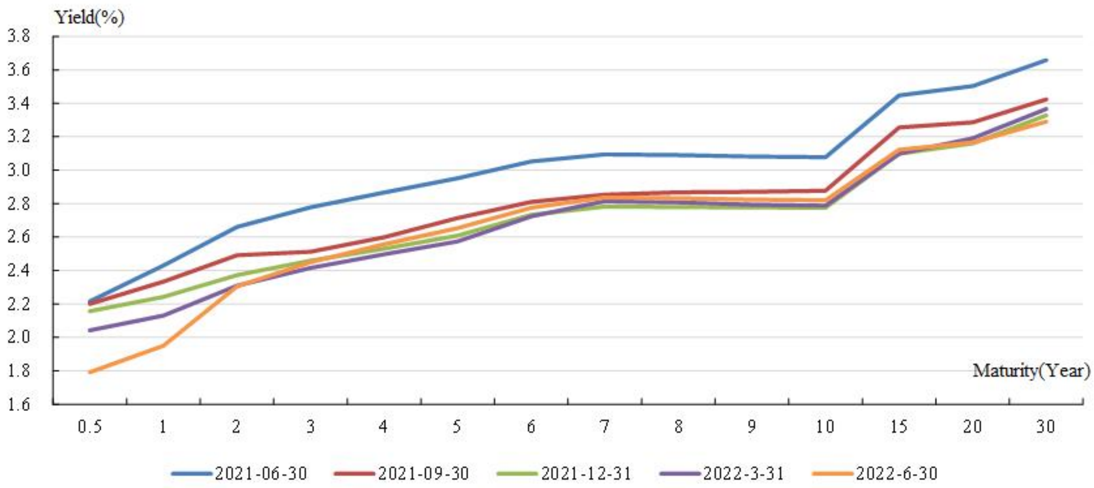
Source: China Foreign Exchange Trade System.

The interest rate options business developed at a steady pace. The LPR options 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 H1 2022, a total of 307 interest rate options transactions were concluded, totaling RMB41.07 billion. Specifically, six were interest rate swap transactions, amounting to RMB1.70 billion of the notional principal, and 301 were interest rate cap/floor transactions, amounting to RMB39.37 billion of the notional principal.

2. The coupon rates of bonds generally declined, while bond issuances expanded with active trading of spot bonds

Coupon rates of bonds generally declined. In June 2022, the yield on 10-year government securities issued by the Ministry of Finance was 2.74 percent, 9 basis points lower than that in December 2021. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 2.95 percent, 7 basis points lower than the rate in December 2021. The average rate of 1-year short-term financing bills (bond rating A-1) issued by AAA-rated enterprises was 3.38 percent, 31 basis points higher than the rate in December 2021.

Figure 4 Yield Curves of Government Securities in the Interbank Market



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

The term spreads of government securities yields expanded. At end-June 2022, yields on 1-year and 3-year government securities decreased by 29 basis points and 1 basis point to 1.95 percent and 2.45 percent from end-December 2021, respectively; yields on 5-year, 7-year, and 10-year government securities increased by 4 basis points, 6 basis points, and 5 basis points to 2.65 percent, 2.84 percent, and 2.82 percent, respectively, from end-December 2021. The term spread between 1-year and 10-year government securities was 87 basis points, expanding 34 basis points from end-December 2021.

Bond issuances increased year on year. In H1 2022, the cumulative value of bond issuances increased by 7 percent, or RMB2.1 trillion, year on year to RMB31.5 trillion, driven mostly by surges in government bonds and debt-financing instruments issued by non-financial institutions. At end-June 2022, outstanding bonds held in custody amounted to RMB141.7 trillion, representing an increase of 14.6 percent year on year.

The volume of spot bond transactions witnessed rapid growth. In H1 2022, the value of cash bonds trading on the bond market posted RMB144.1 trillion, registering an increase of 33.1 percent year on year. Specifically, the value of cash bonds trading on the interbank market was RMB124.3 trillion, representing an increase of 28.6 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB19.7 trillion, an increase of 71.4 percent year on year.

Table 11 Bond Issuances in H1 2022

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government securities	34,375	6,289
Local government bonds	52,502	19,090
Central bank bills	0	0
Financial bonds①	157,509	-4,562
Of which: Financial bonds issued by the CDB and policy financial bonds	28,463	-2,246
Interbank certificates of deposits	108,658	-625
Corporate credit bonds②	70,154	-195
Of which: Debt-financing instruments of non-financial enterprises	48,443	1,560
Enterprise bonds	3,177	510
Corporate bonds	13,488	-1,860
Bonds issued by international institutions	511	46
Total	315,051	20,668

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. ② Including 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 H1 2022, commercial drafts issued by enterprises totaled RMB14.1 trillion, rising 14.3 percent year on year. At end-H1, outstanding commercial drafts stood at RMB16.6 trillion, increasing by 16.0 percent year on year. At end-June, outstanding commercial draft acceptances grew by RMB1.6567 trillion and RMB882.1 billion compared to the beginning of 2022 and end-March, respectively. Of the outstanding bankers' acceptances, 67.7 percent was issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing witnessed steady growth, with generally stable interest rates. In H1 2022, total discounts by financial institutions amounted to RMB28.9 trillion, growing 21.2 percent year on year. At end-June, the balance of bill financing was RMB12.0 trillion, up 39.4 percent year on year. The balance accounted for 5.8 percent of the total outstanding loans, up 1.2 percentage points year on year. The interest rates for bill financing first increased and then decreased, remaining generally stable.

4. The stock indices recovered while turnover expanded year on year

The stock indices recovered. At end-June 2022, the Shanghai Stock Exchange Composite Index closed at 3,399 points, increasing by 4.5 percent from end-March. The Shenzhen Stock Exchange Component Index closed at 12,896 points, increasing by 6.4 percent from end-March. Turnover on the stock markets expanded year on year. In H1 2022, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB114.4 trillion, and the average daily turnover was RMB977.9 billion, representing an increase of 7.2 percent year on year. The amount of funds raised on the stock markets decreased year on year. In H1, a cumulative fund of RMB567.3 billion was raised, decreasing by 13.8 percent year on year.

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

In H1 2022, total premium income in the insurance sector amounted to RMB2.8 trillion, down 0.4 percent year on year, an acceleration of 0.4 percentage points compared to that recorded in 2021. Claim and benefit payments totaled RMB776.8 billion, representing a year-on-year increase of 1.5 percent. Specifically, total property insurance claims and benefit payments increased by 1.4 percent year on year, and total life insurance claims and benefit payments went up by 1.7 percent year on year.

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

Unit: RMB100 million, %

	Balance		As a share of total assets	
	End-June 2022	End-June 2021	End-June 2022	End-June 2021
Total assets	266,385	247,776	100.0	100.0
of which: Bank deposits	28,603	27,349	10.7	11.0
Investments	215,992	203,800	81.1	82.3

Source: China Banking and Insurance Regulatory Commission.

The growth of assets in the insurance sector accelerated. At end-June 2022, total assets in the insurance sector increased 7.5 percent year on year to RMB26.6 trillion, an acceleration of 0.7 percentage points from end-2021. Specifically, bank deposits increased by 4.6 percent, while investment-linked assets increased by 6 percent year on year.

6. The turnover of spot and swap foreign exchange transactions remained generally stable

In H1 2022, the cumulative turnover of spot RMB/foreign exchange transactions registered USD3.8 trillion, a decrease of 23 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD9.8 trillion, an increase of 5.5 year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD6.5 trillion, accounting for 65.7 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD67.6 billion, rising 29.4 percent year on year. The turnover of foreign currency pair transactions totaled USD691.2 billion, increasing by 13.5 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 55.5 percent of the total market share.

7. The volume of gold trading expanded year on year, while prices went down

At end-June 2022, international gold prices closed at USD1,817 per ounce, representing a decrease of 6.4 percent from end-March. The Au99.99 on the Shanghai Gold Exchange closed at RMB391.7 per gram, decreasing by 0.6 percent from end-March. In Q2 2022, the volume of gold traded on the Shanghai Gold Exchange was 9,699.98 tons, representing growth of 6.5 percent year on year. Turnover posted RMB3.87 trillion, representing growth of 12 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

Institutional arrangements in the bond market were improved. In April 2022, the PBC and the CBIRC jointly released the *Notice on the Issuance of Total Loss-Absorbing Capacity Eligible Non-Capital Bonds by Global Systemically Important Banks* (Yinfa No. 100 [2022]), which specified core elements and regulations for the issuance of total loss-absorbing capacity eligible non-capital bonds. The Notice provides the basis for the orderly issuance of the said bonds by global systemically important banks.

The bond market was further opened up in a high-quality manner. In May 2022, the PBC, CSRC, and SAFE jointly released the *Matters Concerning Further Facilitating Investment in China's Bond Market by Overseas Institutional Investors* (Announcement No.4 [2022] of the PBC, CSRC, and SAFE). Based on the principle of "one set of rules, one bond market," the Announcement further facilitates overseas institutional investments in China's bond market by unifying and improving relevant policy requirements and cross-border fund supervision.

2. Reform and institutional arrangements in the securities market

Fundamental institutional arrangements for the capital market were improved. On April 20, 2022, the 34th session of the 13th NPC Standing Committee passed the *Futures and Derivative Law of the People's Republic of China*, which came into force on August 1, 2022. Aiming at serving the real economy, forestalling and controlling financial risks, and deepening financial reform, the Law stipulates the basic rules for the futures and derivative markets in a comprehensive and systematic manner, thus filling the gaps in the legal framework of the capital market.

The reform of the registration-based IPO system was pressed ahead in a stable manner. In April 2022, the CSRC released the *Guiding Opinions on Improving Post-Delisting Supervision of Listed Companies*, which improves the delisting mechanism of listed companies and helps create a sound environment for smooth market entry and exit. In May, the CSRC released the *Provisions on Piloting the Business of Trading Stocks on the Sci-Tech Innovation Board by Securities Companies as Market Makers*, which helps introducing the market maker mechanism to the sci-tech innovation board in a bid to improve stock liquidity and market resilience. In May, the CSRC revised and released the *Guidelines for Due Diligence Work of Sponsors* and the *Guidelines for Working Papers on the Sponsor Business for Securities Issuances and Listings*, aiming to further improve the quality of sponsors' due diligence work as well as the working paper system of sponsor business. In May, the CSRC, MOJ, and MOF jointly released the *Opinions on Strengthening the Supervision of the Cleanliness of Intermediaries under the Registration-based IPO System*, for the purposes of regulating the cleanliness of intermediaries and their staff members, facilitating the cracking down on financial corruption along with the forestalling and controlling of financial risks, and safeguarding the reform of the registration-based IPO system.

Judicial guarantees for the NEEQ were strengthened. In June 2022, the Supreme People's Court released the *Several Opinions on Providing Judicial Guarantees for Deepening the Reform of the NEEQ and the Establishment of the Beijing Stock Exchange*, which brings judicial functions into full play and provides strong judicial guarantees for investors to grow more comfortable with investing and for SMEs to be bold in blazing new trails and starting up businesses.

3. Institutional arrangements in the insurance market

The investment of insurance funds was regulated. In April 2022, the CBIRC revised and released the *Notice on the Investment of Insurance Funds in Relevant Financial Products*. In the Notice, wealth management products of wealth management companies, single asset management plans, and debt-to-equity swap plans are included in the scope of investable financial products. It is also stipulated that insurance asset management companies shall undertake active management responsibilities, such as due diligence, investment decision-making, and post-investment management. Furthermore, the requirement for look-through regulation was enhanced, investments in single asset management products were regulated, and requirements for post-investment management were improved. In May, the CBIRC revised and released the *Rules on Entrusted Investments of Insurance Funds*. The revised Rules delete the requirements on securities companies and fund management companies as investment managers, clarify the boundary between the principal-agent relationship and the trust relationship involved in insurance fund investment, and enrich the rights, responsibilities, obligations, and prohibited behavior by both trustors and trustees.

The reform to standardize the insurance industry was advanced. In May 2022, the CBIRC released *the 14th Five-Year Plan for the Standardization of China's Insurance Industry*. It is proposed in the Plan that by 2025, China will have built a well-organized, comprehensive, and effective system for insurance standards, and it will have established more standards in areas of the insurance industry, such as core businesses, important services, and key technology. In terms of insurance standardization, China will build more exemplary institutions, raise greater awareness, and deepen international communications and cooperation.

Related-party transactions in insurance fund investments were regulated. In May 2022, the CBIRC released the *Notice on Strengthening Supervision of Related-Party Transactions in Insurance Institutions' Fund Investments*. The Notice specifies the basic principles, division of responsibilities, and prohibited behavior for related-party transactions in insurance fund investment, requires that insurance institutions strengthen the management of related parties, cooperative institutions, approval and decision-making processes, and information disclosures. It also clarifies the key points of supervision, enriches the supervisory measures, and gives full play to the role of industrial self-disciplinary organizations.

Part 4. Macroeconomic Overview

I. Global economic and financial developments

As high inflation is becoming the greatest challenge to the global economy, the central banks in the major advanced economies are tightening monetary policy at a faster pace. This, coupled with intermittent outbreaks of COVID-19, rising geopolitical tensions, and energy and food crises, has weakened growth momentum in the global economy. Large swings in financial markets and the risks of a hard landing in some economies merit attention.

1. Economic performance and financial markets in the major economies

Economic growth momentum weakened. In the US, the gross domestic product (GDP) fell 0.9 percent at an annualized pace in the second quarter, the second straight quarterly decline. In June, the University of Michigan's Consumer Sentiment Index dropped to a record low of 50, and the Manufacturing Purchasing Managers' Index (PMI) fell to a two-year low of 53. In the euro area, the GDP grew 0.7 percent in the second quarter on a quarterly basis, higher than the growth of 0.5 percent in the first quarter. However, some leading indicators worsened. In June, the Consumer Confidence Index in the euro area fell to –23.8, the second lowest after the –24.4 in April 2020, while the manufacturing PMI hit a 22-month-low of 52.1. The Japanese economy contracted 0.5 percent on an annualized basis in the first quarter. In their latest reports, the International Monetary Fund (IMF) and the World Bank revised downward their global growth forecasts for this year, by 0.4 and 0.3 percentage points, to 3.2 percent and 2.9 percent, respectively.

Inflation remained elevated. In June, the Consumer Price Index (CPI) was up by 9.1 percent in the US and by 9.4 percent in the UK compared with the previous year, both reaching a 40-year high. The Harmonized Indices of Consumer Prices (HICP) in the euro area rose by 8.6 percent over the prior year, also a new record high since the statistics became available. In the emerging markets, the CPI in India and South Africa both went up by more than 7 percent in June, the CPI in Russia and the IPCA in Brazil rose by over 10 percent, while the CPI in Argentina and Turkey surged by 64 percent and 78.6 percent, respectively.

Structural supply shortages remained in the job markets, while growth of labor demand moderated. On the one hand, labor supply shortages remain a main problem in the major advanced economies. Job vacancies in the US hit 10.698 million in June, about 1.8 vacancies for each registered unemployed, exceeding 10 million for thirteen consecutive months. On the other hand, labor demand started to fall. The employment index, one component of the manufacturing PMI, was 49.6 in May, dropping below 50 for the first time in nearly nine months, and it fell further to 47.3 in June. As downward pressures on economic growth increase, firms are more reluctant to hire, which may push up the jobless rate from the current low levels. Going forward, labor supply shortages and weakening labor demand may continue to coexist in the major advanced economies for some time.

Volatility increased in global financial markets. First, stock indices declined. At the end of June, the S&P 500 and the STOXX50 slumped over 20 percent from their peaks in January, technically entering a bear market. Second, the bond market was sluggish. In the first half of this year, the yield on 10-year government bonds in the

US, Germany, and the UK went up by 146, 165, and 127 basis points (bps), respectively, while the yield jumped higher on government bonds issued by the southern European countries with weak fiscal positions. Third, the foreign exchange market fluctuated sharply. The US dollar strengthened as monetary policies in the advanced economies diverged. In mid-July, the euro dropped below its parity against the US dollar several times, and the Japanese yen depreciated by more than 15 percent against the US dollar in the first half of 2022, both marking record lows in nearly twenty years. Fourth, the commodity market was volatile. The prices of energy, metals, and agricultural products soared in the wake of the Russia-Ukraine conflict, and most of them peaked in early March. Afterwards, energy prices fluctuated at high levels, while the prices of metals and agricultural products dropped noticeably. In particular, the prices of copper, aluminum, and zinc have already fallen back to their levels in the fourth quarter of 2021.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q2 2021			Q3 2021			Q4 2021			Q1 2022			Q2 2022		
		Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	Real GDP Growth (annualized quarterly rate, %)	6.7			2.3			6.9			-1.6			-0.9		
	Unemployment Rate (%)	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6
	CPI (year-on-year, %)	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6	9.1
	DJ Industrial Average (end of the period)	33875	34529	34503	34935	35361	33844	35820	34484	36338	35132	33893	34678	32977	32990	30775
Euro Area	Real GDP Growth (year-on-year, %)	14.6			3.9			4.8			5.4			4.0		
	Unemployment Rate (%)	8.2	8.1	7.9	7.6	7.5	7.3	7.3	7.1	7.0	6.9	6.8	6.7	6.6	6.6	6.6
	HICP (year-on-year, %)	1.6	2.0	1.9	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.4	7.4	8.1	8.6
	EURO STOXX 50 (end of the period)	3975	4039	4064	4089	4196	4048	4251	4063	4298	4175	3924	3903	3803	3789	3455
United Kingdom	Real GDP Growth (year-on year, %)	24.5			6.9			6.6			8.7			…		
	Unemployment Rate (%)	4.9	4.9	4.7	4.6	4.4	4.3	4.2	4.1	4.0	4.0	3.8	3.7	3.8	3.8	…
	CPI (year-on-year, %)	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4
	FTSE 100 (end of the period)	6970	7023	7037	7032	7120	7086	7238	7059	7385	7464	7458	7516	7545	7608	7169
Japan	Real GDP Growth (annualized quarterly rate, %)	2.6			-3.2			4.0			-0.5			...		
	Unemployment Rate (%)	2.8	2.9	2.9	2.8	2.8	2.8	2.7	2.8	2.7	2.8	2.7	2.6	2.5	2.6	2.6
	CPI (year-on-year, %)	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5	2.4
	Nikkei 225 (end of the period)	28813	28860	28792	27284	28090	29453	28893	27822	28792	27002	26527	27821	26848	27280	26393

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 50 bps in May and by 75 bps in June and July to a target range of 2.25–2.5 percent, the biggest single rate hike since November 1994. In its June dot plot, the median forecast for the federal funds rate at the end of 2022 was 3.25–3.5 percent, which means a total hike of 325 bps this year, higher than the forecast in the March dot plot. In addition, from June the Fed began reducing its holdings of Treasury securities and agency mortgage-backed securities, initially by USD30 billion and USD17.5 billion per month, respectively, which would then increase to USD60 billion and USD35 billion after three months. The European Central Bank increased the interest rate on its main refinancing operations, marginal lending facility, and deposit facility each by 50 bps in July, its first rate hike in eleven years and putting an end to eight years of negative interest rates. In the meantime, it created the Transmission Protection Instrument to ensure smooth transmission of monetary policy across the euro area so as to meet the price stability objective. The Bank of England (BOE) raised the Bank Rate in May and June, each by 25 bps to 1.25 percent. At its May meeting, the BOE's Monetary Policy Committee (MPC) announced 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, the Reserve Bank of Australia, and the Bank of Korea all raised rates twice in the second quarter, by a total of 100 bps, 100 bps, 75 bps, and 50 bps, respectively.

Several emerging economies continued to raise interest rates. To address domestic inflationary pressures and the spillovers of monetary policy tightening in the advanced economies, some emerging economies continued with their rate hikes. In the second quarter, the central banks in Brazil, Mexico, India, and the Philippines all increased their rates twice by a total of 150 bps, 125 bps, 90 bps, and 50 bps, respectively, while the central banks in South Africa and Malaysia hiked their benchmark rates once, by 50 bps and 25 bps, respectively.

3. Issues and trends that merit attention

High inflation has already become the biggest challenge facing the global economy. According to the IMF, the average annual growth of the global CPI was 3.9 percent for the first two decades of this century (from 2000 to 2019). The advanced economies experienced a great moderation and a period of low inflation when their annual CPI averaged only 1.8 percent. However, this trend changed in 2021 and was reversed this year, with clear signs of higher inflation. In the short term, factors contributing to higher inflation include the earlier massive stimuli by the advanced economies, the supply bottleneck exacerbated by the resurgence of COVID-19, global energy and food supply strains caused by geopolitical tensions, wage-price spirals amplified by the mismatch between demand and supply of labor, and the second-order effects of rising inflation expectations in overseas markets. In the medium and long term, dividends from global integration and abundant labor supply, which kept inflation subdued for the first two decades of this century, have been reversed. This, in tandem with the energy transition and the rising costs of industrial chain restructuring, will make inflation stay elevated longer than it was in previous episodes.

The major advanced economies face a monetary policy dilemma, as their growth momentum has weakened. Energy supply strains in Europe and some other regions may add to the difficulties faced by firms and households and may weigh on an economic recovery. Global confirmed daily new cases of COVID-19 have gone up again since June, fueled by the Omicron BA.5 variant, creating new uncertainties for global economic prospects. High inflation has made the policy trade-off even more difficult for the central banks in the major advanced economies. A looser-than-warranted monetary policy is likely to trigger a de-anchoring of inflation expectations, while a tighter-than-warranted monetary policy will increase the risks of a hard landing.

The emerging economies and the developing countries are facing the risk of a perfect storm: rising inflation, slower growth, debt overhang, currency depreciation, food crisis, and energy crisis. The World Bank projects the potential growth of the emerging economies and the developing countries for the next decade to be 0.6 percentage points lower than that in the pre-COVID-19 period. Meanwhile, less accommodative global financial conditions have increased the debt servicing burden on low-income countries. According to the IMF, more than 30 percent of the emerging economies and the developing countries are in or on the verge of debt difficulties. In the low-income countries, that percentage is 60 percent. Large swings in global financial markets and a persistent currency depreciation in the emerging economies may further trigger chain reactions, dealing a heavy blow to the financially vulnerable market entities. The Institute of International Finance estimates that the emerging markets saw a net capital outflow for four successive months, from March to June, with the total net outflow exceeding USD20 billion. In addition, food and energy security challenges loom large. According to the United Nations, nearly 800 million people worldwide are suffering from hunger, and the world is heading toward the worst food crisis since World War II.

II. Macroeconomic developments in China

In H1, due to the complicated and rapidly changing international environment and unexpected sporadic domestic outbreaks of the pandemic, China's economy faced increasing downward pressures. Pandemic containment and economic and social development in all regions and departments across the country were coordinated in an effective way, with an emphasis on adjustment of the macro policies. As positive results have been achieved in pandemic containment, a series of measures to stabilize growth has delivered results, which buttress stable performance of the economy with good momentum. According to preliminary statistics, GDP in H1 grew by 2.5 percent year on year to RMB56.2642 trillion on a comparable basis. Specifically, GDP in Q2 achieved positive growth and grew by 0.4 percent year on year.

1. The consumption margin improved, investments continued to increase, and imports and exports recorded rapid growth

The income of residents grew steadily, and the improved pandemic situation promoted the recovery of consumption. In H1, China's per capita disposable income reached RMB18463, increasing by 4.7 percent year on year in nominal terms, or 3.0 percent in real terms. The income growth of rural residents outpaced that of urban residents, and the structure of income distribution continuously improved. According to the Urban Depositors' Survey conducted by the PBC in Q2, 23.8 percent of residents were inclined to "consume more," up 0.1 percentage points from Q1. In H1, total retail sales of consumer goods decreased by 0.7 percent year on year, mainly due to the 11.1 percent year-on-year decline in April that was affected by the pandemic. The decline narrowed to 6.7 percent year on year in May and the year-on-year growth rate in June changed from negative to positive, which was 3.1 percent year on year.

Investments continued to increase, buttressing the steady growth of the economy. In H1, total fixed-asset investments throughout China (excluding those by rural households) increased by 6.1 percent year on year. In terms of sectors, investments in manufacturing increased by 10.4 percent, 4.3 percentage points higher than the growth of total investments. Investments in infrastructure increased by 7.1 percent, 1.0 percentage point higher than the growth of total investments. Investments in real estate decreased by 5.4 percent. Investments in the high-tech industry saw sound growth and grew by 20.2 percent year on year, 14.1 percentage points higher than the growth of total investments. Social investments grew rapidly, with a growth rate of 14.9 percent year on year in H1. Specifically, investments in health and education grew by 34.5 percent and 10.0 percent year on year, respectively.

Imports and exports recorded rapid growth. In H1, imports and exports of goods grew by 9.4 percent year on year. Specifically, exports grew by 13.2 percent year on year and imports grew by 4.8 percent year on year, with the trade surplus in goods posting RMB2.4812 trillion. The trade structure continued to improve, with the share of imports and exports under general trade increasing by 2.1 percentage points year on year and the share of private enterprises increasing by 1.9 percentage points year on year. Our trading partners are becoming more diversified. Imports and exports to the countries along the Belt and Road and to the RCEP (Regional Comprehensive Economic Partnership) trading partners grew by 17.8 percent and 5.6 percent, respectively.

Foreign direct investments (FDI) continued to gather in the high-tech industries. In H1, actually utilized FDI increased by 17.4 percent year on year to RMB723.31 billion (equivalent to USD112.35 billion, growing by 21.8 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 H1, actually utilized FDI in the high-tech industry grew by 33.6 percent year on year. Specifically, actually utilized FDI in the high-tech services industry grew by 34.4 percent year on year and actually utilized FDI in the high-tech manufacturing industry grew by 31.1 percent year on year. Actually utilized FDI in the services industry grew by 9.2 percent year on year.

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

In H1, the value-added of the primary, secondary, and tertiary industries in the national economy grew by 5.0 percent, 3.2 percent, and 1.8 percent year on year, respectively. In Q2, the value-added of the primary, secondary, and tertiary industries grew by 4.4 percent, 0.9 percent, and -0.4 percent year on year, respectively.

China saw another bumper grain harvest this summer, and animal husbandry grew steadily. The output of summer grains totaled 147.39 million tons, up 1.434 million tons from 2021, increasing by 1.0 percent year on year. The sowing area of autumn grains increased steadily. In H1, the output of pork, beef, lamb, and poultry grew by 5.3 percent year on year, and the output of pork specifically grew by 8.2 percent year on year. Production expectations of farmers improved gradually and hogs in stock increased quarter on quarter. At end-June, the number of hogs in stock totaled 430.57 million, up 1.9 percent from Q1.

Industrial production recovered steadily. In H1, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 3.4 percent year on year. The leading role of new driving forces was enhanced. In H1, the value-added of the high-tech manufacturing sector increased by 9.6 percent, which was 6.2 percentage points higher than that of the IEDS. Recovery of the industrial chain and the supply chain was accelerated. The value-added of the automobile manufacturing sector increased significantly by 16.2 percent year on year in June. The profits of industrial enterprises recovered quickly. Total profits of the IEDS decreased by 6.5 percent year on year in May and increased by 0.8 percent year on year in June, changing from a decline to an increase. Among the 41 major industrial categories, 21 industries saw year-on-year profit growth, and the number of industries seeing growth accounted for 51.2 percent of all 41 industries.

Growth in the services industry recovered gradually. In H1, the value-added of the services industry grew by 1.8 percent year on year. The Index of Service Production (ISP) decreased by 6.1 percent and 5.1 percent year on year in April and May, respectively, and the year-on-year growth rate turned positive and registered 1.3 percent in June. The new business forms of the services industry grew rapidly. In H1, online retail sales of commodities increased by 5.6 percent year on year, with the share of total retail sales of social consumer goods increasing by 2.2 percentage points year on year. Expectations of enterprises improved. In June, the Business Activities Index for the services industry reached 54.3 percent; specifically, the Business Activities Index of retail sales, railway transport, air transport, postal services, monetary and financial services, and capital market services were all within a prosperous range above 55 percent.

3. Consumer prices increased moderately, and the growth of producer prices continued to decelerate

Consumer prices increased moderately. In H1, the CPI increased by 1.7 percent year on year, an acceleration of 0.6 percentage points from Q1. Specifically, the CPI in April, May, and June increased by 2.1 percent, 2.1 percent, and 2.5 percent year on year, respectively, and the core CPI (food and energy excluded) increased by 1 percent year on year. Driven by the increase in international energy prices, the increases in prices of domestic gasoline and diesel accelerated by 3.6 percentage points and 3.8 percentage points from Q1, respectively. With the start of a new Hog Circle, pork prices have tended to rise since late April.

The growth of producer prices continued to decelerate. In H1, the Producer Price Index (PPI) increased by 7.7 percent year on year, a deceleration of 1 percentage point from Q1. Due to the influence of enhanced policies to ensure supplies and stabilize prices and the base effect, the year-on-year growth of the PPI continued to decelerate from 9.1 percent in January to 6.1 percent in June. In H1, the Purchasing Price Index for Industrial Products (PPIRM) increased by 10.4 percent year on year, a deceleration of 0.9 percentage points from Q1. The Corporate Goods Price Index (CGPI) monitored by the PBC posted a cumulative year-on-year increase of 5.9 percent, 0.3 percentage points lower than that in Q1.

Box 4 Annual Price Target Still Achievable, with Vigilance against Structural Inflation Pressures

Elevated global inflation has recently been persistent, with the major developed economies in particular facing high inflation pressures that have been unprecedented for decades. In June, the CPI in the US climbed 9.1 percent from the previous year, setting a 40-year record high, and the HICP in the euro area surged 8.6 percent from the previous year, the highest since data have become available. Macro policies were caught between maintaining stable growth and countering inflation. This predicament was closely related to the actions taken by the central banks in the developed economies whereby they previously misjudged inflation developments and their policy adjustments fell behind market curves, which also offered inspiration and references for China's macro management. It should be noted that preserving currency stability is the top priority of the central bank and maintaining stable inflation both underpins a stable macro economy and promotes sustained and steady economic growth. At any time, the central bank should be highly concerned about marginal changes in price trends, make broad-based considerations, analyze and judge future inflation developments objectively, and be ready for all sorts of policy-arrangement possibilities.

On the one hand, in terms of economic fundamentals, China has favorable conditions to keep prices generally stable. China's inflation trends have generally been moderate and stable over the previous months. Compared with the same period of the last year, the cumulative increase in the CPI from January to June registered 1.7 percent, and growth of the PPI eased every month. Domestic prices have remained stable amid unusually high worldwide inflation. It is expected that this year's price increases will remain within a reasonable range, achieving the annual target of an average CPI increase of about 3 percent. This achievement does not come easily. Under the unified arrangements of the CPC Central Committee and the State Council to keep supply and prices of grains and energy stable, domestic prices were effectively shielded from the pass-through shocks of the global price hikes of major commodities and grains, and we refrained from adopting a deluge of strong stimulus policies and providing an excessive money supply, thus laying a solid foundation for price stability. Fundamentally, China is a major producer, its monetary policy remains sound and prudent, its aggregate supply and demand is broadly balanced, and it enjoys high grain self-sufficiency, with another bumper summer harvest and a record high level of grain output. In addition, domestic prices of coal and clean energies correlate weakly with international markets, domestic industrial and supply chains function smoothly, and household inflation expectations remain stable. Healthy, virtuous, and resilient economic fundamentals are helpful for price increases to broadly remain within a reasonable range over the medium and long term.

On the other hand, we should be mindful that structural inflation pressures may

go up, imported inflationary pressures still exist, and a possible resurgence of price hikes driven by the interlacing of various factors are not problems we should take lightly. Externally, dividends, such as globalization and sufficient labor supply, that played important roles in stemming global inflation over the past two decades have been reversed amid higher costs of the transitions to cleaner, greener energy and industrial chain restructuring, thus pivotal global inflation picked up notably. Unexpected negative factors, such as renewed COVID-19 outbreaks, unusual climate changes, and geopolitical conflicts, may also intensify the uncertainties of supply and demand disruptions and price fluctuations, with the external environment witnessing fundamental changes. **Domestically**, a combination of various factors may fuel the temporary pick-up of a pivotal inflation rate. **First**, future consumption recovery following successful COVID-19 containment may drive a faster pass-through of previous PPI increases to CPI. Over the first six months, among the categories of the PPI basket, increases in production materials began falling from 11.8 percent to 7.5 percent in June, while living materials began growing from 0.8 percent to 1.7 percent, an evident pass-through to downstream industries. This growth was mainly fueled by the recovery of consumption demand, and higher total factor productivity can only partially offset inflation pressures. In practice, the most recent round of accelerated CPI pick-up in the US started after March 2021 when consumption demand recovered at a faster pace. **Second**, the CPI basket in China is more dependent on food, pork prices in particular. A new round of a “pork cycle” has already started, which may fuel higher food categories in the CPI basket. China has experienced roughly four rounds of a “pork cycle” since 2006, with each round lasting about four years and the first 1.5 to 2 years seeing price increases. Domestic pork prices dropped to the weak levels of the current stage in April, when about four years had passed since the previous cycle had started in around May 2018. Pork prices edged up in late April, and its price increases accelerated in the second half of June, with the slope of the upward curve steepening. Average wholesale prices soared more than 40 percent over the month from June 16 to July 15, indicating the beginning of another round of a “pork cycle.” Comparatively, due to our generally sufficient hog supply in the current stage, this round of pork price increases is likely to be more moderate than that during the swine fever period in 2019. But the price increases have also had upward effects on the CPI. **Third**, China’s dependence on imported oil, gas, and other energy resources is relatively high, and the soaring costs of imported energy have finally resulted in broader-based product price increases from domestic transport and travel for end-users. Brent crude-oil futures fluctuated between high absolute levels of 90 to 115 dollars per barrel since the second half of 2022, and from January to July the average price gains registered over 50 percent on a yearly basis. Affected by this, the average price of No. 92 gasoline in the first seven months grew 25.3 percent from the previous year, and the transportation and communication category in the CPI basket added 6.3 percent from the previous year, 4.5 percentage points higher than the overall CPI increase, thus pointing to the ongoing imported inflationary pressures.

On balance, China’s pivotal CPI in the second half of the year is expected to move upward compared with the rate of 1.7 percent in the first half of the year, and the increase in certain months may temporarily exceed 3 percent, as structural inflationary pressures grow. For the next stage, we will continue to pursue sound and prudent monetary policies, refrain from adopting a deluge of strong stimulus policies and providing an excessive money supply, and take a holistic approach to maintain stable growth, stable employment, and stable prices. **On the one hand,** we will make continuous efforts to lay solid foundations for a favorable environment whereby domestic grain production increases, while maintaining stability and smooth energy market functions, closely monitoring inflation developments both at home and abroad, and responding to them properly; **On the other hand**, we will continue to maintain a proper and adequate level of liquidity supply, ramp up support to the real economy, see that increases in money supply and aggregate financing are proper, and strive for the best possible economic development outcomes in 2022.

4. Fiscal revenue stabilized and rebounded, and the effects of support for stabilizing the economy and ensuring the people's livelihood have emerged

In H1, revenue in the national general public budget posted RMB10.5 trillion, increasing by 3.3 percent year on year (VAT credit refund excluded), and decreasing by 10.2 percent year on year (calculated on a natural basis). Specifically, central and local fiscal revenue grew by 1.7 percent and 4.7 percent year on year (VAT credit refund excluded), respectively, and decreased by 12.7 percent and 7.9 percent (calculated on a natural basis), respectively. Tax revenue posted RMB8.6 trillion, increasing by 0.9 percent (VAT credit refund excluded).

In H1, expenditures in the national general budget posted RMB12.9 trillion, increasing by 5.9 percent and accelerating by 1.4 percentage points from the same period of the previous year. In terms of the structure of expenditures, expenditures related to science and technology, transportation, and agriculture/forestry/water resource projects grew quickly, registering year-on-year growth of 17.3 percent, 12 percent, and 11 percent, respectively.

5. The employment situation improved slightly

The surveyed urban unemployment rate fell. In H1, 6.54 million people were newly employed, and the surveyed unemployment rate averaged 5.7 percent. Specifically, the surveyed unemployment rate in April was 6.1 percent, and it was reduced to 5.9 percent and 5.5 percent in May and June, respectively. In June, the surveyed urban unemployment rate in thirty-one major cities was 5.8 percent, decreasing by 1.1 percentage points month on month. In June, the average weekly working hours of employees in enterprises were 47.7 hours, 0.5 hours more than in May.

6. The balance of payments and the external debt

A basic equilibrium was maintained in China's balance of payments. According to preliminary statistics, in H1 2022 China's current account surplus registered USD169.1 billion, accounting for 1.9 percent of GDP, continuously staying within a reasonable range. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD320.7 billion, an increase of 36 percent year on year. The growth rate reached a new high. Trade in services recorded a deficit of USD37.8 billion, down 30 percent year on year. A basic equilibrium was maintained in cross-border capital flows. Specifically, direct investments recorded a surplus of USD74.9 billion. At end-June 2022, foreign exchange reserves registered USD3.0713 trillion, down USD178.9 billion from that at end-2021, mainly due to the increase in the US dollar index and the decline in the prices of financial assets in the major countries. By the end of March, the balance in the all-system foreign debt (denominated in both domestic and foreign currencies) posted USD2.7102 trillion, and medium- and long-term foreign debt accounted for 47 percent of all foreign debt.

7. Analysis by sector

7.1 The real estate sector

In June 2022, among seventy medium and large-sized cities nationwide, newly built and second-hand residential housing prices decreased by 1.3 percent and 2.7 percent year on year, respectively. In H1 2022, the total floor area of sold units decreased by 22.2 percent year on year. Housing sales decreased by 28.9 percent year on year. Investments in real estate development fell by 5.4 percent year on year. Specifically, investments in residential housing development fell by 4.5 percent year on year.

Table 14 Floor Area of Newly Started, Under Construction, and Completed Real Estate Projects in H1 2022

	Floor area (100 million square meters)	YOY change (%)	QOQ change (percentage points)
Floor area of newly started real estate projects	6.6	-34.4	-16.9
Floor area of real estate projects under construction	84.9	-2.8	-3.8
Floor area of completed real estate projects	2.9	-21.5	-10.0

Source: National Bureau of Statistics of China.

At end-June 2022, outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) grew by 4.2 percent year on year to RMB53.1 trillion. Specifically, outstanding individual housing loans grew by 6.2

percent year on year to RMB38.9 trillion. Outstanding housing development loans dropped by 1.4 percent year on year to RMB9.4 trillion.

7.2 The electronic information industry

The electronic information industry is a strategic, fundamental, and leading pillar of the national economy, covering such areas as electronic information manufacturing and software and information technology services. In H1 2022, faced with multiple challenges brought about by factors including the complicated and serious international situation and the sporadic COVID-19 outbreaks at home, China's electronic information industry demonstrated strong resilience with faster development in new driving forces. The growth rate of production picked up at a quicker pace, as manifested by the 10.2 percent year-on-year growth of the added value of electronic information manufacturing above a designated size in H1 2022, which is 6.8 percentage points higher than the growth of total added value of industries above a designated size. Investment in the industry kept ahead, as shown in the 19.9 percent year-on-year growth of fixed asset investments in electronic information manufacturing above a designated size in H1 2022, which is 9.5 percentage points higher than the overall investment in manufacturing.

However, we must remain aware that the electronic information industry still faces many challenges, such as threats to the safety of industrial and supply chains, intensified competition, and the relocation of the industry abroad. First, it is urgent that we enhance the stability of industrial and supply chains. Electronic information is a typical global and technology-intensive industry. China's weaker position in the global value chain and weak links in areas such as high-end chips and basic materials result in the problem of being "strangled." Second, the transformation and upgrading of the industry is slow and the efficiency of the industry needs to be improved. In H1 2022, the operating revenue of electronic information manufacturing above a designated size grew by 7.7 percent year on year, while total profits shrank by 6.6 percent, with the operating profit margin posting 1.9 percentage points[1] lower than the average level of all industries. Third, the relocation of the industry abroad has accelerated. The sporadic outbreaks of COVID-19 at home, coupled with the bottleneck of international logistics and intensified geopolitical tensions, has brought new challenges to the global electronic information industrial chain in terms of its division of labor and layout. China has witnessed an accelerated relocation of such industry abroad, which is inevitable for the transformation and upgrading of its industrial structure as it is an objective law in global industrial relocation and factor endowment change for low value-added industrial chains to relocate to low-cost regions.

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[1] Data from *Operation Analysis of the Electronic Information Industry in H1 2022*, compiled by the China Federation of Electronics and Information Industry.

Moving forward, the innovation-driven strategy will be continued to better safeguard industrial and supply chains, so as to ensure stable operation of the electronic information industry. First, research platforms for fundamental innovation will be enhanced at the national level, so as to take a long-term view in planning fundamental research, quicken the pace of independent innovation, and strengthen the foundation for the industry's development. Second, more efforts will be made to build, improve, and upgrade the supply chain system, in order to create a gathering effect and a chain effect around the needs of leading and platform companies for production and supplementary services. Third, the opening-up will continue unswervingly to create new dynamics for international science and technology communications and cooperation, improve the image and influence of China's electronic information industry, and relieve the stresses imposed by the relocation of industrial chains abroad.

Part 5. Monetary Policy Outlook

I. Outlook for the Chinese economy

In Q2, the Chinese economy achieved positive growth under heavy pressures. In H1 2022, China's GDP grew by 2.5 percent year on year. From March to April, downward pressures on the Chinese economy increased, due to internal and external factors exceeding expectations. From May to June, as positive results were achieved in prevention and control of COVID-19, relevant authorities accelerated implementation of a package of policy measures rolled out by the State Council to stabilize the economy, and ramped up efforts to implement fiscal, monetary, and industrial policies. The efforts stabilized the fundamentals of economic and social development to the greatest extent possible. In Q2, GDP registered year-on-year growth of 0.4 percent, and overall economic performance witnessed a stable recovery. Agricultural production was favorable and summer grain production saw a bumper harvest. Industrial production was in a steady recovery, and logistics and transportation gradually became smooth. The issuance and use of special local government bonds accelerated, and investment in infrastructure was speeded up. The momentum for transformation and upgrading continued. In H1 2022, the proportion of the value-added of the manufacturing sector in GDP was 0.7 percentage points higher than that in H1 2021, and the driving force of some key industries such as automobiles and electronics was enhanced. Employment and the people's livelihood were guaranteed, and the urban surveyed unemployment rate declined for two consecutive months in May and June after a temporary rise. Green transformation was continuously promoted, and the proportion of clean energy consumption increased steadily. Imports and exports grew rapidly. An equilibrium was maintained in the balance of payments, and foreign exchange reserves remained stable above USD3 trillion.

At present, globally, with slower economic growth, elevated inflation, and persistent geopolitical tensions, the external environment has become more severe and complicated, while domestically, the foundation for economic recovery has yet to be strengthened. On the one hand, the pre-pandemic situation of "low inflation, low interest rates, low growth, and high debt" in the global economy is undergoing a fundamental transformation. In particular, high inflation is becoming the biggest challenge facing most economies. To control high inflation, the major developed economies have accelerated tightening of monetary policy, and the spillover effects on the emerging economies through foreign trade and investment, exchange rate fluctuations, and financial markets have increased significantly. Global economic growth is slowing down and the risks of a hard landing faced by some economies have increased. On the other hand, the recovery of domestic consumption is facing challenges, such as sluggish residential income growth, impaired balance sheets, and limited consumption scenarios, and there are still some difficulties and obstacles in actively expanding effective investment. The foundation for the recovery of the service sector is still not solid, young people face great employment pressures, and hard work is still needed to stabilize the economy. **However, it should be noted that the fundamentals for China's sound economic growth over the long run remain unchanged. The economy remains highly resilient, and there are abundant macro policy adjustment tools and favorable conditions for promoting high-quality economic development.** We should maintain strategic focus, comprehensively implement the requirements for "preventing the pandemic, stabilizing the economy, and ensuring safe development," coordinate pandemic containment and socio-economic development, ensure that a package of policy measures to stabilize the economy will deliver results, and stand firm in contributing to the stability of the national economy.

Prices will remain generally stable throughout the year, but we should be alert to structural inflationary pressures. In Q2, pork prices bottomed out and the price of production materials fluctuated downwards. In H1 2022, the CPI increased by 1.7 percent year on year. Specifically, the CPI rose by 2.5 percent year on year in June. The PPI increased by 7.7 percent year on year in H1 2022. Specifically, the PPI rose by 6.1 percent year on year in June. In general, the Chinese economy is gradually recovering with a basically stable supply-demand relationship and moderate monetary conditions. Under the favorable conditions of stable and increased grain output and the smooth functioning of energy markets, it is expected that price hikes will remain within a reasonable range, the expected target of an annual average CPI growth of around 3 percent will be achieved, and PPI growth will continue its downward trend throughout the year. Going forward, as consumer demand recovers and transmission of the PPI to the CPI lags, a new cycle of pork price hike begins, and energy and raw material costs are still at a high level, domestic structural inflationary pressures may increase, and imported inflationary pressures will still exist. It is expected that the growth of CPI will accelerate slightly in H2 2022, the CPI pivot will rise compared with that in H1 2022, and its growth in some months may temporarily exceed 3 percent. We should keep a close eye on price movements, strengthen monitoring and analysis, and be alert to any rebound of inflationary pressures.

II. Outlook for monetary policy in the next stage

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, it will pursue progress while ensuring stability and it will 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 deepen the supply-side structural reform, develop a modern central banking system, and improve the framework for a modern monetary policy. In addition, the PBC will ensure solid implementation of policies and measures to consolidate the economic rebound. It will work to stabilize employment and prices and it will give effective investment a key role so as to keep the economic indicators within a reasonable range. It will strive for the best possible outcome and do its part to set the stage for the upcoming 20th CPC National Congress.

The PBC will strengthen implementation of the sound monetary policy and give play to the role of monetary policy instruments in adjusting both the aggregate and the structure. It will take proactive measures to boost confidence. With proper intertemporal adjustments, it will balance short-term and long-term perspectives, economic growth and price stability, as well as internal and external equilibria. It will resolutely refrain from launching a deluge of strong stimulus policies and there will be no excessive money supply. With these efforts, it will provide stronger and higher-quality support for the real economy. While keeping liquidity adequate at a reasonable level, the PBC will encourage greater credit support for businesses. With policy-based and developmental financial instruments in place, key support will be directed toward infrastructure construction. Meanwhile, the PBC will maintain reasonable growth of M2 and aggregate financing to the real economy (AFRE). The aim is to achieve the best possible economic performance. Keeping a close watch on inflationary situations at home and abroad, the PBC will work to consolidate favorable conditions for stable and growing grain production and for smooth functioning of the energy market at home. With proper preparations and management, it will keep prices basically stable. Structural monetary policy tools will play a supportive role so that more support will be provided for inclusive MSB loans and for stable employment in micro, small, and medium-sized enterprises. The PBC will make good use of the carbon emission reduction facility (CERF) as well as central bank lending for clean and efficient coal use, for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics. More financial resources will be channeled to key areas, weak links, as well as to those businesses and industries that have been hard hit by COVID-19, and new economic growth points will be cultivated. The PBC will improve the market-oriented interest rate formation and transmission mechanism and will optimize the central bank policy rate system. While enhancing regulation over deposit rates, it will ensure that the mechanism for market-oriented adjustments of deposit rates will play an important role and will contribute to stabilizing the liability costs for banks. The overall financing costs for businesses are expected to drop, with the LPR reform continuing to unleash its potential and playing a guiding role. The PBC will pay close attention to economic developments in the developed economies as well as to the spillover effects of their monetary policy shifts, and it will focus on domestic issues while properly balancing internal and external equilibria. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBC will maintain bottom-line thinking and strengthen macro-prudential management for cross-border capital flows so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Following market principles and the rule of law, it will coordinate efforts for economic development and risk prevention, keep the financial system generally stable, and firmly defend the bottom line whereby no systemic risks will occur.

First, the PBC will maintain stable and appropriate growth in money and credit. By using a mix of monetary policy tools, it will keep liquidity adequate at a reasonable level and maintain reasonable growth in money supply and the AFRE, striving to achieve the best possible economic performance. Closely following the development of a number of uncertainties at home and abroad, it will conduct in-depth analyses of liquidity supply and demand in the banking system to improve the foresightedness, flexibility, and effectiveness of its operations. It will stabilize market expectations while properly balancing internal and external equilibria. Moreover, the PBC will improve the mechanism for money supply management, continue to ease liquidity, capital, and interest rate constraints on bank credit supply, and guide financial institutions to step up credit support for the real economy in line with market-oriented and prudential management principles. Development and policy banks will be guided to put into use the newly increased RMB800 billion quota of credit and the newly launched financial instruments worth RMB300 billion in order to give strong support to infrastructure projects. The PBC will also improve the mechanism for sustainable capital replenishment by replenishing capital for commercial banks through multiple channels and ramping 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 use structural monetary policy tools in a focused, reasonable, appropriate, and flexible manner in order to prioritize financial support for key fields and weak links. It will keep central bank lending and discount policies stable to carry on inclusive and sustained funding support for agro-related businesses, MSBs, and private businesses. It will intensify financial support for MSBs and push for better implementation of the inclusive MSB lending facility so that it can play a bigger role in stabilizing businesses and securing employment. At the same time, the PBC will put into operation the CERF and the special central bank lending for clean and efficient coal use. It will encourage eligible financial institutions to lend at preferential interest rates to key projects that significantly reduce carbon emissions, and it will guide financial institutions to support green and low-carbon development based on market principles. Moreover, the PBC will support clean and efficient use of coal and coal-fired power. It will promote the transition to a green and low-carbon economy on the basis of the security of energy supply so as to help achieve the goals of carbon peaking and carbon neutrality with scientific and well-ordered steps. The PBC will also pick up pace in implementing the special central bank lending for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics. These efforts are aimed at encouraging financial institutions to provide funding support for such fields in line with market principles and leveraging the role of structural monetary policy tools in providing targeted liquidity and positive incentives.

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 concretely implement the financial policies already introduced. The PBC will make efforts to implement the package of policy measures to stabilize the economy; it will encourage the deferral of interest and principal payments for loans issued to MSMEs, self-employed traders, and cargo drivers; it will continue pushing financial institutions to implement the 23 measures providing financial support for COVID-19 control as well as economic and social development and the policies supporting the recovery of the hard-hit industries in the services sector; and it will improve and facilitate the access of MSMEs to financing. Financial institutions will be guided to accelerate their implementation of the *Notice on Promoting the Establishment of Long-Term Mechanisms for Boosting Financial Sector's Confidence, Willingness, Capability, and*

Expertise in Lending to Micro and Small Businesses so that they will be more willing and able to provide services for MSBs and will do it more sustainably. The PBC will continue to assess the effectiveness of the MSB credit policy orientation and enhance the application of the assessment results. Focusing on the priorities for rural revitalization, it will guide financial institutions to optimize resource allocations, promote innovations of financial products and services, and effectively ramp up financial support for the agricultural sector, rural areas, and farmers. The newly launched policy-based and developmental financial instruments worth RMB300 billion will be properly used in accordance with the laws and regulations, while the newly increased RMB800 billion quota of credit for development and policy banks will be put into use in a timely manner. At the same time, commercial banks and social resources will be guided to provide follow-up funding support. With these efforts, infrastructure development and other key projects are expected to deliver concrete progress soon to play a positive role in stabilizing investment. 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 adopt city-specific measures and use the policy toolkit fully and effectively to meet the rigid demand for housing and the needs to improve living conditions. Meanwhile, it will prudently implement the regulations on prudential management of real estate finance 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, and it will focus on domestic conditions while balancing internal and external equilibria. It will continue to improve the market-oriented interest rate formation and transmission mechanism and the central bank policy rate system. It will strengthen the regulation of deposit rates, put in place a mechanism for market-oriented deposit rate adjustments, and give full play to the self-regulatory mechanism for interest rate pricing to stabilize bank liability costs. Moreover, it will tap into the LPR reform and leverage the guiding role of the LPR to help bring down the overall financing costs for businesses. Taking steady steps to deepen the market-oriented exchange rate reform, the PBC will improve the managed floating exchange rate regime that is based on market supply and demand with reference to a basket of currencies, and it will enhance the flexibility of the RMB exchange rate. It will strengthen expectation management and uphold bottom-line thinking while conducting monitoring and analysis of cross-border capital flows and stressing risk prevention. By doing so, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level and give play to the role of the exchange rate in macroeconomic management and as an automatic stabilizer for the balance of payments. In addition, the PBC will continue to develop the foreign exchange market.

Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing services of exchange rate risk hedging for MSMEs with authentic needs based on a risk-neutral concept and on reducing the costs of risk hedging for enterprises, thereby maintaining the stable and sound development of the foreign exchange market. Meanwhile, the PBC will continue to advance RMB internationalization stably and prudently by further expanding use of the RMB in cross-border trade and investment, deepening international monetary cooperation, and promoting the sound and orderly development of offshore RMB markets. It will 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. The reform of development and policy financial institutions will move ahead, 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 so as to better play their roles in serving the real economy and supporting national strategies. The PBC will continue to build the legal system for the bond market and consolidate the legal basis for corporate credit bonds. It will also enhance the efficiency and interconnectivity of the multi-tiered bond market system and accelerate development of the commercial bank over-the-counter (OTC) bond market to improve bond market liquidity and to give rise to secondary market prices that are more consistent and effective. Moreover, the PBC will boost innovation in the bond market to intensify support for key fields and weak links, and it will improve the quality and efficiency of the services provided by the bond market to support the real economy. It will strengthen regulation of the bond market. Based on market principles and the rule of law, it will continue to adopt a zero-tolerance approach by stepping up efforts to crack down on illegal and irregular conduct in the bond market, and it will forestall and defuse bond market risks in a timely manner. At the same time, the PBC will remain firmly committed to advancing the opening-up of the bond market.

Sixth, the PBC will improve the systems of financial risk prevention, early warning, resolution, and accountability, and it will build a long-term mechanism to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning and to enrich the macro-prudential policy tools. 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 ahead steadily 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 enhance the relevant rules and regulations to promote the sound, 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 further streamline and 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 based on market principles and the rule of law. The PBC will keep a close watch on risks in key fields and enhance the foresightedness, timeliness, and effectiveness of risk identification. Continuing to follow the principles of "maintaining overall stability, taking a coordinated approach, adopting differentiated measures, and defusing bombs with precision," it will attach importance to preventing and defusing financial risks in order to reduce existing risks and strictly guard against emerging risks. Additionally, the PBC will further tap into the functions of deposit insurance for early corrections and risk resolution, leverage the role of risk-differentiated premiums as both incentives and restraints, and enhance the authority of early corrections. Continued efforts will be made 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. The PBC will also improve the mechanism for financial risk accountability and hold accountable those responsible for major financial risks to effectively prevent moral hazards. It will firmly defend the bottom line whereby no systemic risks will occur.