China Monetary Policy Report

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2022, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China has maximized its efforts to ensure stable economic and social development by efficiently coordinating COVID-19 containment and social and economic development as well as by effectively implementing macro policies. The economy rebounded remarkably, with the GDP recording year-on-year growth of 3.9 percent in Q3, an acceleration of 3.5 percentage points from Q2. Prices remained basically stable despite the elevated worldwide inflation, with the CPI registering year-on-year growth of 2.0 percent in the first three quarters. 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, solidly implemented a package of policies and follow-up measures to stabilize the economy and strengthened implementation of a sound monetary policy. It was firm in contributing to the stability of the national economy.

First, liquidity was kept adequate at a reasonable level. The PBC injected liquidity through multiple channels, such as central bank lending and discounts, the medium-term lending facility (MLF) operations, and open market operations (OMOs). It reached the goal of turning over RMB1.13 trillion of its accumulated profits to the central government ahead of schedule. And to enhance the stability of credit growth, it added more than RMB300 billion to policy-backed and development-oriented financial instruments when the earlier-launched RMB300 billion of instruments had been used for qualified projects. **Second,** the structural monetary policy toolkit was effectively used. The PBC made effective use of the inclusive micro and small business (MSB) lending facilities, the carbon emission reduction facility (CERF), as well as other special central bank lending. As of end-September, the PBC provided over RMB90 billion of special central bank lending for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics, and it launched a special central bank lending for equipment upgrading and renovation with a quota of over RMB200 billion. **Third,** the market-oriented interest rate reform was deepened continuously, with the loan prime rate (LPR) playing its reform and guiding role. In August, the OMO rate declined by10 basis points (bps), bringing down the one-year and over-five-year LPRs by 5 bps and 15 bps, respectively. In September, the floor for first-home mortgage rates was temporarily relaxed in some cities, and the interest rate on personal housing provident fund loans was lowered by 0.15 percentage points. A mechanism for market-oriented adjustments of deposit rates was established to stabilize liability costs for banks. **Fourth,** attention was paid to maintaining a balance between internal and external equilibria. The PBC deepened the market-oriented reform of the exchange rate and upheld the decisive role of the market in the RMB exchange rate formation. The PBC enhanced the flexibility of the RMB exchange rate and strengthened macro-prudential management and expectations management to give play to the role of the exchange rate as an auto stabilizer in macroeconomic management and 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 to continuously mitigate financial risks.

Overall, the sound monetary policy was flexible and appropriate, maintaining its continuity, stability, and sustainability. Policy transmission was more efficient and financial support for the real economy was further enhanced, both in quality and in efficiency. Credit growth was more stable. In the first three quarters, RMB loans saw a cumulative rise of RMB18.08 trillion, RMB1.36 trillion more than their growth in the same period of the previous year. At end-September, RMB loans, broad money (M2), and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 11.2 percent, 12.1 percent, and 10.6 percent, respectively. The credit structure continued to improve. At end-September, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 24.6 percent and 30.8 percent year on year, respectively. The loan rate was stable with a slight decline. In September, the weighted average rate on corporate loans registered 4.0 percent, down 0.59 percentage points from the same period of the previous year, representing a record low. The foreign exchange market functioned smoothly and RMB exchange rate expectations were generally stable.

Currently, the external environment has become more severe and complicated as the overseas inflation remains elevated and global downturn risks are rising, while domestically, the foundation for economic recovery has yet to be strengthened. In spite of this, it should be noted that the fundamentals for China’s sound economic growth over the long run remain unchanged, as the conditions for the building of a new development paradigm are sufficient, the recovery of effective demand is picking up, and the economy is resilient, with great potential and ample space for adjustments. 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 study and implement the spirit of the 20th CPC National Congress, work hard to build a high-level socialist market economy, and press ahead with Chinese-style modernization. Following the decisions and arrangements of the CPC Central Committee and the State Council, it will pursue progress while taking stability as its top priority. The PBC will deepen the financial system reform and develop a modern central banking system. With solid implementation of policy measures, it will aim to maintain employment and price stability and it will leverage the key role of effective investments so as to consolidate and amplify economic momentum toward stability and growth and effectively upgrade and appropriately expand the economic output.

The PBC will strengthen implementation of a sound monetary policy. 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 it will not provide an excessive money supply. With these efforts, the PBC will provide stronger and higher-quality support for the real economy. While keeping liquidity adequate at a reasonable level, the PBC will guide policy and development banks to make full and effective use of the policy-based and development-oriented financial instruments as well as the newly added RMB800 billion of credit lines. Encouraging commercial banks to issue more MLT loans, the PBC will maintain reasonable growth of M2 and the AFRE so as to achieve better economic performance. Paying high attention to the potential rise in inflation, especially demand-side changes, the PBC will continue its efforts to consolidate favorable conditions for stable and growing domestic grain production and for the smooth functioning of the energy market. With proper preparations and management, it will keep prices basically stable. It will render more support to key areas, weak links, as well as to those businesses and industries that have been hard hit by COVID-19, by making good use of the inclusive MSB lending facilities, the CERF, as well as central bank lending for clean and efficient coal use, for sci-tech innovation, for inclusive elderly care services, for transportation and logistics, and for equipment upgrading and renovation. The PBC will ensure solid implementation of the long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to lend to MSBs and private businesses so as to spur the vitality of market entities. It will continue its efforts to deepen the market-oriented interest rate reform and to optimize the central bank policy rate system. The mechanism for market-oriented adjustments of deposit rates will play a key role and it will contribute to stabilizing the liability costs for banks. The costs for corporate financing and for consumer credit are expected to drop, with the LPR reform continuing to unleash its potential. 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 and upholding the decisive role of the market in exchange rate formation, the PBC will maintain bottom-line thinking and strengthen expectation management so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBC will coordinate efforts for economic development and risk prevention to maintain overall stability in the financial system. It will establish and improve the mechanism for risk prevention, early warning, and resolution, and it will firmly defend the bottom line whereby no systemic risks will occur so as to safeguard the interests of the people.

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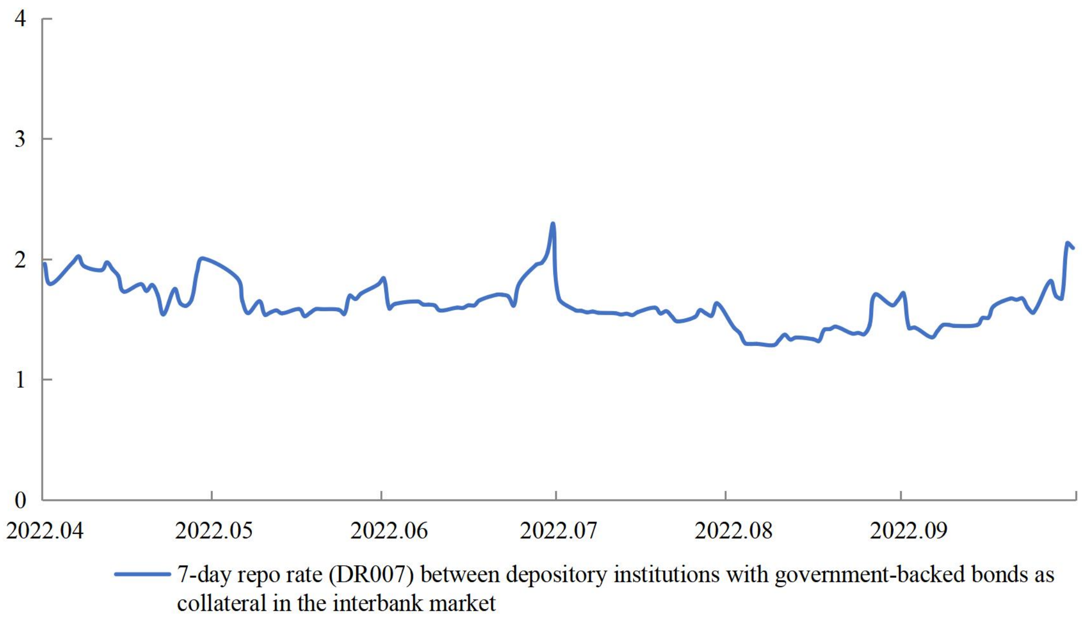
Part 1 Money and Credit Analysis

Since the beginning of 2022, the People's Bank of China (PBC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and has implemented the guidelines of the 19th National Congress of the Communist Party of China (CPC), all plenary sessions of the 19th CPC Central Committee, the Central Economic Work Conference, and the requirements set forth in the *Report on the Work of the Government*. The PBC has placed stable growth in a more prominent position and it has strengthened implementation of a sound monetary policy. It has also given full play to the guiding roles of structural monetary policy instruments. Money, credit, and aggregate financing to the real economy (AFRE) have witnessed reasonable growth, the credit structure has been improved continuously, and overall financing costs have steadily declined, providing vigorous support for stabilizing the macro economy.

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

Since the beginning of 2022, the PBC has adopted a monetary policy that prioritizes stability while pursuing development, and it has taken prompt measures at an early stage based on changes in the macro situation. It has employed a mix of instruments, such as the required reserve ratio (RRR) cut, the medium-term lending facility (MLF), central bank lending and discounts, and open market operations (OMOs), and it has turned over its profits to the Central Treasury, thus injecting 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 interest rates in the money market, creating a favorable liquidity environment for stabilizing the macro economy and keeping economic performance within a reasonable range. At end-September 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 historic lows

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 difficulties in business operations. For a period of time, their demands for credit have been waning and the growth of loans has slowed down. In response, the PBC has successively held a number of symposia to analyze the monetary and credit situations, participated by heads of major financial institutions, the PBC branches at various levels and its affiliated institutions, as well as the policy banks. Financial institutions were encouraged to increase lending based on prudent operations and in line with market-based principles. In Q3, loans continued to accelerate, with newly issued loans registering RMB4.4 and a year-on-year increase of RMB445.6 billion, which revealed continuously enhanced support for the real economy. At end-September, outstanding loans issued by financial institutions in domestic and foreign currencies grew 10.7 percent year on year to RMB216.6 trillion, an increase of RMB18.1 trillion from the beginning of 2022, or a year-on-year acceleration of RMB890.9 billion. Outstanding RMB-denominated loans grew 11.2 percent year on year to RMB210.8 trillion, up RMB18.1 trillion from the beginning of 2022, or a year-on-year acceleration of RMB1.4 trillion.

The credit structure continued to improve. At end-September, medium and long-term loans to enterprises and public entities grew by RMB8.7 trillion as compared to those at the beginning of 2022, accounting for 59.8 percent of total corporate loans. The year-on-year (YOY) growth of medium and long-term loans to the manufacturing sector registered 30.8 percent, 19.6 percentage points higher than the YOY growth of total loans. Outstanding inclusive loans to MSBs grew by 24.6 percent year on year, 13.4 percentage points higher than the growth of total loans; 53.89 million MSBs were supported, a rise of 31.7 percent year on year.

Table 1 Structure of RMB Loans in the First Three Quarters of 2022

Unit: RMB100 million

	Outstanding amount at end-September	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	2107582	11.2%	180826	13648
Households	745143	7.2%	34145	-29305
Enterprises and public entities	1349085	13.5%	144759	39944
Non-banking financial institutions	4499	28.4%	224	1843
Overseas	8855	33.6%	1698	1166

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 the First Three Quarters of 2022

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks [1]	100782	24101

Chinese-funded small and medium-sized banks[2]	83918	-4874
Small-sized rural financial institutions[3]	21912	-1904
Foreign-funded financial institutions	-164	-1619

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 hit a statistical low. The PBC continuously deepened the market-oriented reform of interest rates, bringing into play the efficiency of the LPR reform and the key role of the market-based adjustment mechanism for deposit interest rates. In mid-September, some national banks took the initiative to lower lending rates, with other banks following suit, which stabilized the liability costs for banks and brought about a further decline in actual lending rates. In September, the one-year LPR and the over-five-year LPR stood at 3.65 percent and 4.30 percent, respectively, down 0.15 percentage points and 0.35 percentage points from December 2021, respectively. In September, the weighted average lending rate recorded 4.34 percent, down 0.66 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.65 percent, down 0.65 percentage points year on year, while the weighted average interest rate on corporate lending fell by 0.59 percentage points year on year to 4.00 percent. On the whole, interest rates on RMB-denominated loans witnessed a further decline, manifesting robust financial support for the real economy.

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

Unit: %

	September	Change from the previous December	YOY Change
Weighted average interest rate on new loans	4.34	-0.42	-0.66

on ordinary loans	4.65	-0.54	-0.65
of which: on corporate loans	4.00	-0.57	-0.59
on bill financing	1.92	-0.26	-0.73
on mortgage loans	4.34	-1.29	-1.20

Source: The People's Bank of China.

In September, the share of ordinary loans with rates above, at, or below the LPR registered 60.75 percent, 5.22 percent, and 34.03 percent, respectively.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to September 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
July	30.37	6.21	63.41	15.95	19.96	12.38	7.54	7.58
August	30.55	5.16	64.29	17.60	19.57	12.08	7.76	7.27
September	34.03	5.22	60.75	17.85	19.32	11.21	6.76	5.60

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In September, 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 0.60 percent and 2.59 percent, respectively, up 0.50 percentage points and 2.28 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 3.64 percent and 3.78 percent, up 2.53 and 2.67 percentage points from December 2021, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to September 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
July	0.27	1.78	2.77	3.22	3.59	2.94	2.99	3.25	3.46	3.42	4.54
August	0.43	2.21	3.10	3.60	3.69	3.61	3.33	3.60	3.72	3.85	4.28
September	0.60	2.59	3.36	4.17	4.13	4.14	3.64	3.78	4.18	4.15	4.18

Source: The People’s Bank of China.

The growth of deposits picked up steadily. At end-September, outstanding deposits in domestic and foreign currencies at all financial institutions increased 10.9 percent year on year to RMB261.3 trillion, up RMB22.7 trillion from the beginning of 2022 and an acceleration of RMB5.5 trillion year on year. Outstanding RMB deposits grew 11.3 percent year on year to RMB255.0 trillion, an increase of RMB22.8 trillion from the beginning of 2022 and an acceleration of RMB6.2 trillion year on year. Outstanding deposits in foreign currencies stood at USD884.9 billion, a decrease of USD112.1 billion from the beginning of 2022 and a year-on-year deceleration of USD215.5 billion.

Table 6 Structure of RMB Deposits in the First Three Quarters of 2022

Unit: RMB100 million

	Outstanding deposits at end-September	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2550054	11.3%	227689	61601
Households	1157130	14.5%	132115	47211
Non-financial enterprises	755441	11.2%	59755	39584
Public entities	331806	5.3%	20453	4736
Fiscal entities	53152	-6.6%	2552	-9560
Non-banking financial institutions	234766	9.1%	10388	-21391
Overseas	17759	23.9%	2425	1021

Source: The People’s Bank of China.

Box 1 A Proper Assessment of the Widening Deposit–Loan Gap

The deposit–loan gap refers to the gap between deposits and loans. As banks increase their holdings of bonds, foreign exchange, equities, and other assets, the share of loans in total assets is on the decline, resulting in a growing deposit–loan gap in China’s banking system. Since the beginning of 2022, the deposit–loan gap in the banking system has widened by a large margin. In the first three quarters of 2022, RMB loans and deposits increased by RMB18.1 trillion and RMB22.8 trillion, respectively. At end-September, the gap between outstanding deposits and outstanding loans was RMB44.2 trillion, up RMB4.7 trillion from end-2021, thus attracting some attention. Some attribute this to the conversion of savings into investments, arguing that the banks’ granting of more loans could narrow the gap. Yet we need to get to the core of the issue and make a proper assessment.

In theory, under the current system of credit money, deposits, which are bank liabilities, are created during the process of asset expansion, including the issuance of loans. Instead of resorting to household savings, banks could simply expand assets to grant loans and create deposits (liabilities) at the same time. If they have no other assets than loans and no other liabilities than deposits, then the increase in loans will be accompanied by the same amount of new deposits without any gap between the two. The deposit-loan gap can be explained by the diversified financial support for the real economy. Apart from loans, banks can also expand assets through the holding of bonds, funds outstanding for foreign exchange and equities, and making other investments. As a result, they can create deposits without scaling up loans. In other words, **the widening deposit–loan gap is an outcome of diversifying money creation out of loans. Therefore, the gap cannot be explained by the conversion of savings into investments and thus encouraging banks to increase loans will not help.**

China is a case in point, where the expansion of the deposit–loan gap reflects macro-policy coordination in support of the real economy. Since the beginning of this year, unexpected factors have tempered credit demand in some sectors of the economy, while pushing up precautionary demand for money in certain circulation links. Shoring up the economy requires stronger monetary support. According to the arrangements of the CPC Central Committee and the State Council, monetary, fiscal, industrial, and other macro policies have formed a synergy, creating more money through channels other than loans. As a result, the deposit–loan gap has widened. **First, fiscal departments have increased the issuance of bonds.** In the first three quarters of 2022, the cumulative issuance of government bonds totaled RMB5.9 trillion, among which RMB4.7 trillion was held by banks as on-balance-sheet assets. The funds raised were spent by fiscal departments, which were then translated into enterprise and household deposits, thus widening the deposit–loan gap. **Second, the central bank turned over the surplus profits to the central budget**, which amounted to RMB1.13 trillion in the first three quarters of 2022. With these funds, the fiscal departments implemented tax credit refunds, which increased the deposits of economic entities in the absence of lending activities. As a result, the deposit–loan gap expanded. **Third, the methodology for statistics on financial instruments has also contributed to the widening gap**. Policy and development banks have launched over RMB600 billion worth of financial instruments this year to replenish capital for major projects on infrastructure, fundamental industries, and the people's livelihood. Funds raised through these financial instruments were then deposited into banks by project companies. However, they were not calculated as loans from policy and development banks. This statistical methodology has led to a wider deposit–loan gap.

Similarly, the major economies have also witnessed a growing deposit–loan gap in recent years, mainly due to the diversification of the banks' asset structure, especially the banking system's support for deficit spending. In the wake of the 2008 global financial crisis, central banks or banks in the U.S., Europe, Japan, and other major advanced economies supported a fiscal expansion by purchasing government bonds. The funds raised were then spent and became deposits in the real economy, resulting in a larger deposit–loan gap. For instance, the deposit–loan gap in the U.S. surged to over USD3 trillion in February 2020 from less than USD200 billion at end-2007. As the U.S. government implemented a large-scale fiscal stimulus after the outbreak of COVID-19, the deposit–loan gap widened further to the elevated level of above USD7 trillion in October 2021. It still remained above USD6 trillion at end-September 2022, despite a moderate decline since the beginning of this year.

Figure Deposit–Loan Gap in China and the U.S.

On the whole, the widening of the deposit–loan gap can be explained by more diversified channels of monetary creation apart from loans with no direct link to the conversion of savings into investments. Since the beginning of this year, deposits in China's banking system have grown rapidly, and household precautionary savings have also increased due to COVID-19 and other factors. In addition, the cycle between household deposits and corporate deposits was not yet smooth. At end-September, the growth of outstanding household deposits registered 14.5 percent, 3.3 percentage points higher than the growth of 11.2 percent for corporate deposits. From January to September, household deposits increased by RMB13.2 trillion, accounting for 58 percent of total new deposits, 6.9 percentage points higher than that in the same period of 2021. As this structural shift has not reduced the size of total deposits, it has not changed the deposit-loan gap.

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

The reasonable growth of money and credit aggregates has provided strong support to the real economy. At end-September, outstanding broad money M2, narrow money M1, and currency in circulation M0 registered RMB262.7 trillion, RMB66.5 trillion, and RMB9.9 trillion, respectively, up 12.1 percent, 6.4 percent, and 13.6 percent year on year, respectively. The first three quarters of 2022 witnessed a net cash injection of RMB784.7 billion, RMB529.5 billion more than that in the same period of 2021.

According to preliminary statistics, the outstanding AFRE reached RMB340.65 trillion at end-September. Its year-on-year growth registered 10.6 percent, up 0.3

percentage points compared with that at end-2021. In the first three quarters of 2022, the AFRE increment totaled RMB27.77 trillion, RMB3.01 trillion more than that in the same period of 2021. The AFRE has the following structural features: first, the increment in RMB loans grew significantly year on year. In the first three quarters of 2022, the increment in RMB loans issued by financial institutions to the real economy grew by RMB1.06 trillion year on year to RMB17.89 trillion, accounting for 64.4 percent of the AFRE increment during the same period. Second, the increment in government bonds increased year on year, while that in corporate bonds decreased year on year. In the first three quarters of 2022, their numbers were RMB1.5 trillion more and RMB241.3 billion less than those in the corresponding period of the previous year, respectively. Third, off-balance-sheet financing decreased at a slower pace. In the first three quarters of 2022, the increase in entrusted loans was RMB444 billion more than that in the first three quarters of 2021, while decreases in trust loans and undiscounted bankers' acceptances were RMB745.6 billion and RMB133.7 billion less 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 the First Three Quarters of 2022

	End-September 2022		First Three Quarters of 2022	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
AFRE	340.65	10.6	277730	30061
Of which: RMB loans	209.4	11.1	178869	10588
Foreign-currency loans (RMB equivalent)	2.18	-7.1	-2217	-4748
Entrusted loans	11.21	2.6	3298	4440
Trust loans	3.86	-24.8	-4814	7456
Undiscounted bankers' acceptances	2.92	-11.2	-892	1337
Corporate bonds	31.49	7.7	22019	-2413
Government bonds	58.98	16.9	59109	14954

	End-September 2022		First Three Quarters of 2022	
Domestic equity financing by non-financial enterprises	10.34	14.0	8738	596
Other financing	10.06	12.5	6231	-2462
Of which: Asset-backed securities of depository institutions	2.04	-0.6	-1345	-2905
Loans written off	7.11	19.5	7926	1282

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.

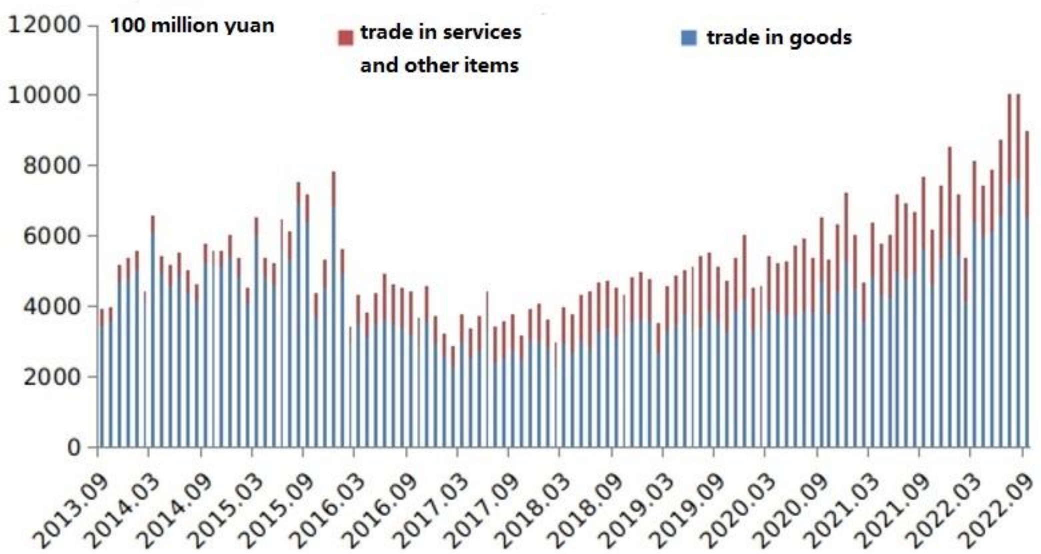
Sources: The People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

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 on the whole 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 for the macro economy and the balance of payments. In the first three quarters of the year, based on market supply and demand, the RMB exchange rate depreciated against a basket of currencies. At end-September, 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 101.03 and 98.27, respectively, down 1.4 percent and 2.1 percent from end-2021, respectively. According to calculations by the Bank for International Settlements (BIS), the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB depreciated 0.2 percent and 4.4 percent, respectively, in the first three quarters of this year. From 2005 when the reform of the RMB exchange rate formation regime began to end-Q3 2022, the NEER and REER of the RMB appreciated 48.4 percent and 51.2 percent, respectively. In the first three quarters of this year, the RMB depreciated against the US dollar. At end-September, the central parity of the RMB against the US dollar was 7.0998, depreciating 10.2 percent from end-2021 and appreciating 16.6 percent on a cumulative basis since the beginning of the reform of the exchange rate formation regime in 2005. In the first three quarters of 2022, the annualized volatility rate of the RMB against the US dollar was 5.4 percent.

In the first three quarters of 2022, cross-border RMB settlements increased 15 percent year on year to RMB31.5 trillion, with RMB receipts and payments posting RMB15.3 trillion and RMB16.2 trillion, respectively. Cross-border RMB settlements under the current account grew by 31 percent year on year to RMB7.5 trillion. Specifically, RMB settlements under trade in goods registered RMB5.7 trillion, while RMB settlements under trade in services and under other items registered RMB1.8 trillion. Cross-border RMB settlements under the capital account registered RMB24 trillion, increasing 11 percent year on year.

Figure 2 Monthly RMB Settlements under the Current Account



Source: The People’s Bank of China.

Part 2 Monetary Policy Operations

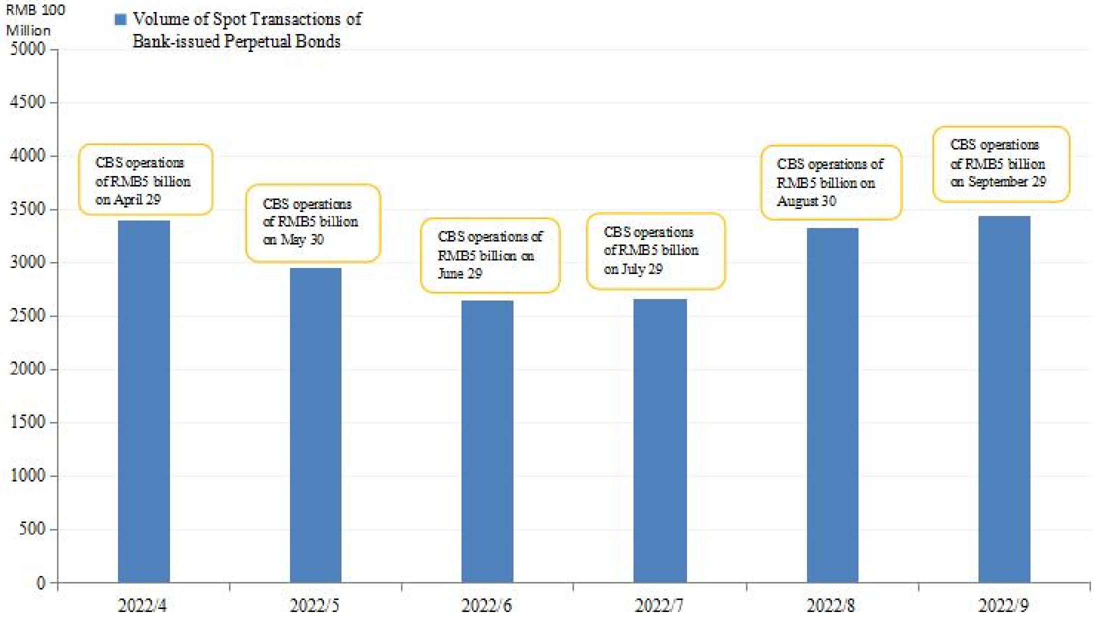
In Q3 2022, with resolute implementation of the decisions and arrangements made by the CPC Central Committee and the State Council and in line with the requirement that COVID-19 should be contained, the economy should be stabilized, and development should be safe, the PBC fully implemented a package of policies and follow-up measures to stabilize the economy, attached greater priority to stabilizing economic growth, enhanced implementation of a sound monetary policy, gave full play to the dual functions of monetary policy tools in adjusting the credit aggregate and structure, and guided financial institutions to strongly support the real economy, especially micro and small businesses (MSBs), tech innovation, green development, and infrastructure, thereby standing firm in contributing to the stability of the national economy.

I. Conducting open market operations in a flexible manner

Conducting open market operations in a flexible manner. In Q3 2022, the PBC injected medium and long-term liquidity by adopting a mix of tools, such as the medium-term lending facility (MLF), central bank lending, and the turning over of surplus profits. Based on this, the PBC conducted open market operations on a daily basis and, with respect to funding supply and demand, adjusted the scale of open market operations in a flexible and targeted manner, thus keeping liquidity adequate at a reasonable level. On August 15, the rates paid on the open-market 7-day reverse repos and the 1-year MLF both declined by 10 basis points, to 2.0 percent and 2.75 percent, respectively, which was conducive to uplifting market confidence, elevating effective demand, and consolidating the stabilizing and upward trend momentum in economic development. In mid to late September, given the growing short-term liquidity demand driven by factors such as the quarter-end period and the National Day holiday, the PBC conducted 14-day reverse repos on the first business day that these operations would mature in October, thus proactively providing cross-quarter liquidity in advance. Coupled with intensified 7-day reverse repos operations, these efforts stabilized market expectations in a timely manner and effectively maintained money-market stability at the end of the quarter. In Q3, the weighted average rate on 7-day repos between depository institutions in the interbank market (DR007) posted 1.52 percent, a decrease of 20 basis points from Q2 and 65 basis points from Q3 of 2021. Interest rates witnessed heightened stability at the end of the quarter.

Continuously conducting central bank bill swap (CBS) operations. In Q3 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 this year, 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 capacity.

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



Issuing central bank bills in Hong Kong on a regular basis. In Q3 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 in Hong Kong is conducive to promoting the sound development of the offshore RMB money market and the bond market and to propelling both domestic and overseas entities to issue RMB-denominated bonds and to conduct RMB business in the offshore market.

II. Conducting medium-term lending facility and standing lending facility operations

Conducting MLF operations to fully meet market demand. 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 RMB2.55 trillion of MLF operations in the first three quarters of 2022, all with a maturity of one year. The interest rate registered 2.85 percent in the first seven months and declined by 10 basis points to 2.75 percent in August and September. In particular, MLF operations conducted in Q3 amounted to RMB900 billion. At end-September, the outstanding MLF registered RMB4.55 trillion, which was on par with that at the beginning of 2022.

Conducting standing lending facility (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 and strengthen the stability of liquidity in the banking system. In the first three quarters, the PBC conducted a total of RMB10.5 billion of SLF operations, of which operations in Q3 registered RMB2.2 billion. The balance of SLF operations at end-September posted RMB800 million. The SLF rate continued to serve as the ceiling of the interest rate corridor and to maintain the smooth operation of the money market. At end-September, the overnight, 7-day, and 1-month SLF rates stood at 2.85 percent, 3.00 percent, and 3.35 percent, respectively, down 0.1 percentage points from those at end-June.

III. Adjusting the foreign exchange required reserve ratio for financial institutions

The foreign exchange required reserve ratio was lowered for financial institutions to enhance their foreign exchange liquidity management. The PBC lowered the foreign exchange required reserve ratio by 2 percentage points, from 8 percent to 6 percent, effective on September 15, 2022. This move will release around USD17 billion of foreign exchange liquidity. Following the first cut by one percentage point on May 15, this was the second reduction of the ratio this year.

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 the first three quarters of 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 foreign exchange risk reserve ratio for forward foreign exchange sales was raised when appropriate. In order to stabilize foreign exchange market expectations and strengthen macro prudential management, the PBC decided to raise the foreign exchange risk reserve ratio for forward foreign exchange sales from 0 to 20 percent, effective from September 28, 2022.

The regulatory framework for systemically important financial institutions was refined. The PBC and CBIRC jointly solicited public comments on the *Assessment Methodology of Systemically Important Insurance Companies (Exposure Draft)* beginning on July 8. The document stipulates the methods, coverage, procedures, and division of work in assessing domestic systemically important insurance companies. On the basis of the size of their assets, the top ten largest insurance groups, life insurance companies, property and casualty insurance companies, and reinsurance companies were assessed based on four dimensions, i.e., size, interconnectedness, asset liquidation, and substitutability. On September 9, the PBC and CBIRC released the list of China's systemically important banks (SIBs) for 2022. A total of 19 banks were designated as SIBs, consisting of six state-owned commercial banks, nine joint-stock commercial banks, and four city commercial banks. The SIBs fell into five groups in ascending score in terms of systemic importance. Group One contained nine banks, including China Minsheng Bank, China Everbright Bank, Ping An Bank, Huaxia Bank, Bank of Ningbo, China Guangfa Bank, Bank of Jiangsu, Bank of Shanghai, and Bank of Beijing. Group Two contained three banks, including China CITIC Bank, Postal Savings Bank of China, and Shanghai Pudong Development Bank. Group Three contained three banks, including Bank of Communications, China Merchants Bank, and Industrial Bank. Group Four contained four banks, including Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China. At the time, there were no banks included in Group Five.

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, pledged supplementary lending (PSL), and other policy instruments to guide financial institutions to enhance support for key areas and weak links in the economy and for coordinated regional development. Central bank lending to support rural development and MSBs was utilized to guide locally incorporated financial institutions to expand their credit supply for rural revitalization. Central bank lending for poverty alleviation was rolled over according to current regulations so as to consolidate the achievements in poverty alleviation. The PBC promoted coordinated regional development by guiding locally incorporated financial institutions in ten provinces to make effective use of policy instruments, such as central bank lending, and to expand credit supply for weak links 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. To give play to the role of finance in supporting effective investments, the PBC employed PSL to support the development banks and policy banks in setting up financial instruments and providing credit support for key areas in the infrastructure sector. At end-September, outstanding central bank lending to support rural development posted RMB558.7 billion. Outstanding central bank lending for MSBs and for poverty alleviation posted RMB1.3863 trillion and RMB157.6 billion, respectively. Outstanding central bank discounts registered RMB544.9 billion, while outstanding PSL posted RMB2.6481 trillion.

Continuously implementing instruments in support of inclusive MSB loans to bolster the development of MSBs. Starting from Q2 2022, the PBC provided incentive funding on a quarterly basis in the amount of 2 percent of the incremental balance of inclusive MSB loans issued by locally incorporated banks so as to encourage the banks to extend inclusive MSB loans. In Q3, the PBC provided incentive funding of RMB8.6 billion to locally incorporated financial institutions, facilitating an increase of RMB438.7 billion in inclusive MSB loans. Since implementation of this instrument, incentive funding from the PBC to locally incorporated financial institutions totaled RMB21.3 billion, supporting a total increase of RMB1.2947 trillion in inclusive MSB loans.

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 Q3, through these two instruments, the PBC provided relevant financial institutions with RMB64.2 billion and RMB22.2 billion, respectively, or total funding of RMB86.4 billion. Since implementation of these two instruments, the PBC cumulatively provided RMB246.9 billion and RMB57.8 billion, respectively, up to a total of RMB304.7 billion. In August, Deutsche Bank China and Société Générale China were added to the list of financial institutions eligible for the CERF, showing that China pays great attention to the green transition, always adheres to its opening-up policy, provides foreign financial institutions with national treatment and supports their development in China.

Accelerating implementation of special central bank lending facilities for sci-tech innovation, inclusive elderly care, and the transport and logistics sectors, respectively. In Q3, through the aforementioned three instruments, the PBC provided relevant financial institutions with central bank lending totaling RMB80 billion, RMB400 million, and RMB10.3 billion, respectively. In October, the quota for special central bank lending for sci-tech innovation was increased by RMB200 billion, further enhancing support for innovative sci-tech enterprises.

Establishing the special central bank lending facility for equipment upgrading to support financial institutions in providing loans to sectors including infrastructure, social services, MSMEs, and self-employed businesses. In September, the PBC, the National Development and Reform Commission (NDRC), the Ministry of Finance, the National Audit Office, and the CBIRC jointly issued the *Notice on Establishing Special Central Bank Lending for Equipment Upgrading* (Yinfa No.211 [2022]). With the aim of providing targeted liquidity and incentives and in line with market-oriented principles, the special central bank lending facility for equipment upgrading was established with a quota of over RMB200 billion to support financial institutions to provide loans with an interest rate no greater than 3.2 percent sectors to enterprises in relevant sectors to upgrade their equipment. The facility has adopted a "reimbursement" mechanism whereby financial institutions are "reimbursed" on a monthly 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 sectors. 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, while the Ministry of Finance offers an interest subsidy of 2.5 percentage points. The PBC and the relevant departments set up a cross-department cooperation mechanism following release of the policy to design implementation plans for this facility and to track and guide banks in accelerating the approval and issuance of loans, so as to promote early policy implementation and ensure it will deliver results as soon as possible.

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

Constantly enhancing financial services for MSBs. We encouraged financial institutions to follow market-oriented principles to allow deferrals of principal and interest repayments on loans to eligible MSBs and self-employed businesses as well as truck drivers and on individual housing loans and consumer loans. We ramped up implementation of supportive instruments for inclusive MSB loans to better guide and support the granting of MSB loans by locally incorporated banks. We urged financial institutions to fully implement the requirements of the *Notice of the People's Bank of China on Promoting the Establishment of the Long-term Mechanism for Boosting the Confidence, Willingness, Capability, and Professionalism of Financial Institutions to Lend to Micro and Small Businesses and Private Businessess*, to enhance their allocation of internal resources and policy arrangements, to improve their use of sci-tech measures, to constantly increase MSB lending, and to boost financial services for MSBs. As of end-September, inclusive MSB loans registered a year-on-year increase of 24.6 percent to an outstanding amount of RMB23.2 trillion, which has been granted to 53.89 million MSBs, an increase of 31.7 percent from the previous year.

Box 2 Leveraging the Role of Policy-based and Development-oriented Financial Instruments to Help Boost Infrastructure Construction and Stabilize the Economy

It was highlighted at the 20th National Congress of the Communist Party of China that the nation will develop a modern infrastructure system. The 11th session of the Central Financial and Economic Affairs Commission underscored that infrastructure does the heavy lifting to support economic and social development, and efforts should be made to meet the financing needs of infrastructure construction and to broaden long-term fundraising channels so as to ensure that the funding needs of the nation's major infrastructure projects will be met. Since the beginning of 2022, the Chinese economy has been facing downward pressures amid a range of factors, and infrastructure construction and investment has served as an important means to stabilize the economy. In accordance with the policy arrangements of the CPC Central

Committee and the State Council and the requirements of the State Council's Financial Stability and Development Committee, in June 2022 the PBC supported the China Development Bank and the Agriculture Development Bank of China to set up financial instruments, with a combined scale of RMB300 billion. to address difficulties in fully funding major projects. The funds raised via these instruments aim to replenish capital for major projects such as new infrastructure or to bridge financing for projects backed by special-purpose bonds. The State Council executive meeting noted on August 24, 2022 that an additional quota of over RMB300 billion would be allocated following the first batch of financial instruments in the amount of RMB300 billion was put in place, and the Export-Import Bank of China was to be included to provide such instruments.

Implementation of policy-based and development-oriented financial instruments calls for well-designed working mechanisms. The PBC worked with the NDRC, MOF, and CBIRC to further improve the institutional arrangements. **First,** funds from financial instruments should be invested in projects chosen independently by policy banks per market-oriented and law-based principles. The NDRC, along with local governments, relevant ministries. and enterprises directly under the central government selected an adequate number of potential projects, thus creating favorable conditions for independent investments by these three banks. **Second,** moral hazards should be guarded against to foster the smooth completion of the projects. It is clearly defined that the investment amount via financial instruments of each individual project should not exceed 50 percent of its capital, therefore ramping up support and guiding the project owners to ensure the connection of capital from other sources and supporting funding schemes for the completion of the projects. **Third,** a coordination mechanism should be established to strengthen holistic support. Ensuring that funds are in place is the first step in the process of construction, and economic and social benefits can only be achieved after the kick-off of major projects. The NDRC took the lead in establishing a coordination mechanism, and 18 ministries worked cooperatively and efficiently to ramp up holistic support and to ensure that concrete progress should gather pace in project construction.

Financial instruments have effectively supported infrastructure construction and helped stabilize the economy thanks to concerted efforts by relevant parties. First, stepped-up efforts have been made to fix capital shortfalls of major projects. As of end-October 2022, two batches of financial instruments have injected RMB740 billion into projects, strongly supporting capital replenishment of major projects in areas such as transportation, energy, water conservancy, municipal construction, and industrial upgrading infrastructure. **Second**, **supporting financing has been provided vigorously.** Policy and development banks are encouraged to make effective use of the new credit line of RMB800 billion, and commercial banks are guided to follow up the supporting financing needs of major projects via syndicated loans. Credit lines of more than RMB3.5 trillion have been granted to projects backed by the banks' financial instruments to meet the differentiated financing needs for project construction. **Third**, **concrete progress in project construction has been expedited.** Projects supported by the first batch of financial instruments of RMB300 billion were all under construction in Q3 2022 and project construction backed by the second batch is scheduled to kick off in stages in Q4 to ensure the start of more projects in 2022. Cumulative infrastructure investments in the first three quarters of this year grew by 8.6 percent from the previous year, a figure remarkably higher than the annual growth of 0.4 percent in the previous year. The rapid implementation of projects backed by financial instruments will continuously deliver the combined effects of boosting investment, driving employment, and promoting consumption.

In the next stage, the PBC will follow the policy arrangements of the CPC Central Committee and the State Council, cooperate on and promote the start of projects, and ensure the provision of funding for infrastructure construction, speed up the putting in place capital from other sources, accelerate the use of funds from financial instruments, support the continuity of and connections with supporting financing schemes, and foster more effective investments in a faster manner in an effort to consolidate the stabilizing and upward trend of the momentum of the economy.

Making further headway in providing financial services for rural revitalization. We continued to put in place the *Opinions on Ensuring Financial Support for Advancing Rural Revitalization on All Fronts in 2022* and worked with a number of ministries to release the *Notice on Ensuring the Purchase of Autumn Grain* and the *Implementation Plan for Rural Road Construction to Expand Investment, Stabilize Employment, and Better Serve Rural Revitalization*. We held seminars on how to provide financial services for rural revitalization in related areas, conducted investigations and research into financial services for seed companies, guided financial institutions to further increase the supply of financing to key areas, such as securing the supply of grain and key agricultural products, underpinning the foundations for modern agriculture, and promoting rural construction, thus continuously enhancing the quality and efficiency of financial services for rural revitalization. As of end-September, outstanding agro-related loans registered a year-on-year increase of 13.7 percent, reaching RMB48.49 trillion, among which loans to rural infrastructure construction and to basic farmland construction grew by 16.5 percent and 25.9 percent, respectively.

Further expanding medium and long-term lending to the manufacturing sector. We encouraged banks to channel more resources into this area. Under the coordination mechanism for promoting effective investments in major projects, banks are encouraged to establish task forces for expanding medium and long-term lending to the manufacturing sector, speed up financing matchmaking, track these matchmaking schemes, and boost lending efficiency. We have organized a number of meetings to promote this work, strengthened policy guidance and supervision, and responded to the concerns of market entities in a timely manner. Medium and long-term lending to the manufacturing sector continued to maintain rapid growth, registering an outstanding amount of RMB8.75 trillion at end-September. Its year-on-year growth of 30.8 percent surpassed overall loan growth by nearly 20 percent.

VII. Deepening the market-oriented interest rate reform

The benefits of the loan prime rate (LPR) reform have been continuously unleashed and oversight on deposit rates has been improved, thus further bringing down the actual loan rates. The LPR reform was further promoted to play its guiding role. The one-year and over-five-year LPR have dropped 0.15 and 0.35 percentage points, respectively, this year, leading to slightly declining but still stable actual rates for corporate loans. Corporate financing costs have dropped significantly. The weighted average loan rate in September fell 0.66 percentage points year on year to 4.34 percent. In particular, the weighted average rate on corporate loans dropped by 0.59 percentage points year on year, reaching a record low of 4.0 percent. The market-oriented deposit rate adjustment mechanism played a significant role. In mid-September, several nationwide banks lowered their deposit rates, encouraging other banks to follow suit. This self-adjustment by banks based on market rate conditions marks a crucial step forward in the market-oriented reform of deposit rates. The weighted average rate on term deposits in September posted 2.30 percent, a decrease of 0.14 percentage points from April before the adjustment mechanism was established. This helps reduce the banks' liability costs and promotes lower actual loan rates, thereby providing favorable conditions for high-quality economic development. The PBC temporarily lowered the interest rate floor on commercial personal housing loans for first homes in some cities and encouraged the corresponding local governments to fully employ policy tools for the stable and sound development of the real estate market. In addition, the interest rate on personal housing provident fund loans for first-time home buyers was lowered by 0.15 percentage points to meet basic funding demands of fund users.

Box 3 Temporary Lowering of the Interest Rate Floor on First-home Loans in Some Cities

On September 29, 2022, the PBC and CBIRC released a notice to temporarily lower the interest rate floor on first-home loans in some cities. The local governments of the qualified cities can decide whether to maintain, lower, or remove the interest rate floor on newly issued first-home loans until end-2022.

Currently, there are two types of personal housing loans in China: commercial housing loans and personal housing provident fund loans. The commercial housing loans adopt “three-layer pricing”: first, the PBC and CBIRC determine the interest rate floor at the national level; based on this “bottom line,” the municipal governments set the floor at the local level according to the “city-specific” principle; then, at the bank level, the commercial bank reached an agreement with the borrower on a specific interest rate after considering the funding costs and the credit risk. Currently, the interest rate floor on commercial first-home loans at the national level is equal to the LPR less 20 basis points. The floor on second-home loans is equal to the LPR plus 60 basis points. The interest rate on personal housing provident fund loans is determined and distributed by the PBC.

The policy introduced on September 29 is applicable to cities with continuous declines in both month-on-month and year-on-year price growth of newly constructed commercial housing between June and August (there are 23 qualified cities according to the 70 Major Cities Index published by the National Bureau of Statistics). The LPR-minus-20 basis points interest rate floor on commercial first-home loans can be lowered until end-2022. This temporary policy is targeted at commercial housing loans for first-time home buyers. It lasts until end-2022, after which the previous policy will automatically take effect again. This arrangement helps qualified local governments to fully employ policy tools based on local property market conditions. It better supports basic housing demands and reflects that “housing is for living in, not for speculation,” thus safeguarding the stable and sound development of the real estate market.

Local governments have actively responded to the policy through corresponding adjustments. In cities including Jining of Shandong Province, Huanggang of Hubei, Qingyuan and Yangjiang of Guangdong, and Wenzhou and Zhoushan of Zhejiang, the interest rate floors on newly issued first-home loans have been lowered by 15–40 basis points to the LPR minus 35–60 basis points. Some cities in Hubei and Guangdong provinces have temporarily removed the interest rate floor on these loans. In terms of the actual rates on commercial housing loans, the newly issued loans in October 2022 carried an average rate of 4.3 percent, decreasing 4 basis points from the previous month and 133 basis points from the end of the previous year.

Meanwhile, as another supportive measure for people with basic housing demands, on

October 1, 2022, the PBC lowered the interest rates on personal housing provident fund loans for first-time home buyers by 0.15 percentage points. The subsequent rates on loans with maturities within and over 5 years are 2.6 percent and 3.1 percent, respectively. This is the first reduction in the interest rate of these first-home loans since August 2015. The interest rate policy for second-time personal housing provident fund loans remains unchanged: the rates on loans with maturities within and over 5 years should be no less than 3.025 percent and 3.575 percent, respectively.

In the next step, the PBC will maintain the principle that "housing is for living in, not for speculation," fully implement the long-term mechanism for the real estate market, ensure differentiated credit policy implementation by adhering to the "city-specific" principle, and better satisfy a reasonable housing demand to promote stable and sound development of the real estate market.

VIII. Advancing the market-oriented reform of the RMB exchange rate

The PBC continued to advance the market-oriented reform of the RMB exchange rate and improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The market continued to play a decisive role in determining the exchange rate. The PBC focused on guiding expectations and enhanced the flexibility of the RMB exchange rate while keeping it basically stable at an adaptive and equilibrium level. The RMB's currency value and purchasing power were also basically stable, and the exchange rate continued to play a role in macroeconomic management and as an auto stabilizer for the balance of payments.

In Q3 2022, the highest and lowest RMB central parities against the US dollar were 6.6863 and 7.1107, respectively. During the 65 trading days, the RMB appreciated on 27 days and depreciated on 38 days. The biggest intraday appreciation and depreciation was 0.47 percent (320 bps) and 0.6 percent (424 bps), respectively. The RMB depreciated against the dollar while it appreciated against other major currencies. As of end-September, the central parity of the RMB against the dollar depreciated 10.2 percent from end-2021, while the central parity of the RMB against the euro, the pound, and the Japanese yen appreciated 3.3 percent, 8.3 percent, and 12.5 percent, respectively, during the same period. Since the reform of the RMB exchange rate formation mechanism that commenced in 2005 to end-September 2022, the RMB appreciated by a cumulative total of 16.6 percent, 43.3 percent, and 48.3 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 for microeconomic entities and facilitated bilateral trade and investment.

As of end-September, under the bilateral currency swap agreements between the PBC and the foreign monetary authorities, the foreign monetary authorities utilized a total of RMB84.262 billion and the PBC utilized foreign currencies equivalent to USD360 million. These operations actively promoted bilateral trade and investment.

Table 8 Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in Q3 2022

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	178970.06	4346.42	1032.99	782.26	107.89	88.08	35.00
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	40.08	59.65	97.46	1.77	17.68	0.05	11.09
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	0.81	14.82	0.00	0.28	2.71	4.75	1.34
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	0.02	0.00	4.68	0	0.04	0.01	7.39

Source: China Foreign Exchange Trade System.

Box 4 A Solid Foundation for Maintaining Basic Stability of the RMB Exchange Rate

Since 2022, the RMB exchange rate has been kept basically stable at an adaptive and equilibrium level, and supply and demand in the foreign exchange market has achieved an overall balance. Specifically, development of the exchange rate has the following two characteristics. **First, in terms of the bilateral exchange rate, the RMB has depreciated only against the US dollar and it has appreciated against the other major currencies.** Due to the impact of several factors such as the accelerated and enhanced tightening of the Fed's monetary policy and rising risk-aversion sentiments, the US dollar has witnessed fairly robust performance, with the US dollar Index increasing by approximately 17 percent in Q3. However, from the beginning of 2022 to end-September, the euro, the pound, and the Japanese yen significantly weakened and hit historical low levels, depreciating by 13.8 percent, 17.5 percent, and 20.5 percent against the US dollar, respectively. Impacted by the price comparison effect, the RMB depreciated against the US dollar by about 10 percent over the same period, while it appreciated against the euro, the pound, and the Japanese yen by 3.3 percent, 8.3 percent, and 12.5 percent, respectively. In addition, the RMB appreciated against the currencies in the peripheral economies such as the Thai baht and the South Korean won and against the currencies of the emerging economies such as the South African Rand to differing extents. **Second, the RMB exchange rate has been kept basically stable against a basket of currencies.** For 2022, the China Foreign Exchange Trade System (CFETS) RMB Index generally stayed above 100 and hit a high of over 107 in March, weighing the RMB exchange rate against a basket of currencies. The SDR Currency Basket RMB Index and the BIS Currency Basket RMB Index witnessed slight depreciations in the first three quarters of 2022. As a weighted average exchange rate, the Exchange Rate Indices are mainly used to comprehensively calculate the movements of the home currency against a basket of foreign currencies. Compared with the bilateral exchange rates, they can more comprehensively and objectively reflect the valuation changes of the home currency against a basket of foreign currencies. From this perspective, globally the value of the RMB has remained stable.

Going forward, there will be a solid foundation for the RMB exchange rate to continuously be kept basically stable at an adaptive and equilibrium level, supported by the fundamentals and policies.

In terms of the fundamentals, first, the domestic economy is generally stable with an upward trend in momentum, which is the biggest fundamental for the stability of the exchange rate. Since May, a package of policies to stabilize the economy and subsequent measures have been implemented and put into effect, forcefully stabilizing market expectations and confidence. Thereby, the economy rebounded and improved. According to the unified arrangements of the CPC Central Committee and the State Council, emphasis has been placed on guaranteeing the supply and price stability of food and energy. The monetary and fiscal policies have proved to be forceful, well-measured, and effective in accomplishing the task of maintaining price stability against the global backdrop of high inflation, which is not an easy task. Though facing downward pressures in the short run, the Chinese economy still has strong resilience, enormous potential, and abundant vigor and the fundamentals for long-term growth remain unchanged, which is still an important stabilizer and powerhouse for global economic growth. **Second, the foundation for the balance of payments is solid, which is also the fundamental basis for the stable operation of the foreign exchange market.** In the first three quarters of 2022, the surplus under the current account stood at USD310.4 billion, increasing 56 percent year on year. In particular, the trade in goods surplus for the first three quarters posted at USD645.2 billion, rising 52 percent year on year. The abundant fund net inflows from the trade channel have sufficiently satisfied the demand of domestic enterprises and residents for foreign exchange, which constitutes the fundamental basis for the balanced supply and demand of foreign exchange and the stable operation of the foreign exchange market. Meanwhile, the status of the RMB as a reserve currency has been raised further, maintaining a strong attraction to global investors. On May 11, the weight of the RMB in the SDR currency basket of the IMF was raised from 10.92 percent to 12.28 percent. **Third, China's foreign exchange reserves rank first globally, which is the cornerstone for maintaining exchange rate stability and safeguarding financial security.** At end-September 2022, foreign exchange reserves registered USD3.03 trillion, continuously remaining above USD3 trillion, which will cover foreign exchange payments for imports for over one year. At end-June, according to the international investment position table, external assets hit USD9.2 trillion. Compared with the foreign exchange reserves, the short-term external debt remained at a low level. Therefore, the foreign exchange held by the state, the financial sector, and economic entities is sufficient to withstand external shocks.

In terms of policies, first, the PBC has adhered to the principle of allowing the market to play a decisive role in the formation of the RMB exchange rate. In China, the PBC implements a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. With the continuous deepening of the market-oriented foreign exchange reform and the constant improvements in macro-prudential management, full play can be given to the "two hands" of the market and the government. Meanwhile, the PBC has exited from normal interventions, and it lets market supply and demand decide on the RMB exchange rate. The formation mechanism for the RMB central parity against the USD. which is more rule-based, transparent, and market-oriented, has continuously improved, The elasticity of the exchange rate has been obviously enhanced, better playing its role in adjusting the macro economy and as an automatic stabilizer for the balance of payments. The market-oriented RMB exchange rate has enhanced the autonomy of monetary policy. The PBC has implemented a sound monetary policy with a focus on domestic conditions, balanced international payments, and it promoted a balance between internal and external equilibria, which is conducive to long-term economic development. **Second, this mechanism has withstood the test of several rounds of external shocks in history.** Amid the multiple rounds of major shocks, such as the international financial crisis, global trade frictions, the global spread of COVID-19, global inflation, and the tightening of monetary policy in the developed economies, the RMB exchange rate has been flexibly adjusted and it has achieved an equilibrium within a short period, effectively playing its role as a "cushion" against external shocks. After several rounds of exchange rate overshooting, the PBC has accumulated rich experience in dealing with the situation and it can effectively manage market expectations, providing strong support for the stability of the exchange rate.

Going forward, the PBC will continue to implement the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. It will adhere to letting the market play a decisive role in the formation of the exchange rate. Adopting comprehensive measures, the PBC will stabilize expectations, enhance the elasticity of the RMB exchange rate, and guide enterprises and financial institutions to be risk-neutral. Determined to smooth large fluctuations in the exchange rate, the PBC will keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

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 some prominent financial risks properly managed. Addressing the risks of key groups and large enterprises was steadily advanced. The central bank rating of financial institutions in Q2 2022 was completed, which indicated that the number of high-risk financial institutions had been reduced virtually by one-half from the peak. The PBC conducted stress tests on over 4,000 banking financial institutions, and it gradually established a stress-testing framework in line with the domestic financial situation. It also strengthened the monitoring and early warnings on bank risks, made timely corrections in response to the emerging problems of banks, and guided any anomaly indexes in most of the banks to return to normal, thereby promoting 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

Enhancing the coverage and quality of facilitation policies for quality enterprises. The SAFE continuously conducted policy promotion and training, shared the best practices of business conduct by banks, and improved management on entry guidance, evaluation of effectiveness, and exit supervision, which constantly improved the facilitation experience of market entities. As of end-September, 251 banks were eligible for facilitation policies, conducting 1.631 million business facilitations for 5,023 enterprises, in an amount totaling USD967.4 billion.

Optimizing policies to facilitate cross-border use of funds for multinational corporations. In July 2022, the *Reply by the State Administration of Foreign Exchange on Conducting the Second Batch of Pilot Projects to Integrate Local and Foreign Currency Capital Pools for Multinational Corporations in Shanghai and Other Regions* was issued. Forty enterprises in regions, such as Shanghai, Guangdong, Shaanxi, Beijing, Shenzhen, Zhejiang, Qingdao, and Ningbo, were permitted to carry out the pilot program of integrating their local and foreign currency capital pools. Administrative policies were further optimized, facilitating the coordinated use of cross-border funds for multinational corporations.

Part 3 Financial Market Conditions

In Q3 2022, performance of the financial market was generally stable. Money market interest rates continued to feature a downward movement, with increased transaction volumes. The interest rates of bond issuances generally dropped, with issuance volumes picking up. The stock market index moved downward such that turnover and the amount of fundraising were decreasing year on year. In the insurance industry, premium revenue rose year on year, and asset growth accelerated.

I. Financial market overview

1. Money market interest rates witnessed a continuous decline, with increased market transactions

In September 2022, the monthly weighted average interest rate for interbank lending was 1.41 percent, and the monthly weighted average interest rate for pledged repos posted 1.46 percent, 15 basis points and 11 basis points, lower than those in June 2022, respectively. The monthly weighted average interest rate for government-backed bond pledged repos among depository institutions posted 1.31 percent, 15 basis points lower than the monthly weighted average interest rate for pledged repos in the interbank market. At end-September, the overnight and 7-day Shibor posted 2.08 percent and 2.06 percent, respectively, down 14 basis points and 21 basis points from end-September 2021, respectively.

Market transaction volumes increased. In Q1–Q3 2022, the volume of bond repos trading on the interbank market reached RMB1047.6 trillion, representing an average daily turnover of RMB5.6 trillion, up 40.1 percent year on year. The cumulative volume of trading for interbank lending registered RMB114.2 trillion, with an average daily turnover of RMB610.8 billion and a year-on-year increase of 30.6 percent. In terms of the maturity structure, overnight repos accounted for 86.6 percent of the total turnover in bond repos, increasing 2.8 percentage points year on year, and overnight lending constituted 89.5 percent of the total turnover in interbank lending, up 0.3 percentage points year on year. The volume of bond repos trading on the exchange markets increased 18.4 percent year on year to RMB297.7 trillion.

Table 9 Fund Flows Among Financial Institutions in Q1–Q3, 2022

Unit: RMB100 million

	Repos		Interbank lending	
	Q1–Q3 2022	Q1–Q3 2021	Q1–Q3 2022	Q1–Q3 2021
Chinese-funded large banks①	-3,800,317	-1,576,735	-358,932	-217,149
Chinese-funded medium-sized banks②	-1,221,984	-1,179,586	-132,360	-66,807
Chinese-funded small-sized banks③	59,544	97,677	65,321	78,991
Securities institutions④	1,325,740	990,838	337,330	158,666
Insurance institutions⑤	168,461	96,662	1,382	295
Foreign-funded banks	51,445	55,426	-12,790	-19,375
Other financial institutions and vehicles⑥	3,417,111	1,515,718	100,049	65,380

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 Q3 2022, about 6,091 interbank CDs were issued on the interbank market, raising RMB4.8 trillion. The total volume of trading on the secondary market registered RMB72.8 trillion. At end-September, outstanding interbank CDs reached RMB14.5 trillion. In Q3 2022, the weighted average interest rate of 3-month interbank CDs was 1.72 percent, 1 basis point lower than that of the 3-month Shibor. In Q3 2022, about 11,561 negotiable CDs were issued by financial institutions, raising RMB2.7 trillion, an increase of RMB301.3 billion year on year.

Interest rate swap transactions witnessed steady operations. In Q3 2022, the RMB interest rate swap market witnessed 72,000 transactions, increasing 15.4 percent year on year, with the volume of the notional principal totaling RMB6.3 trillion, an increase of 15.1 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 RMB4.3 trillion, accounting for 68.6 percent of the principal of all maturities. The 7-day fixing repo rate (FDR) and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 88.9 percent and 10.6 percent, respectively, of the total notional principal of the interest rate swaps. In Q3 2022, interest rate swaps anchored to the loan prime rate (LPR) witnessed 203 transactions, with RMB26.27 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in Q3 2022

	Transactions	Notional principal (RMB100 million)
Q3 2022	72,428	62,557.3
Q3 2021	62,757	54,349.6

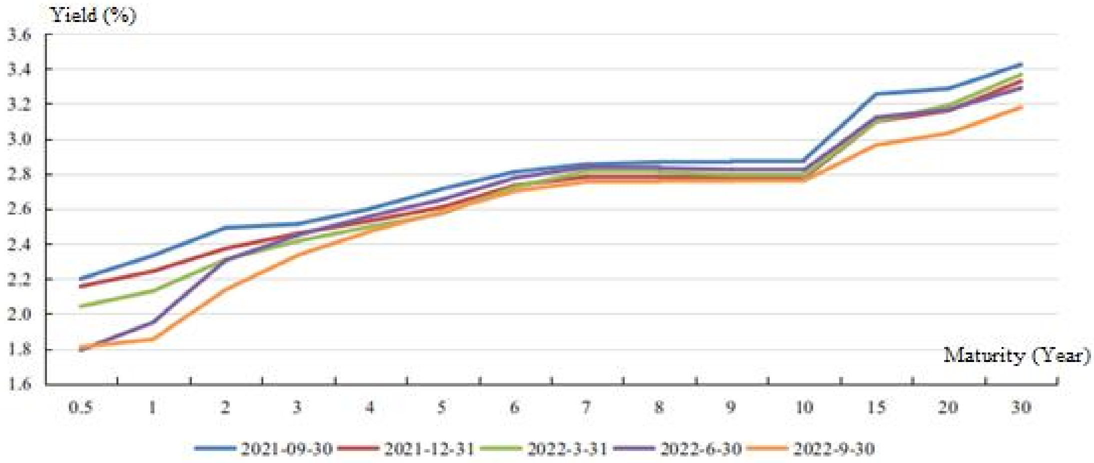
Source: China Foreign Exchange Trade System.

The interest rate options business developed at a steady pace. In Q3 2022, a total of 167 interest rate options transactions were concluded, totaling RMB23.872 billion, all of which were LPR interest rate cap/floor transactions.

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

The coupon rates of bonds generally declined. In September, the yield on 10-year government securities issued by the Ministry of Finance was 2.70 percent, 4 basis points lower than that in June. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 2.86 percent, 9 basis points lower than the rate in June. The average rate of 1-year short-term financing bills (bond rating A-1) issued by AAA-rated enterprises was 3.01 percent, 16 basis points higher than the rate in June.

Figure 4 Yield Curves of Government Securities in the Interbank Market



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

The yield on government securities went down with expanded term spreads. At end-September, yields on 1-year, 3-year, 5-year, 7-year, and 10-year government securities decreased by 10 basis points, 12 basis points, 7 basis points, 8 basis points, and 6 basis points, to 1.85 percent, 2.33 percent, 2.58 percent, 2.76 percent, and 2.76 percent from end-June, respectively. The term spread between 1-year and 10-year government securities was 91 basis points, expanding 4 basis points from end-June.

Bond issuances increased year on year. In Q1–Q3 2022, the cumulative value of bond issuances increased by 3.8 percent, or RMB1.7 trillion year on year to RMB46.8 trillion, driven mostly by surges in government bonds, financial bonds issued by the CDB, and policy financial bonds. At end-September, outstanding bonds held in custody amounted to RMB143.9 trillion, representing an increase of 12.3 percent year on year.

The volume of spot bond transactions witnessed a marked increase. In Q1–Q3 2022, the value of cash bond trading on the bond market posted RMB229.7 trillion, registering an increase of 31.1 percent year on year. Specifically, the value of cash bond trading on the interbank market was RMB200.8 trillion, representing an increase of 29.6 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB28.9 trillion, an increase of 43 percent year on year.

Table 11 Bond Issuances in Q1–Q3 2022

Unit: RMB100 million

Type of bond	Issuance	YOY change

Government securities	64,597	17,957
Local government bonds	63,485	7,330
Central bank bills	0	0
Financial bonds①	233,498	-4,725
Of which: Financial bonds issued by the CDB and policy financial bonds	46,007	1,146
Interbank certificates of deposits	156,698	-2,224
Corporate credit bonds②	105,591	-3,425
Of which: Debt-financing instruments of non-financial enterprises	71,545	-329
Enterprise bonds	4,435	5
Corporate bonds	21,598	-2,526
Bonds issued by international institutions	754	44
Total	467,924	17,180

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 generally decreased

The bill acceptance business recorded stable growth. In Q1–Q3 2022, commercial drafts issued by enterprises totaled RMB20.4 trillion, rising 13.7 percent year on year. At end-Q3, outstanding commercial drafts stood at RMB17.0 trillion, increasing by 16.7 percent year on year. Outstanding commercial draft acceptances saw steady growth. At end-September, outstanding commercial draft acceptances grew by RMB2.0562 trillion and RMB399.5 billion compared to the beginning of 2022 and end-June, respectively. Of the outstanding bankers' acceptances, 67.9 percent were issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing witnessed steady growth, with interest rates generally moving downward. In Q1–Q3 2022, total discounts by financial institutions amounted to RMB41.9 trillion, growing 19.9 percent year on year. At end-September, the balance of bill financing was RMB12.4 trillion, up 34.7 percent year on year. The balance accounted for 5.9 percent of the total outstanding loans, up 1 percentage point year on year. In Q1–Q3, the interest rates on the bill market generally went down.

4. The stock market indices fell and the trading volume and amount of fundraising decreased year on year

The stock market indices dropped. At end-September 2022, the Shanghai Stock Exchange Composite Index closed at 3,024 points, a decrease of 11 percent from end-June. The Shenzhen Stock Exchange Component Index closed at 10,779 points, a decrease of 16.4 percent from end-June. Turnover on the stock markets declined year on year. In Q1–Q3, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB174.1 trillion, and the average daily turnover was RMB956.4 billion, representing a decrease of 8.8 percent year on year. The amount of funds raised on the stock markets witnessed a slight dip year on year. In Q1–Q3, cumulative fundraising reached RMB989.9 billion, a decrease of 1.7 percent year on year.

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

In Q1–Q3, total premium income in the insurance sector amounted to RMB3.8 trillion, up 4.9 percent year on year and an acceleration of 5.7 percentage points compared to that at end-2021. Claim and benefit payments totaled RMB1.1 trillion, representing a year-on-year decrease of 1 percent. Specifically, total property insurance claims and benefit payments increased by 1.7 percent year on year, and total life insurance claims and benefit payments went down by 3.3 percent year on year.

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

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-September 2022	End-September 2021	End-September 2022	End-September 2021
Total assets	267,093	243,196	100.0	100.0
of which: Bank deposits	28,587	26,095	10.7	10.7
Investments	216,685	198,331	81.1	81.6

Source: China Banking and Insurance Regulatory Commission.

The growth of assets in the insurance sector accelerated. At end-September, total assets in the insurance sector increased 9.8 percent year on year to RMB26.7 trillion, an acceleration of 3 percentage points from end-2021. Specifically, bank deposits increased by 9.5 percent and investment-linked assets increased by 9.3 percent year on year.

6. The turnover of spot foreign exchange transactions declined year on year

In Q1–Q3 2022, the cumulative turnover of spot RMB/foreign exchange transactions registered USD6.5 trillion, a decrease of 13.1 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD15.4 trillion, an increase of 5.3 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD10.1 trillion, accounting for 65.4 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD105.4 billion, an increase of 26.2 percent year on year. The turnover of foreign currency pair transactions totaled USD1.1 trillion, an increase of 6.3 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 55.2 percent of the total market share.

7. The volume of gold trading expanded year on year, while international gold prices declined

At end-September 2022, international gold prices closed at USD1,671.75 per ounce, representing a decrease of 6.8 percent from end-2021. The Au99.99 on the Shanghai Gold Exchange closed at RMB390.00 per gram, a decline of 4.3 percent from end-2021. In Q3 2022, the volume of gold traded on the Shanghai Gold Exchange was 11,300 tons, representing growth of 43.8 percent year on year. Turnover posted RMB4.34 trillion, representing growth of 47.5 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Opening up in the financial market

Swap Connect between Mainland and Hong Kong made its debut. On July 4, the PBC, the Hong Kong Securities and Futures Commission (HKSFC), and the Hong Kong Monetary Authority (HKMA) jointly announced the launch of mutual access between the Hong Kong and Mainland interest rate swap markets (Swap Connect). Swap Connect facilitated participation in the mainland RMB currency swap market by overseas investors and supported the financial opening-up at an elevated level.

Bond Connect has operated smoothly and efficiently during the past five years. On

July 4, the PBC, HKSFC, and HKMA jointly hosted the fifth anniversary forum of Bond Connect and the launch of Swap Connect via video link. Since its inception in 2017, Bond Connect has been operating smoothly and efficiently and has been serving as a two-way bridge, marking a major milestone in deepening the opening-up of China's financial markets. Moving forward, the PBC will continue to work with the HKMA, HKSFC, financial market infrastructure service providers, and market agencies to improve the relevant institutional arrangements, support the prosperity and development of Hong Kong as an international financial center, and promote the high-quality development and high-level opening-up of China's financial market.

2. Institutional arrangements and reforms in the securities market

The multi-level capital market system was improved. In July, approved by the CSRC, trading in futures and options based on the China Securities Index (CSI) 1000 Index kicked off on the China Financial Futures Exchange, further meeting investors' demand for a haven and adding another ballast to market stability. In July, the CSRC launched a pilot program for in-kind share distributions to investors by private equity and venture capital funds, which improved the environment for private equity and venture capital funds to develop and bolster efforts to serve the real economy.

The legitimate rights and interests of investors were further protected. In July, the CSRC and MOF jointly released the *Provisions on Matters Regarding the Priority Use of Property of Violators of the Securities Law for Civil Compensation*, The Provisions clarify the specific working mechanism whereby administrative fines paid by securities law violators shall be used to bear the liability for civil compensation, pioneering the application of prioritizing civil compensation liability in the securities sector.

Cooperation on audit regulation was deepened between China and the US. In August, the CSRC, MOF, and the US Public Company Accounting Oversight Board signed an audit oversight cooperation agreement. The agreement set out specific arrangements for conducting inspections and investigations by each side over relevant accounting firms in accordance with the law, laying a foundation for equal and efficient cooperation during the next stage based on complying with each party's respective laws and regulations. This will further enhance the audit quality of accounting firms and foster a sound international regulatory environment for companies' pursuit of overseas listings in a lawful and compliant manner.

The two-way opening-up forged ahead in the capital market. In July, the depository receipt business under the China-Switzerland Stock Connect was officially launched, expanding channels for two-way cross-border investments and financing, and deepening financial cooperation between China and Switzerland. In August, the trading calendar improvement program of the Shanghai–Hong Kong and Shenzhen–Hong Kong Stock Connect was kicked off for the purposes of improving the Stock Connect between the mainland and Hong Kong, enhancing the appeal of both capital markets, and consolidating Hong Kong's position as an international financial center.

3. Institutional arrangements in the insurance market

The mechanism for the capital replenishment of insurance companies was improved. In August, the PBC and CBIRC jointly released the *Notice on Issues Concerning the Issuance of Undated Capital Bonds by Insurance Companies*, allowing insurance companies to replenish core Tier 2 capital by issuing undated capital bonds, provided that the balance of such undated capital bonds does not exceed 30 percent of the insurance company's core capital. The PBC regulates the overall balance of capital replenishment bonds, including undated capital bonds issued by the insurance companies. The above measures provide more channels for insurance companies to replenish capital and improve their core solvency adequacy level in a way that strengthens the capability of insurance companies to forestall and defuse risks and to serve the real economy, broaden the product range in the financial market, and optimize the structure of the financial system.

Supervision over insurance asset management companies was strengthened. In August, the CBIRC revised and released the *Rules on Insurance Asset Management Companies*. The highlights of the Rules are as follow. First, a special chapter on corporate governance was added, clarifying the requirements on shareholders' obligations, incentive and restraint mechanisms, the operation of the shareholders' meeting and the board of directors and supervisors, and so on. Second, a special chapter was dedicated to risk management, laying out the risk management system, the risk management requirements, and the internal control auditing. Third, the equity structure was further optimized with the cap on holding foreign equity removed. Uniform and applicable conditions were clarified and set for all types of shareholders, and management of non-financial company shareholders was strictly enforced. Fourth, operating principles and relevant requirements were optimized. The business scope of insurance asset management companies was refined, adding clear requirements on the establishment of a trustee mechanism. The articles regarding asset independence and prohibition of debt offsetting were improved and channeling business was strictly prohibited. Fifth, new regulatory measures and constraints on non-compliance were introduced.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

As global inflation remains elevated, central banks in the major advanced economies continue their policy tightening amid the difficult trade-off between price stability and economic growth. This, coupled with disruptions due to geopolitical tensions, COVID-19, and energy and food crises, has given rise to a broad-based economic slowdown and financial market turmoil. Potential risks merit special attention.

1. Economic performance and financial markets in the major economies

The momentum for economic growth remained under pressure. In the US, GDP grew in Q3 by 2.6 percent at an annualized pace, after contracting for two straight quarters. It remains to be seen whether or not this mild recovery can be sustained. The US Institute for Supply Management Manufacturing Purchasing Managers' Index (PMI) fell to 50.2 in October, a new low since May 2020. The Consumer Sentiment Index remained low despite a rebound. The Office of Management and Budget revised downward its US growth forecast for this year from 3.8 percent to 1.4 percent. In the euro area, GDP grew by 2.1 percent in Q3 year on year, but the leading indicators fell. In October, the PMI for manufacturing and services dropped to a 29-month-low of 46.4 and a 20-month-low of 48.6, respectively. In the UK, GDP declined by 0.2 percent quarter on quarter in Q3, slipping back to negative territory since the first quarter of 2021. In Japan, GDP in Q3 contracted by 1.2 percent on an annualized basis. The Japanese government revised downward its growth forecast for the 2022 fiscal year to 2.0 percent from 2.4 percent. The IMF cut its global growth forecast for 2023 by 0.2 percentage points to 2.7 percent.

Inflation remained elevated. In October, the US CPI was up by 7.7 percent year on year. It remained high despite a moderate decline from 8.2 percent in September. The core CPI rose by 6.3 percent year on year, edging down from the 6.6 percent in September. The HICP in the euro area rose by 10.7 percent over the prior year, another new high since records began. The CPI in the UK jumped by 11.1 percent compared with the previous year, an all-time high since the 1980s. In September, the increase in consumer prices in a number of emerging markets remained persistently high, rising by 7.4 percent, 7.2 percent, 6.4 percent, and 6 percent in India, Brazil, Thailand, and Indonesia, respectively. The CPI in both Argentina and Turkey surged by more than 80 percent.

Labor supply is recovering slowly. On the one hand, insufficient and tight labor supply remains a main problem in the major advanced economies. In the US, job vacancies continued to grow by 437,000 over August to 10.72 million in September, exceeding 10 million for fifteen consecutive months. The unemployment rate was 3.7 percent in October, still close to a 50-year low. On the other hand, labor demand slowed marginally. Growth of US non-farm payrolls slowed to 261,000 in October on a seasonally-adjusted basis, their lowest since 2021. Going forward, performance of the unemployment rate, wage growth, and other labor market indicators will depend on the relative changes in labor supply and demand.

Global financial markets witnessed large swings. In Q3, the persistently high inflation and the weakening economic outlook continued to depress major stock indices in the US and Europe. In particular, tech stocks, which earlier had performed well, saw a notable decline. The tax-slashing “mini-budget” announced by the former British government on September 23 spooked the market amid rising concerns about the fiscal balance, mounting inflationary pressures, and the liquidity squeeze on UK pension funds. The yield on the 30-year gilt once surged to an all-time high of 5 percent since 1998, and the British pound once collapsed to a historic low, trading near parity with the dollar. Market turmoil forced the Bank of England (BOE) to suspend the planned start of its gilt selling and to temporarily begin buying long-dated UK government bonds, as announced on September 28th. In the meantime, driven by risk aversion and other factors, the US dollar strengthened markedly. The US Dollar Index rose above 114, the euro fluctuated around its parity against the US dollar, and the Japanese yen depreciated to 140 yen per dollar in September and further to 150 yen per dollar in October. The Japanese government intervened in the foreign exchange market for the first time in 24 years after the outbreak of the Asian financial crisis. In the bond market, the 10-year Treasury yield was close to 4 percent in late September, and it rose to above 4.2 percent in late October, while the yield on 10-year government bonds in the UK, France, and Germany all jumped above 2 percent in Q3. Oil prices dropped notably from their elevated levels, with the Brent futures falling by 21.6 percent in Q3.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q3 2021			Q4 2021			Q1 2022			Q2 2022			Q3 2022		
		Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	Real GDP Growth (annualized quarterly rate, %)	2.7			7.0			-1.6			-0.6			2.6		
	Unemployment Rate (%)	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6	3.5	3.7	3.5
	CPI (year-on-year, %)	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2
	DJ Industrial Average (end of the period)	35361	33844	35820	35136	34484	36338	35132	33893	34678	32977	32990	30775	32845	31510	28726
Euro Area	Real GDP Growth (year-on-year, %)	3.9			4.8			5.5			4.3			2.1		
	Unemployment Rate (%)	7.6	7.5	7.4	7.3	7.2	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.7	6.7	6.6
	HICP (year-on-year, %)	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.4	7.4	8.1	8.6	8.9	9.1	9.9
	EURO STOXX 50 (end of the period)	4089	4196	4048	4251	4063	4298	4175	3924	3903	3803	3789	3455	3708	3517	3318

United Kingdom	Real GDP Growth (year-on year, %)	8.5			8.9			10.9			4.4			2.4		
	Unemployment Rate (%)	4.6	4.4	4.3	4.2	4.1	4.0	40	3.8	3.7	3.8	3.8	3.8	3.6	3.5	3.6
	CPI (year-on-year, %)	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1
	FTSE 100 (end of the period)	7032	7120	7086	7238	7059	7385	7464	7458	7516	7545	7608	7169	7423	7284	6894
Japan	Real GDP Growth (annualized quarterly rate, %)	-2.5			4.1			0.2			4.6			-1.2		
	Unemployment Rate (%)	2.8	2.8	2.8	2.7	2.8	2.7	2.8	2.7	2.6	2.5	2.6	2.6	2.6	2.5	2.6
	CPI (year-on-year, %)	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5	2.4	2.6	3.0	3.0
	Nikkei 225 (end of the period)	27284	28090	29453	28893	27822	28792	27002	26527	27821	26848	27280	26393	27802	28092	25937

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

2. Monetary policies of the major economies

The central banks in the major advanced economies continued with their policy tightening. The Federal Reserve (Fed) hiked the federal funds rate in July, September, and November, each by 75 basis points (bps), to a target range of 3.75–4 percent. In its September dot plot, the median forecast for the federal funds rate at the end of 2022 was 4.25–4.5 percent, which means a total hike of 425 bps this year, way higher than the forecast in the June dot plot. After the Federal Open Market Committee (FOMC) met in November, Fed Chair Powell noted that the ultimate level of interest rates would be higher than previously expected, but in determining the pace of future increases in the target range, the Fed will take into account the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation. In addition, beginning in June the Fed began to reduce the size of its balance sheet. In September, the Fed increased the monthly cap for Treasury securities and agency mortgage-backed securities to USD60 billion and USD35 billion, respectively. 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. It then raised the three key interest rates again in September and October, each by 75 bps to 2 percent, 2.25 percent, and 1.5 percent, respectively. 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 objective of maintaining price stability. The BOE raised the Bank Rate in August and September, each by 50 bps. It also decided to reduce its total gilt holdings by GBP80 billion over a 12-month period. However, market turmoil at the end of September forced the BOE to suspend bond selling and to conduct temporary bond-buying operations. The planned bond selling was resumed on November 1st. The Bank of Japan maintained a loose monetary policy and the yield curve control. It kept the 10-year government bond yield near zero and would continue to buy 10-year government bonds at 0.25 percent every business day. In September, for the first time in years the Bank of Japan intervened in the foreign exchange market to stem the fall of the yen. Among the other central banks, the Bank of Canada, the Reserve Bank of Australia, the Reserve Bank of New Zealand, and the Bank of Korea raised rates by a total of 175 bps, 150 bps, 100 bps, and 75 bps, respectively.

Some emerging economies continued to raise interest rates. To address domestic inflationary pressures and the spillovers from monetary policy tightening in the advanced economies, some emerging economies continued with their rate hikes. In Q3, the Bangko Sentral ng Pilipinas hiked the rate three times, by a total of 175 bps. The central banks in South Africa, Mexico, India, Indonesia, Malaysia, and Thailand all increased their rates twice by a total of 150 bps, 150 bps, 100 bps, 75 bps, 50 bps, and 50 bps, respectively. For Indonesia and Thailand, it was their first rate hike after the outbreak of COVID-19. The Central Bank of Brazil raised the rate once by 50 bps.

3. Issues and trends that merit attention

High inflation remains a grim challenge. Inflation keeps hitting record highs in the advanced economies. There is a sign of a marginal decline in the US CPI, but the easing of its core CPI has been limited. As rent, transportation, recreation, and other items in the CPI basket may still create upward pressures on prices, US inflation remains sticky. Studies have shown that calculated on a comparable basis, the peaks in US inflation this time around are close to those during the Great Inflation of the 1970s and 1980s. Other advanced economies have not yet seen any signs of falling inflation. Furthermore, in some Asian emerging economies where inflation has remained subdued, prices are increasing at a faster pace. Therefore, global inflation is likely to remain high in the short run. The implications of high inflation for global economic activities will play out over time. It may hamper an economic recovery and widen the gap between the rich and the poor. In addition, the effectiveness of simply counting on monetary policy to contain inflation has become a key challenge for the advanced economies. Policy synergy among fiscal policy, structural reforms, international coordination, and open trade is urgently needed more than ever to make improvements on the supply side.

Policymakers should be on high alert to the risk of a broader recession. Since the beginning of the year, the global economy has been under persistent pressure from the monetary policy tightening of the advanced economies, geopolitical tensions, energy shortages, and high inflation. The cumulative tightening effects may be larger than expected. Historically, the US experienced seven rate hike cycles since the late 1970s, and the US economy headed into recession during five of them, either when the Fed was still raising the rate or after it finished the rate hikes. Many international organizations have already revised downward their global growth forecasts for 2022 and 2023. The IMF predicted that 31 economies, or 43 percent of the 72 economies with a quarterly growth forecast, would enter a technical recession this year and next. These economies combined account for one-third of global GDP.

Potential risks from growing financial vulnerabilities should not be overlooked. On the one hand, tighter liquidity has amplified financial market adjustments. Rate hikes by the major advanced economies, coupled with a stronger dollar, have increased the volatility of overseas asset prices. There is a liquidity squeeze on government bond markets in the advanced economies, and home prices have shown signs of a retreat. Non-bank financial institutions, such as pension funds, insurance firms, hedge funds, and in particular financially vulnerable market players, are feeling increasing pressures. On the other hand, risk aversion has increased the volatility of cross-border capital flows. As capital flows back to the US and other major advanced economies, capital outflows come under mounting pressures in other economies, particularly the emerging economies. Those with elevated levels of external debt are facing bigger debt servicing burdens. The risk of uncertainties in global financial markets has increased markedly.

II. Macroeconomic developments in China

In the first three quarters of 2022, in the face of the complicated and serious international situation and the impact of multiple factors exceeding expectations, pandemic containment and economic and social development in all regions and departments across the country were coordinated in an effective way, with an acceleration in the implementation of a package of policy measures and follow-up measures. China's economy withstood the downward pressures and continued to rebound. According to preliminary statistics, GDP in the first three quarters stood at RMB87.0269 trillion, growing by 3.0 percent year on year on a comparable basis, an acceleration of 0.5 percentage points from H1.

1. Consumption improved, investments remained stable with a moderate increase, and imports and exports recorded rapid growth.

The increase in residents' income kept pace with economic growth, and consumption improved. In the first three quarters, the country's per capita disposable income reached RMB27650, an increase of 5.3 percent year on year in nominal terms, or 3.2 percent in real terms. The growth of rural residents' income outpaced that of urban residents', and the structure of income distribution continuously improved. According to the Urban Depositors' Survey conducted by the PBC in Q3, 22.8 percent of residents were inclined to "consume more," down 1.0 percentage point from Q2. In the first three quarters, total retail sales of consumer goods grew by 0.7 percent year on year, and the growth rate moved from negative to positive. Consumption of basic living items saw sound growth and retail sales of grain, oil, food, and beverages by enterprises (units) above the designated size increased by 9.1 percent and 6.9 percent, respectively.

Investments remained stable and saw a moderate increase, and the structure continued to improve. In the first three quarters, national fixed-asset investments (excluding those by rural households) increased by 5.9 percent year on year to RMB42.1412 trillion. In terms of sectors, investments in manufacturing increased by 10.1 percent, 4.2 percentage points higher than the growth of total investments. Investments in infrastructure increased by 8.6 percent, 2.7 percentage points higher than the growth of total investments. Investments in real estate decreased by 8.0 percent. Investments in high-tech industry grew by 20.2 percent year on year, 14.3 percentage points higher than the growth of total investments. Social investments grew by 13.2 percent year on year. Specifically, investments in health and education grew by 31.2 percent and 8.1 percent year on year, respectively.

Imports and exports grew rapidly. In the first three quarters, imports and exports of goods grew by 9.9 percent year on year. Specifically, exports grew by 13.8 percent year on year and imports grew by 5.2 percent year on year, with the surplus of trade in goods posting RMB4.23 trillion, up by 53.7 percent year on year. 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 accounting for 64.0 percent of the total imports and exports. Exports of machinery and electronics and labor-intensive products increased by 10.0 percent and 12.7 percent year on year, respectively, accounting for 56.8 percent and 18 percent of total imports and exports. Our trading partners are becoming more diversified. Imports from and exports to countries along the Belt and Road and the Association of Southeast Asian Nations (ASEAN) trading partners grew by 20.7 percent and 15.2 percent, respectively.

Foreign direct investments (FDI) continued to gather in the high-tech industries. In the first three quarters, actually utilized FDI increased by 15.6 percent year on year to RMB1.00376 trillion (equivalent to USD153.3 billion, representing growth of 18.9 percent year on year). In terms of sectors, FDI in the high-tech industry and the services industry grew rapidly. In the first three quarters, actually utilized FDI in the high-tech industry grew by 32.3 percent year on year. Specifically, actually utilized FDI in the high-tech manufacturing industry grew by 48.6 percent year on year and actually utilized FDI in the high-tech services industry grew by 27.9 percent year on year. Actually utilized FDI in the services industry grew by 6.7 percent year on year.

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

In the first three quarters, the value-added of the primary industry totaled RMB5.4779 trillion, up 4.2 percent year on year, and the value-added of the secondary industry totaled RMB35.0189 trillion, up 3.9 percent year on year, and the value-added of the tertiary industry totaled RMB46.53 trillion, up 2.3 percent year on year.

Agricultural production was favorable, and animal husbandry grew steadily. In the first three quarters, the value-added of agriculture (farming) increased by 3.8 percent year on year. The output of summer grains totaled 175.53 million tons, up 1.55 million tons from 2021, increasing by 0.9 percent year on year. The sowing area of autumn grains was stable with a slight rise, and a bumper harvest was expected. In the first three quarters, output of pork, beef, lamb, and poultry grew by 4.4 percent year on year; in particular, output of pork grew by 5.9 percent year on year. At end-Q3, the number of hogs in stock increased by 1.4 percent year on year.

The recovery of industrial production was accelerated, with the equipment manufacturing and high-tech manufacturing industries developing rapidly. In the first three quarters, the value-added of industrial enterprises above a designated size (IEDS) increased by 3.9 percent year on year, an acceleration of 0.5 percentage points from H1. Specifically, the value-added of the mining sector increased by 8.5 percent year on year. The manufacturing sector increased by 3.2 percent year on year. The electricity, heat, gas and water production and supply sectors increased by 5.6 percent year on year. The industrial structure was continuously optimized. The value-added of the high-tech manufacturing sector and equipment manufacturing sector increased by 8.5 percent and 6.3 percent year on year, respectively, 4.6 percentage points and 2.4 percentage points higher than the growth of the value-added of IEDS. The output of new energy cars and solar batteries grew by 112.5 percent and 33.7 percent year on year, respectively.

The service industry continued to recover, and growth of the modern service industry was favorable. In the first three quarters, the value-added of the services industry grew by 2.3 percent year on year. Specifically, the value-added of electronic information transmission/software/information technology services and the financial sector grew by 8.8 percent and 5.5 percent year on year, respectively. In Q3, the value-added of the services industry grew by 3.2 percent year on year, changing from negative to positive. In the first three quarters, the Index of Service Production (ISP) increased by 0.1 percent year on year. In particular, the ISP increased by 1.3 percent year on year in September. The Business Activities Expectation Index for the service industry reached 48.9 percent. Specifically, the Business Activities Index for postal services, telecommunications/broadcasting/television and satellite transmission services, and monetary and financial services were all within a prosperous range above 60.0 percent.

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

Consumer prices increased moderately. In the first three quarters, the CPI increased by 2.0 percent year on year, an acceleration of 0.3 percentage points from H1. The core CPI (food and energy excluded) increased by 0.9 percent year on year, a deceleration of 0.1 percentage points from H1. Specifically, the CPI in July, August, and September increased by 2.7 percent, 2.5 percent, and 2.8 percent, respectively. Pork prices have been in an uptrend, increasing by 26.2 percent year on year in Q3 and driving up food prices by 7.1 percent year on year, an acceleration of 4.7 percent from Q2. The drop in the prices of raw materials, associated with the suppression of demand due to COVID-19, led to a deceleration in the growth of non-food prices. In Q3, non-food prices increased by 1.7 percent year on year, declining by 0.6 percentage points from Q2.

The growth of producer prices continued to decelerate. In the first three quarters, the producer price index (PPI) increased by 5.9 percent year on year, a deceleration of 1.8 percentage points from H1. Specifically, the PPI in July, August, and September increased by 4.2 percent, 2.3 percent, and 0.9 percent, respectively. Due to the drop in international crude oil prices and other commodity prices associated with the base effects, the year-on-year increase in the PPI decreased month by month. In the first three quarters, the purchasing price index for industrial products (PPIRM) increased by 8.3 percent year on year, a deceleration of 2.1 percentage points from H1. In the first three quarters, the Corporate Goods Price Index (CGPI) monitored by the PBC increased by 4.7 percent year on year, a deceleration of 1.2 percentage points from H1 and a deceleration of 1.7 percentage points from the same period of last year.

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

In the first three quarters, revenue in the national general public budget posted RMB15.3 trillion, increasing by 4.1 percent year on year (VAT credit refund excluded), and decreasing by 6.6 percent year on year (calculated on a natural basis). Specifically, central and local fiscal revenue grew by 3.0 percent and 5.2 percent year on year (VAT credit refund excluded), respectively, and decreased by 8.6 percent and 4.9 percent (calculated on a natural basis), respectively. Tax revenue posted RMB12.4 trillion, an increase of 1.0 percent (VAT credit refund excluded).

In the first three quarters, expenditures in the national general budget posted RMB19.0 trillion, increasing by 6.2 percent year on year and accelerating by 3.9

percentage points from the same period of the previous year. In terms of the structure of expenditures, expenditures related to science and technology and health grew quickly, increasing by 14 percent and 10.7 percent, respectively.

5. The employment situation was generally stable

The surveyed urban unemployment rate fell. In the first three quarters, the national surveyed urban unemployment rate averaged 5.6 percent. In Q3, the national surveyed urban unemployment rate was 5.4 percent, decreasing by 0.4 percentage points from Q2. In September, the national surveyed urban unemployment rate was 5.5 percent, an increase of 0.2 percentage points from the previous month. Specifically, the surveyed unemployment rate among 25- to 59-year-olds was 4.7 percent, 0.8 percentage points lower than the national surveyed urban unemployment rate. In September, the unemployment rate among 16- to 24-year-olds was 17.9 percent, two percentage points lower than the peak in July, dropping for two consecutive months.

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 the first three quarters, China's current account surplus registered USD310.4 billion, an increase of 56 percent and accounting for 2.4 percent of GDP. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD521.6 billion, an all-time record, and it increased by 37 percent year on year. Trade in services recorded a deficit of USD65.6 billion, down 23 percent year on year. Cross-border capital flows maintained a basic equilibrium. Specifically, direct investments recorded a surplus of USD46.9 billion. By the end of June, the balance in the all-system foreign debt (denominated in both domestic and foreign currencies) posted USD2.6360 trillion, with medium- and long-term foreign debt accounting for 46 percent.

7. Analysis by sector

7.1 The real estate sector

In September 2022, among 70 medium and large-sized cities nationwide, newly built and second-hand residential housing prices decreased by 2.3 percent and 3.5 percent year on year, respectively, down 1 percentage point and 0.8 percentage points respectively from June. In the first three quarters of 2022, the total floor area of sold units decreased by 22.2 percent year on year. Housing sales decreased by 26.3 percent year on year. Investments in real estate development fell by 8 percent year on year. Specifically, investments in residential housing development fell by 7.5 percent year on year.

Table 14 Floor Area of Newly Started, Under Construction, and Completed Real Estate Projects in Q3 2022

	Floor area (100 million square meters)	YOY growth (%)	Change in growth from H1 (percentage points)
Floor area of newly started real estate projects	9.5	-38	-3.6
Floor area of real estate projects under construction	87.9	-5.3	-2.5
Floor area of completed real estate projects	4.1	-19.9	1.6

Source: National Bureau of Statistics.

At end-September 2022, outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) grew by 3.2 percent year on year to RMB53.3 trillion. Specifically, outstanding individual housing loans grew by 4.1 percent year on year to RMB38.9 trillion. Outstanding housing development loans dropped by 1.1 percent year on year to RMB9.5 trillion.

7.2 The online retail industry

In recent years, driven by sci-tech innovation and consumption upgrades, online retail began to thrive upon further utilization of the Internet, cloud computing, and artificial intelligence. This propelled traditional retail businesses to accelerate their digital transition. In the midst of the pandemic, the development of online retail proved to be resilient, which helped unleash its potential and promote the sustained recovery of consumption. In 2021, the online sales of the top 100 chain retailers in China reached RMB470 billion, accounting for 20.6 percent of their total sales. In the first three quarters of 2022, online retail sales in China posted RMB9.59 trillion, up 4 percent year on year and 3.3 percentage points higher than the total retail sales of consumer goods during the same period; online retail sales of physical goods posted RMB8.24 trillion, up 6.1 percent year on year, constituting 25.7 percent of total retail sales of consumer goods, which were 2.1 percentage points higher than their share during the same period of last year; online retail sales of physical goods, food, clothing and other necessities grew by 15.6 percent, 4.7 percent, and 5.2 percent year on year, respectively.

The online retail industry maintained steady growth, demonstrating strong resilience and new trends. **First, live-streaming e-commerce flourished**. In H1 2022, according to the monitoring of business big data, over 60 million live-streamings took place on major e-commerce platforms in China, receiving more than 517 billion views. **Second, Guochao (a Chinese brand fad) encouraged new consumption.** Spurred on by cultural confidence and consumption upgrading, both traditional and newly created Chinese local brands led consumer trends. In H1 2022, Chinese local brands held a high market share of 68.8 percent, and nine out of the top ten brands with the highest online sales were Chinese local brands. **Third, sales of upgraded consumption goods continued to grow at a fast pace.** Major e-commerce platforms and businesses actively replaced the older generations of products with new ones, featuring growing demand for glamping items, winter sports, and green household appliances. In H1 2022, the sales of jewelry and skiing equipment increased by 39 percent and 72.7 percent year on year, respectively; the sales of energy-saving central air-conditioning, energy-saving freezers, and energy-saving water heaters rose by 124 percent, 33.8 percent, and 27.2 percent year on year, respectively. **Fourth, new industries and new business forms mushroomed in rural areas.** As e-commerce and logistics distribution penetrated the rural areas, rural e-commerce systems continued to improve, with more than 30,000 agriculture-related e-commerce businesses operating in China. In the first three quarters of 2022, online retail sales in rural areas totaled RMB1.49785 trillion, up 3.6 percent year on year; online retail sales of agricultural products reached RMB374.51 billion, up 8.8 percent year on year.

Driven by constant improvements in the market environment and growing personalized demand, new models and new business forms of consumption, characterized by the integration of online and offline channels, developed at a faster pace, bringing both opportunities and challenges to the online retail industry. Moving forward, following the requirements in the *14th Five-Year Plan for E-Commerce Development*, the relevant parties should make synergistic efforts to break through the bottlenecks that restrict consumption and promote high-quality development of the industry in the following respects:. **The first is to promote the development of smart retail.** Traditional retailers are encouraged to engage in online retail via their own platforms or via third-party platforms so as to augment the brand effect and product value. **The second is to accelerate the upgrading of business infrastructure toward intelligence.** The digitized supply chain must be improved with higher delivery efficiency. Adopting demand-oriented approaches, resources are to be channeled more rapidly into new consumption scenarios, such as instant retail, contactless consumption, and live streaming retail. **The third is to enhance the application of technology and innovations in business forms and models.** Technologies including artificial intelligence, big data, and the Internet of Things should be fully tapped into in a way that guides production factors into new business forms and models. **The fourth is to improve the business environment in a continuous manner.** Protection of users' privacy and workers' legitimate rights and interests needs to be strengthened as does the evaluation system for new consumption businesses, the protection of intellectual property rights, and the construction of supporting systems. In the online retail market, a fair, impartial, and open environment for competition should be formed to boost new consumption.

Part 5 Monetary Policy Outlook

I. Outlook for the Chinese economy

In Q3, the Chinese economy rebounded significantly, showing an overall trend of recovery and positive outlook. In Q3, China's GDP registered year-on-year growth of 3.9 percent, 3.5 percentage points higher than that in Q2. The benefits of a package of policies and follow-up measures for stabilizing the economy were continuously unleashed. Agricultural production remained stable, and autumn grain production was expected to witness a bumper harvest. Industrial production bounced back swiftly, with market confidence enhanced. Household income growth was in line with economic growth, and consumption expenditures were recovering, with sound growth of sales in upgraded green products such as new energy automobiles. Business investment activities were overall improved and construction of major projects was accelerated. External trade maintained rapid growth, as net exports of goods and services contributed 1.1 percentage points to economic growth in Q3, making positive contribution to stabilizing the macro economy. Employment was generally stable, the average urban surveyed unemployment rate in Q3 dropped by 0.4 percentage points from the previous quarter. The capacity to ensure energy supply was constantly enhanced, while the proportion of non-fossil energy consumption was continuously elevated.

Meanwhile, it should be noted that the current external environment has become more severe and complicated, with elevated overseas inflation and increasing risks of a global economic downturn, and the foundation for domestic economic recovery is not solid yet. On the one hand, inflation in the advanced economies remains sticky, and their tightening monetary policy stance may continue for the short run. As the momentum of global economic recovery weakens, the IMF has recently again lowered its 2023 global economic growth forecast by 0.2 percentage points to 2.7 percent. On the other hand, consumption recovery is constrained by the increase in precautionary savings by domestic households, and effective investment expansions are facing multiple constraints such as insufficient returns, while medium- and long-term challenges such as the aging of the population and the low-carbon transition cannot be neglected. **However, it should be noted that factors and conditions for establishing a new development paradigm are sufficient, with a recovery of effective demand gaining momentum, and the economy being resilient, promising, and energetic. The fundamentals for China's sound economic growth over the long run remain unchanged.** We should maintain a strategic focus and concentrate on accomplishing our own tasks. We need to comprehensively implement the requirements for "preventing the pandemic, stabilizing the economy, and ensuring safe development," and well coordinate pandemic containment and socio-economic development. We need to make sure that the package of policies and follow-up measures to stabilize the economy will be well implemented and will take effect so as to vigorously promote high-quality development.

Price increases are generally moderate, but we should be alert to pressures from a rebounding of inflation. In Q3, pork, vegetables, and other food prices increased rather rapidly, while prices of travel, accommodations, and other services affected by Covid-19 experienced a lower increase than in previous years, leading to a mild rise in the overall CPI. Meanwhile, as prices of commodities, such as international crude oil decreased amid fluctuations, growth of the PPI continued to decrease and in October fell into negative territory on a year-on-year basis. The PPI increase is expected to remain at a low level during the year. Looking to the future, aggregate supply and demand are generally balanced in the Chinese economy, monetary policy remains sound, industrial and supply chains are operating smoothly, and household inflation expectations are stable, providing favorable conditions for maintaining generally stable price levels. In the meantime, we should pay close attention to the possibility of rising inflation in the future. At present, geopolitical conflicts are still disrupting global energy supplies and high inflation in advanced economies remains sticky. Therefore, external pressures of imported inflation still exist. For a period of time, M2 growth has remained relatively elevated in China. If aggregate demand recovers further, this could lead to a lagged effect. In winter, vigorous demand for pork and heating, the shifting calendar date of the Spring Festival, and other factors, especially more precise pandemic containment measures, could swiftly unleash consumption momentum and increase short-run structural inflationary pressures. We should keep a close eye on price movements, strengthen monitoring and analysis, and be alert to prospective pressures of a rebound of inflation.

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 20th CPC National Congress, make efforts to build a high-level socialist market economy, and press ahead with Chinese-style modernization. Following the decisions and arrangements of the CPC Central Committee and the State Council, it will pursue progress while taking stability as its top priority. The PBC will deepen the financial system reform and develop a modern central banking system. With solid implementation of policies, it will aim to maintain employment and price stability and it will leverage the key role of effective investments so as to consolidate and amplify economic momentum upwards, and effectively upgrade and appropriately expand the economic output.

The PBC will strengthen implementation of a sound monetary policy. 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 it will not provide an excessive money supply. With these efforts, the PBC will provide stronger and higher-quality support for the real economy. While keeping liquidity adequate at a reasonable level, the PBC will guide policy and development banks to make full and effective use of the policy-based and development-orientedfinancial instruments as well as the newly added RMB800 billion of credit lines. Encouraging commercial banks to issue more medium and long-term (MLT) loans, the PBC will maintain reasonable growth of M2 and the aggregate financing to the real economy (AFRE) so as to achieve better economic performance. Paying high attention to the potential rise in inflation, especially demand-side changes, the PBC will continue its efforts to consolidate favorable conditions for stable and growing domestic grain production and for the smooth functioning of the energy market. With proper preparations and management, it will keep prices basically stable. It will render more support to key areas, weak links, as well as to those businesses and industries that have been hard hit by COVID-19, by making good use of the inclusive MSB lending facilities, the carbon emissions reduction facility (CERF), as well as central bank lending for clean and efficient coal use, for sci-tech innovation, for inclusive elderly care services, for transportation and logistics, and for equipment upgrading and renovation. The PBC will ensure solid implementation of the long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to lend to micro and small businesses (MSBs) and private businesses so as to spur the vitality of market entities. It will continue its efforts to deepen the market-oriented interest rate reform and to optimize the central bank policy rate system. The mechanism for market-oriented adjustments of deposit rates will play a key role and it will contribute to stabilizing the liability costs for banks. The costs for corporate financing and for consumer credit are expected to drop, with the loan prime rate (LPR) reform continuing to unleash its potential. 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 and upholding the decisive role of the market in exchange rate formation, the PBC will maintain bottom-line thinking and strengthen expectation management so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBC will coordinate efforts for economic development and risk prevention to maintain overall stability in the financial system. It will establish and improve the mechanism for risk prevention, early warning, and resolution, and it will firmly defend the bottom line whereby no systemic risks will occur so as to safeguard the interests of the people.

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 create a favorable liquidity environment for consolidating the economic recovery and maintaining the stable functioning of the market at year-end. Closely following economic and financial developments both at home and abroad as well as changes in the monetary policy stances of the major economies, it will make in-depth analyses of liquidity supply and demand and financial market developments, and it will conduct open market operations (OMOs) in a flexible manner so as to improve the foresightedness, flexibility, and effectiveness of the operations, to stabilize market expectations and to properly balance 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 the supply of bank credits, and guide financial institutions to step up credit support for the real economy in line with market-oriented and law-based principles. With policy-based and development-oriented financial instruments in place and the newly increased RMB800 billion quota of credit put into use, financing support will be directed toward infrastructure construction. The PBC will also improve the mechanism for sustainable capital replenishment by replenishing capital of 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. It will keep central bank lending and discount policies stable and it will continue to provide inclusive and sustainable funding support to agro-related businesses, MSBs, and private businesses. It will push for better implementation of the inclusive MSB lending facilities and maintain financial support for MSBs so that they 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 in support of carbon emissions reduction in a scientific and orderly manner. It will encourage eligible financial institutions to provide funding 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 security in the supply of energy so as to help achieve the goals of carbon peaking and carbon neutrality by scientific and well-ordered steps. The PBC will continue to implement the special central bank lending for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics, and it will pick up pace in implementing the special central bank lending for equipment upgrading and renovation, leveraging the role of the special central bank lending 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 those financial policies that have already been introduced. The PBC will continue to encourage financial institutions to defer interest and principal payments for qualified loans and it will assess the effectiveness of the MSB credit policy orientation. It will urge and guide financial institutions to accelerate the establishment of the long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to lend to MSBs so as to improve and facilitate MSB access to financing. Aiming at promoting rural revitalization on all fronts, the PBC will guide financial institutions to optimize resource allocations, promote innovations in financial products and services, and effectively ramp up financial support for the agricultural sector, rural areas, and farmers. The PBC will adopt a mix of policy measures to enhance the role of policy-based and development-oriented financial instruments in speeding up construction and in ensuring payments for key projects, with follow-up funding support put in place. With these efforts, more projects are expected to deliver concrete progress. Firmly adhering to the principle that housing is for living in, not for speculation, and that the real estate market shall not be used to provide a short-term stimulus to the economy, the PBC will remain committed to keeping land prices, housing prices, and expectations stable. It will prudently implement the regulations on prudential management of real estate finance. Meanwhile, 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. The special lending facility to ensure deliveries of presold housing projects will be put in place at a quickened pace and policy strength will be increased as appropriate. Commercial banks will also be guided to provide follow-up funding support. The PBC will protect the legitimate rights and interests of housing consumers and promote the stable and healthy development of the real estate market.

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 regulation of deposit rates and give full play to the mechanism for market-oriented deposit rate adjustments to stabilize bank liability costs. Moreover, it will continue to tap into the LPR reform to help bring down the overall financing costs for businesses and the consumer credit costs for individuals. 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. Sticking to the decisive role of the market in the formation of the RMB exchange rate, the PBC will also enhance the flexibility of the RMB exchange rate, 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 micro, small, and medium-sized enterprises (MSMEs) with authentic needs based on a risk-neutral concept, thereby maintaining the stable and sound development of the foreign exchange market. Moreover, the PBC will continue to advance RMB internationalization in an orderly manner by further expanding use of the RMB in cross-border trade and investment, deepening international monetary cooperation, and promoting the development of offshore RMB markets. It will run pilot programs for a high-level opening-up of cross-border investment and trade, 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 the 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 strive to improve the legal system for the bond market and consolidate the legal basis for corporate credit bonds. Moreover, the PBC will accelerate the setting up of a multi-tiered bond market system, continue to expand the pilot program for financial bond balance management and macro-prudential management, and promote development of the over-the-counter (OTC) bond market in a bid to provide small and medium-sized financial institutions with diversified channels for bond investment transactions, custody, settlement, etc., and to increase bond market liquidity. The PBC will work to improve the bond underwriting and market-making mechanism, enhance the interconnectivity between the primary and secondary markets, and boost the effectiveness and transmission efficiency of bond pricing. Adhering to 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. 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. The PBC 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 improve and consolidate 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. 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 regulation of systemically important financial institutions. It will urge 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 ability. Coordinated efforts will be made to supervise and regulate financial holding companies, and the relevant regulatory system will be continuously enhanced. The PBC 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 so as to promote the sound, well-regulated, and sustainable development of financial holding companies. The PBC will go to great lengths to improve the effectiveness of regulation, reinforce prudential regulation, and conduct regulation of the financial sector on an on-going basis and strengthen protection of consumers and investors. Furthermore, the PBC will keep a close watch on risks in key fields. 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 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.