China Monetary Policy Report

Q4 2022

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

In 2022, in the face of complicated and evolving international environment as well as the arduous task of advancing reform and development at home, China coordinated COVID-19 containment and social and economic development under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core. With more intensified macro adjustments to tackle unexpected shocks, China managed to maintain both economic and social stability, as manifested by the steady rise in its development quality and overall stability in employment and prices. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. Proactive and preemptive, the PBOC strengthened its implementation of the sound monetary policy and stood firm in contributing to the stability of the national economy.

First, money and credit witnessed reasonable growth. The PBOC cut the required reserve ratio (RRR) twice in 2022, releasing over RMB1 trillion of long-term funds, and it turned over RMB1.13 trillion of its accumulated profits to the central government. It also injected liquidity for short, medium, and long term, respectively, through multiple channels, including central bank lending and discounts, the medium-term lending facility (MLF) operations, and open market operations (OMOs). It held meetings to analyze money and credit situation, and it guided financial institutions to increase credit support for the real economy. It also increased the credit quota for policy and development banks by RMB800 billion, and it guided the use of RMB739.9 billion of policy-backed and development-oriented financial instruments by policy and development banks, aimed at enhancing the stability of aggregate credit growth. **Second,** the structural monetary policy toolkit played its role in channeling targeted liquidity. The PBOC converted two monetary policy tools that provide direct support to the real economy, increased its funding support for the inclusive micro and small business (MSB) lending facilities from 1 percent to 2 percent, and launched a policy allowing temporary rate cuts for inclusive MSB loans. In tandem, it implemented the carbon emission reduction facility (CERF) and central bank lending for clean and efficient coal use, and it launched and implemented special central bank lending for sci-tech innovation, inclusive elderly care services, the transport and logistics sectors, as well as equipment upgrading. **Third,** the achievements of the loan rate decline were consolidated. The loan prime rate (LPR) reform continuously unleashed its potential. The OMO and MLF rates both dropped 20 basis points (bps) in 2022, bringing down the one-year and over-five-year LPRs by 15 bps and 35 bps, respectively. The mechanism for market-oriented adjustments of deposit rates was established to stabilize liability costs for banks, representing an important step toward the marketization of deposit rates. In addition, the PBOC established a mechanism for dynamic adjustments to first-home loan rate policies, which contributed to long-term institutional building. **Fourth,** attention was paid to maintaining a balance between internal and external equilibria. The PBOC deepened the market-oriented reform of the exchange rate and upheld the decisive role of the market in the RMB exchange rate formation. Strengthening expectations management and liquidity management, the PBOC enhanced the flexibility of the RMB exchange rate, giving play to its role as an auto stabilizer for the macro economy. **Fifth,** new achievements were made in forestalling and defusing financial risks. Related work advanced smoothly, such as risk resolution for small and medium-sized banks as well as rectification of financial businesses of platform enterprises. The system safeguarding financial stability was consistently improved.

Overall, the sound monetary policy achieved positive results and bolstered the economy back on the track of steady growth, hence creating a favorable economic and financial environment for the successful convening of the 20th CPC National Congress. Money and credit witnessed reasonable growth. RMB loans saw a cumulative rise of RMB21.31 trillion in 2022, RMB1.36 trillion more than their growth in 2021. At end-2022, RMB loans, broad money (M2), and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 11.1 percent, 11.8 percent, and 9.6 percent, respectively. The credit structure continued to improve. At end-2022, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 23.8 percent and 36.7 percent year on year, respectively. The financing costs for businesses and the costs of consumer credit for individuals were stable, with a slight decline. In 2022, the weighted average rate on corporate loans registered 4.17 percent, down 0.34 percentage points from 2021. In December, the rates on newly issued personal housing loans averaged 4.26 percent, down 1.37 percentage points year on year. The RMB exchange rate moved in both directions and remained basically stable at an adaptive and equilibrium level. At end-2022, the central parity of the RMB against the US dollar registered 6.9646.

Currently, China’s economy is highly resilient with great potential and strong dynamic. As COVID containment enters a new stage, the consumption environment and order are improving, and market expectations and confidence are stable. Also benefiting from the lasting effects of policy support, economic performance in 2023 is expected to pick up. In the next stage, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will thoroughly study and implement the guidelines of the 20th CPC National Congress and the Central Economic Work Conference. Following the decisions and arrangements of the CPC Central Committee and the State Council, it will uphold the general principle of pursuing progress while ensuring stability, apply the new development philosophy fully, faithfully, and comprehensively, and play its part in accelerating the building of a new development paradigm and advancing Chinese modernization. It will adopt a strategic perspective, starting by improving social expectations and boosting confidence in achieving development. Pursuing a holistic approach, it will enhance coordination in the six aspects as required by the Central Economic Work Conference, making sure that implementation of the strategy to expand domestic demand is integrated with efforts to deepen the supply-side structural reform. Meanwhile, the PBOC will intensify macro adjustments, and develop a modern central banking system, and fully explore the efficacy of monetary and credit policies with a focus on stabilizing growth, employment, and prices. It will provide financial support for the real economy to effectively upgrade and appropriately expand economic output so that the journey toward a modern socialist country in all respects will get off to a good start.

The PBOC will pursue a sound monetary policy in a targeted and forceful manner. While ensuring proper intertemporal adjustments, it will back efforts to expand domestic demand to further ramp up support for the real economy, and, at the same time, it will balance short-term and long-term goals, economic growth and price stability, as well as internal and external equilibria. The PBOC will resolutely refrain from launching a deluge of strong stimulus policies to consolidate sustainable support for the real economy. It will keep liquidity adequate at a reasonable level, maintain effective growth of credit aggregates, and ensure that the growth rates of M2 and the AFRE continue to be basically in line with nominal economic growth, aiming for an overall effect of boosting consumption, expanding investment, and bolstering employment. Using the structural monetary policy tools in a targeted, appropriate, and flexible manner, the PBOC will guide financial institutions to enhance their financial services for such fields as inclusive finance, sci-tech innovation, and green development so as to foster a strong recovery of consumption and to reinforce the potential for economic growth. Additionally, policy-based and development-oriented financial instruments will be further brought into play to better stimulate effective investments. The PBOC will continue to deepen the market-oriented interest rate reform. It will optimize the central bank policy rate system, give play to the important role of the mechanism for market-oriented deposit rate adjustments, and tap into the LPR reform and the LPR’s guiding role. With these efforts, the costs for business financing and for consumer credit are expected to decline. Keeping a close watch on inflation development, it will provide support to ensure sufficient supplies and stable energy and grain prices to keep prices basically stable. 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 PBOC will enhance the flexibility of the RMB exchange rate and improve expectation management so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Meanwhile, it will coordinate efforts to provide financial support for the real economy and to prevent risks, and it will take steady steps to defuse risks, such as those associated with key conglomerates and small and medium-sized financial institutions. The PBOC will maintain overall stability in the financial system and defend the bottom line whereby no systemic risks will occur.

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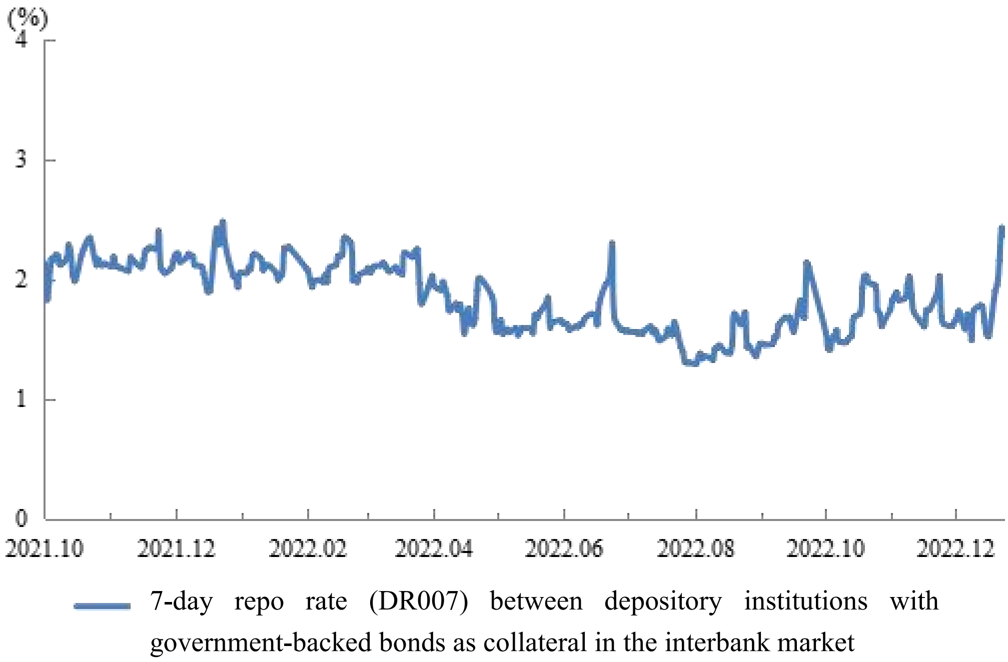
Part 1 Money and Credit Analysis

In 2022, the Chinese economy was hit by multiple unexpected factors, including COVID-19 and developments in the international situation. To be specific, pressures of shrinking demand, supply shocks, and weakening expectations evolved, international geopolitical conflicts escalated, and the downside risks to the world economy increased, increasing uncertainties in the development environment. Against this backdrop, the People's Bank of China (PBOC) followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and implemented the guidelines of the 20th National Congress of the Communist Party of China (CPC), the Central Economic Work Conference, and the requirements set forth in the *Report on the Work of the Government*. It placed stable growth in a more prominent position, strengthened implementation of a sound monetary policy, and gave full play to the guiding role of structural monetary policy instruments. As a result, money, credit, and aggregate financing to the real economy (AFRE) witnessed reasonable growth, the credit structure was improved continuously, and overall financing costs steadily declined, providing vigorous support for stabilizing the macro economy and creating a favorable economic and financial environment for the convening of 20th CPC National Congress.

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

In 2022, the PBOC adopted a monetary policy prioritizing stability while pursuing development, and it took prompt measures at an early stage based on the dynamics of the macro situation. It 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) to inject liquidity into the economy. The PBOC cut the RRR by 0.25 percentage points in April and December, respectively, releasing a total of over RMB1 trillion in long-term liquidity. It turned over RMB1.13 trillion in surplus profits to the central budget, providing additional available funds equivalent to a sweeping RRR cut of 0.5 percentage points to the economy. The PBOC also managed the intensity and pace of OMOs in a flexible manner, and it brought down interest rates in the money market, creating a favorable liquidity environment for keeping economic performance within a reasonable range. At end-2022, the excess reserve ratio of financial institutions registered 2.0 percent, indicating that liquidity in the banking system was adequate at a reasonable level.

Figure 1 Movement of Money-Market Interest Rates



Source: www.chinamoney.com.cn.

Box 1 The PBOC Turns Over Surplus Profits to Facilitate Stable Growth

In 2022, following the arrangements of the CPC Central Committee and the State Council, the PBOC turned over RMB1.13 trillion in surplus profits to the central budget in accordance with the law, which were primarily used for tax refunds and transfer payments to local governments, thus providing relief to businesses, stabilizing employment, and protecting the people's livelihood. These funds played an important role in stabilizing the macro economy. The PBOC made proper profits and transferred them to the central budget to enhance financial support for high-quality development, which can mainly be attributable to a sound monetary policy and a prudential financial budget system.

In recent years, China has adhered to a sound monetary policy and it has maintained adequate room for policy maneuvers, making it possible for the PBOC to make stable profits. Currently, its profits mainly come from operational revenue by investing foreign exchange reserves in international financial markets in a market-based manner. The PBOC has pursued a sound monetary policy which seeks progress while giving top priority to stability and avoiding great volatility. As a result, its balance sheet has remained basically stable, with interest rate revenues and expenditures of monetary policy operations balanced, making it possible for the PBOC to make stable profits. In contrast, some major central banks across the globe have purchased large quantities of government bonds in response to the shocks of COVID-19, remarkably expanding their balance sheets. Under these circumstances, the surging interest rates will have implications for the balance sheets of the central banks and their financial conditions.

After writing off historical costs, the PBOC turned over all surplus profits to the central budget in accordance with the law in 2022. **Disclosure of this move demonstrated great improvement in financial transparency**. The PBOC bore the costs of financial institutional reforms, such as the joint-stock reforms of state-owned commercial banks and rural credit cooperatives, which should be written off from its revenues. Over the past ten-odd years, it has been committed to absorbing these historical costs with part of its profits, and in most years it has turned over profits to the central budget. After years of unremitting efforts, the PBOC managed to write off all historical costs before turning over all surplus profits to the central budget in accordance with the law. This manifested coordination between monetary and fiscal policies to stabilize the macro economy, while announcement of the move demonstrated material improvements in the financial transparency of the PBOC as a modern central bank, which is conducive to cementing a financial foundation for a modern central bank system.

In the process of turning over profits, the PBOC has maintained a sound and sustainable balance sheet, so the move will result neither in a government overdraft nor monetization of fiscal deficits. Instead of seeking maximum profits, a central bank is mandated to keep currency stable and to maintain financial stability so as to serve the public interest. A sound and sustainable balance sheet is the cornerstone of a central bank's implementation of a monetary policy, maintaining financial stability, and enhancing financial services. It will not only make it credible that a central bank can keep currency stable and inflation under control, but also it will ensure that the bank can function as the "lender of last resort" and firmly support the bottom line whereby no systemic risks will occur. In the next stage, the PBOC will, following the guidelines of the 20th CPC National Congress, establish a central bank system with Chinese characteristics, push forward the independent financial-budget management system, continuously improve accounting standards, replenish central bank reserves and capital, and implement a prudential asset loss provision system so as to ensure a sound and sustainable balance sheet. With these efforts, the PBOC can fulfill its missions in accordance with the law, keep currency stable, and maintain financial stability, thereby promoting full employment and economic growth.

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 waned and the growth of loans slowed down. In response, the PBOC has successively held a number of symposia to analyze the monetary and credit situations, attended by the heads of major financial institutions, the PBOC branches at various levels and its affiliated institutions as well as policy banks. Financial institutions, especially large state-owned commercial banks as well as policy and development banks, were urged to play a pillar role and to increase lending based on prudent operations and in line with market-based principles. In the second half of 2022, with the implementation of a package of policy measures to stabilize the economy and with the optimization of pandemic containment measures, credit demand improved marginally. The PBOC has guided policy and development banks to launch policy-backed and development-oriented financial instruments in the amount of RMB739.9 billion, making effective use of the newly increased credit line of RMB800 billion. Financial institutions were encouraged to extend credit with reasonable intensity and at an appropriate pace in line with market-based principles so as to consolidate credit support for the real economy. Throughout the year, RMB loans witnessed larger year-on-year growth and financial support continued to increase. At end-2022, outstanding loans issued by financial institutions in domestic and foreign currencies grew 10.4 percent year on year to RMB219.1 trillion, increasing RMB20.6 trillion from the beginning of 2022, or a year-on-year acceleration of RMB496.9 billion. Outstanding RMB loans grew 11.1 percent year on year to RMB214.0 trillion, up RMB21.3 trillion from the beginning of 2022, or a year-on-year acceleration of RMB1.4 trillion. Loans grew by RMB8.3 trillion, RMB5.3 trillion, RMB4.4 trillion, and RMB3.2 trillion in each of the four quarters of 2022, respectively. The quarterly increments accounted for 39.1 percent, 25.1 percent, 20.7 percent, and 15.1 percent, respectively, which were basically flat with those in the previous year.

The credit structure has been improving. At end-2022, medium and long-term loans to enterprises and public entities grew by RMB11.1 trillion from the beginning of 2022, accounting for 64.7 percent of total corporate loans. The year-on-year (YOY) growth rate of medium and long-term loans to the manufacturing sector registered 36.7 percent, 25.6 percentage points higher than that of total loans. Outstanding inclusive loans to MSBs grew by 23.8 percent year on year, 12.7 percentage points higher than the growth of total loans; 56.52 million MSBs were supported, a rise of 26.8 percent year on year.

Table 1 The Structure of RMB Loans in 2022

Unit: RMB100 million

	Outstanding amount at end-December	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	2139853	11.1%	213097	13607
Households	749323	5.4%	38325	-40870
Enterprises and public entities	1375208	14.2%	170882	50693
Non-banking financial institutions	5529	29.3%	1254	2101
Overseas	9792	38.9%	2635	1683

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 2022

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks [1]	119375	25653
Chinese-funded small and medium-sized banks[2]	98637	-6329
Small-sized rural financial institutions[3]	24702	-1905
Foreign-funded financial institutions	-221	-1713

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 PBOC continuously deepened the market-oriented interest rate reform, tapping into the loan prime rate (LPR) reform and bringing into play the key role of the market-based adjustment mechanism for deposit interest rates so as to further bring down the actual lending rates. In December 2022, 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 December, the weighted average lending rate recorded 4.14 percent, down 0.62 percentage points year on year.

In particular, the weighted average interest rate on ordinary loans registered 4.57 percent, down 0.62 percentage points year on year, while the weighted average interest rate on corporate loans fell by 0.60 percentage points year on year to 3.97 percent.

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

Unit: %

	December	Change from September	YOY Change
Weighted average interest rate on new loans	4.14	-0.20	-0.62
on ordinary loans	4.57	-0.08	-0.62
of which: on corporate loans	3.97	-0.03	-0.60
on bill financing	1.60	-0.32	-0.58
on mortgage loans	4.26	-0.08	-1.37

Source: The People's Bank of China.

In December, the share of ordinary loans with rates above, at, or below the LPR registered 56.21 percent, 5.52 percent, and 38.27 percent, respectively.

Table 4 Shares of RMB Lending Rates at Different Levels from January to December 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
October	34.23	4.79	60.97	16.06	18.39	11.37	7.68	7.46
November	34.32	5.40	60.28	16.31	18.71	11.54	7.36	6.35
December	38.27	5.52	56.21	14.98	18.05	11.18	6.66	5.33

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In December 2022, 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 1.20 percent and 3.66 percent, respectively, up 1.1 and 3.35 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 5.03 percent and 4.99 percent, up 3.92 and 3.88 percentage points from December 2021, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to December 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
October	0.73	3.06	3.61	4.84	4.46	4.98	4.27	4.59	4.99	4.69	4.78
November	0.94	3.38	4.41	5.23	5.20	5.40	4.95	5.09	5.38	4.82	5.10
December	1.20	3.66	4.84	5.22	5.49	5.34	5.03	4.99	5.28	5.18	5.67

Source: The People’s Bank of China.

Deposits grew significantly. At end-2022, outstanding deposits in domestic and foreign currencies at all financial institutions increased 10.8 percent year on year to RMB264.4 trillion, up RMB25.9 trillion from the beginning of 2022 and an acceleration of RMB5.6 trillion year on year. Outstanding RMB deposits grew 11.3 percent year on year to RMB258.5 trillion, an increase of RMB26.3 trillion from the beginning of 2022 and an acceleration of RMB6.6 trillion year on year. Outstanding deposits in foreign currencies stood at USD853.9 billion, USD143.0 billion less than that at the beginning of 2022. The decrease was USD250.7 billion more as compared with the previous year.

Table 6 The Structure of RMB Deposits in 2022

Unit: RMB100 million

	Outstanding deposits at end-December	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2584998	11.3%	262633	65853
Households	1203387	17.4%	178372	79370
Non-financial enterprises	746574	7.2%	50888	13311
Public entities	329814	5.9%	18461	6387
Fiscal entities	50013	-0.7%	-586	-6204
Non-banking financial institutions	238219	6.6%	13841	-26265
Overseas	16991	10.8%	1658	-746

Source: The People's Bank of China.

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

Money and credit aggregates grew at a reasonable pace. At end-2022, outstanding broad money M2, narrow money M1, and currency in circulation M0 registered RMB266.4 trillion, RMB67.2 trillion, and RMB10.5 trillion, respectively, up 11.8 percent, 3.7 percent, and 15.3 percent year on year, respectively. The entire year of 2022 witnessed a net cash injection of RMB1.4 trillion, RMB733.4 billion more than that in 2021.

The AFRE grew steadily. According to preliminary statistics, the outstanding AFRE reached RMB344.21 trillion at end-December and its year-on-year growth registered 9.6 percent. In 2022, the AFRE increment totaled RMB32.01 trillion, RMB668.9 billion more than that in 2021. The AFRE has the following structural features: first, RMB loans maintained reasonable growth. In 2022, the increment in RMB loans issued by financial institutions to the real economy grew by RMB974.6 billion year on year to RMB20.91 trillion, accounting for 65.3 percent of the AFRE increment during the same period. Second, compared with the previous year, the increment in government bonds grew while that in corporate bonds fell. The increment in government bonds increased by RMB107.4 billion year on year, while that in corporate bonds decreased by RMB1.24 trillion year on year. Third, off-balance-sheet financing decreased at a slower pace year on year. In 2022, the increase in entrusted loans was RMB527.5 billion more than that in 2021, while decreases in trust loans and undiscounted bankers' acceptances were RMB1.41 trillion and RMB150.5 billion, respectively, less than the decreases in 2021. Fourth, asset-backed securities of depository institutions decreased by a larger margin year on year, while loans written off remained basically flat year on year.

Table 7 Aggregate Financing to the Real Economy in 2022

	End-December 2022		2022	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
AFRE	344.21	9.6	320096	6689
Of which: RMB loans	212.43	10.9	209149	9746
Foreign-currency loans (RMB equivalent)	1.84	-17.4	-5254	-6969
Entrusted loans	11.24	3.4	3579	5275
Trust loans	3.75	-14	-6003	14071
Undiscounted bankers' acceptances	2.66	-11.6	-3411	1505
Corporate bonds	31.01	3.6	20508	-12358
Government bonds	60.19	13.4	71228	1074
Domestic equity financing by non-financial enterprises	10.64	12.4	11757	-376
Other financing	10.24	8.6	8061	-5570
Of which: Asset-backed securities of depository institutions	1.99	-8.6	-1862	-4643
Loans written off	7.34	16.3	10269	-30

Notes: ①AFRE (stock) refers to outstanding funds provided by the financial system to the real economy at the end of a period. AFRE (flow) refers to the volume of funds provided by the financial system to the real economy within a certain period of time. ②Since December 2019, the PBOC 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 PBOC 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 PBOC 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.

Box 2 Pursuing a Sound Monetary Policy to Stabilize the Economy

A stable currency is the cornerstone of stabilizing the economy, employment, and prices, and stability is a key requirement for implementing a sound monetary policy. From a counter-cyclical perspective, the macro economy is a non-interruptible continuous process, and the overarching priority of financial macro management is to stabilize an unstable economy. The goal of monetary policies is to smooth out fluctuations in total demand in economic operations and to protect production factors and social wealth from the damage caused by booms and busts. From an inter-temporal perspective, the strength of monetary policies should remain stable, and the central banks should refrain from launching a deluge of strong stimulus policies that may bring about excessive investment, debt escalation, asset bubbles, and a number of other problems. Moreover, central banks should take targeted measures to optimize the economic structure so as to increase the endogenous stability of the economy, to maintain long-term stable and sound economic development, and to practice the general principle of seeking progress while maintaining stability. As the macro economy and prices continue to remain stable, the expectations of economic entities, i.e., residents' expectations of future income, enterprises' expectations of future operations, and foreign investments' expectations of economic and trade exchanges, will be more stable, which will help increase the certainty of a virtuous cycle between effective demand and effective supply, consumption and investment, as well as domestic demand and external demand. As a result, stability of the macro economy will be further enhanced and the goal of monetary policies to stabilize the economy can be achieved at a relatively low policy price.

In the past five years, the PBOC, in accordance with the decisions and arrangements of the CPC Central Committee and the State Council, has continually implemented a sound monetary policy, providing "stable" support for high-quality development. The five years have been extremely unusual and extraordinary as the world has confronted accelerated changes unseen in a century, with a far-reaching impact from the once-in-a-century pandemic and the intensified geographical conflicts. China is facing certain restraints in its efforts to further push up total factor productivity. The traditional economic growth drivers, such as labor and land, are losing steam, while the triple pressures from shrinking demand, supply shocks, and weakening expectations have been mounting in recent years. Therefore, risks are on the rise in some areas, highlighting the importance of stability in the macro economy. In the face of the complex and severe domestic and international situations, China has implemented a sound monetary policy, prioritized stability, responded to change with stability, and maintained normal monetary policy space. The central bank refrains from launching a deluge of strong stimulus policies when the economy goes down and it does not make a sharp turn when the economy recovers. Therefore, the PBOC responds to internal and external uncertainties with a stable monetary policy, thus creating a favorable monetary and financial environment for stabilizing the macro economy.

First, money and credit aggregates maintained steady growth, providing stable support for the real economy. Since 2018, the PBOC has cut the RRR 14 times to release long-term liquidity of over RMB11 trillion. It has also employed OMOs, MLFs, central bank lending, and other monetary policy instruments in a flexible manner to keep liquidity adequate at a reasonable level. The PBOC has worked to improve the mechanism for money supply management as its balance sheet remains basically stable so as to ensure an appropriate aggregate money supply. The average annual growth rate of M2 posted 9.5 percent from 2018 to 2022, which was generally in step with or slightly higher than the nominal economic growth rate of 7.8 percent during the corresponding period, providing strong support for economic operations within a reasonable range.

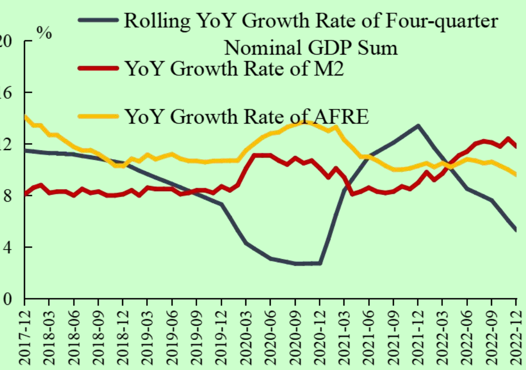


Figure: Growth Rates of M2, AFRE, and Nominal GDP in China

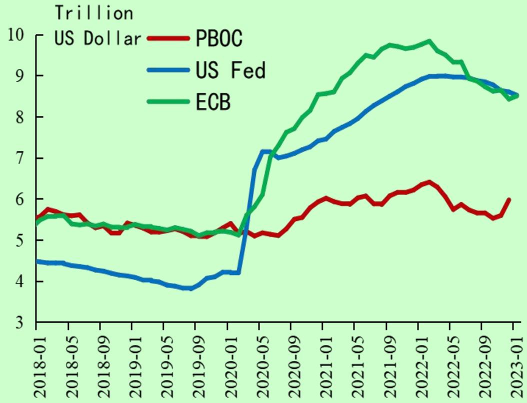


Figure: Change in the Central Bank Assets of the Major Economies

Second, interest rate adjustments were made based on the domestic situation, and overall financing costs were steadily brought down. The PBOC cherished space for its normal monetary policy. It worked to guide a steady decline in actual loan rates by taking innovative measures to conduct the LPR reform and by improving the self-regulatory mechanism for market-based interest rate pricing. Facing the challenge of monetary policy tightening in the major developed economies, the PBOC, based on the principle that domestic development should be prioritized, refused to follow suit. On the contrary, it moderately guided the policy interest rate downwards in spite of the limited space for interest rate cuts to ensure that interest rates remained within a reasonable range and to meet the requirement for stabilizing domestic demand and employment in the first place. The obvious policy effect has been delivered, as the interest rate on corporate loans has decreased from a high of 5.60 percent in 2018 to 3.97 percent in December 2022, the interest rate on personal housing loans has decreased from 5.75 percent to 4.26 percent, and the interest rate on corporate bonds has also decreased. All of this has effectively eased the debt burden on the real economy and has continuously stimulated effective financing demand.

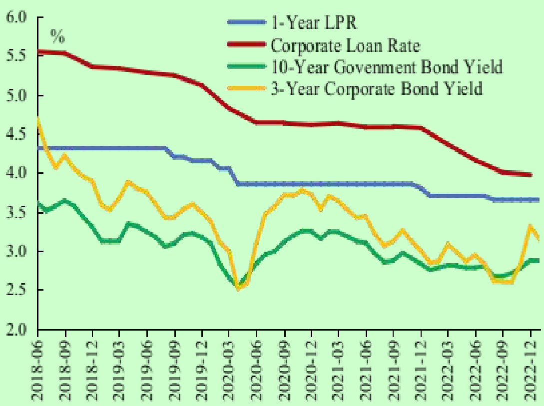


Figure: Movement of Market Interest Rates in China

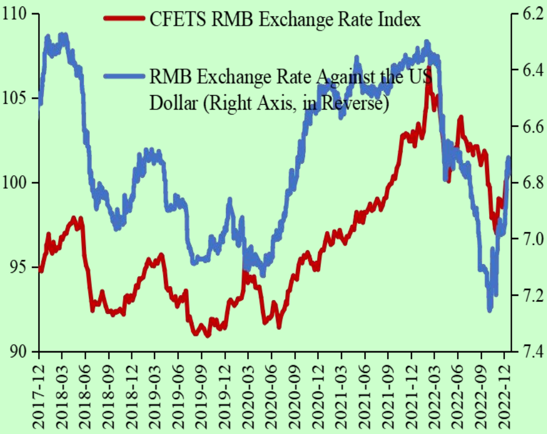


Figure: RMB Exchange Rates Against the US Dollar and the RMB Exchange Rate Index

Third, the RMB exchange rate remained market-oriented and basically stable at an adaptive and equilibrium level. The PBOC has firmly upheld the decisive role of the market in resource allocation, and it has enhanced the flexibility of the RMB exchange rate. Meanwhile, the PBOC also guided and stabilized market expectations through market-based measures, withdrew from normal interventions, and improved a managed floating exchange-rate regime based on market supply and demand with reference to a basket of currencies. In the past few years, the PBOC has carried out indirect management mainly through market-based policy measures, even when the pressure of exchange rate devaluation was mounting. In general, the movement of the RMB exchange rate has been determined by demand and supply in the foreign exchange market. Since 2019, affected by market supply and demand, the RMB exchange rate against the US dollar "topped seven" three times, but it soon returned to below seven. In 2022, in the midst of the interest rate spikes in the developed economies, the US dollar index strengthened and the RMB weakened, which was completely market-driven. The PBOC has adopted an appropriate mix of monetary policy instruments, not only prioritizing domestic development but also ensuring the decisive role of the market in the exchange rate formation. At the same time, it has made efforts to stabilize expectations and to bring into play the role of the exchange rate as a stabilizer for macroeconomic management and as a buffer against external shocks, effectively responding to this round of external shocks and thus creating a favorable external market environment for the successful convening of the 20th CPC National Congress and a stable macro economy. From a historical perspective, the RMB is a strong currency. The RMB exchange rate has appreciated nearly 20 percent against the US dollar and about 40 percent against a basket of currencies since the start of the exchange rate reform in 2005.

The PBOC, based on "stability," innovates and employs structural monetary policy instruments to gather "momentum" for high-quality development. As the Chinese economy gears toward high-quality development, both supply and demand face constraint, but the main contradiction lies on the supply side. Structural monetary policy instruments that are "focused, reasonable, moderate, and flexible" give play to their advantages in expanding the aggregate, optimizing the structural, and stabilizing the prices, aiming at both expanding domestic demand and optimizing supply, and helping to channel financial resources into key areas, such as micro and small businesses (MSBs), green development, and sci-tech innovation, in a bid to effectively upgrade and appropriately expand economic output and to inject new momentum into stabilizing the macro economy and pursuing high-quality development. In 2018, the PBOC led the launch of a "three-arrow" policy mix of credit, bonds, and equity, helping private enterprises out of their funding difficulties as all the funding channels were narrowing. In the wake of the outbreak of COVID-19 in 2020, the PBOC stepped up the efforts to support market entities from the supply side, launching central bank lending and central bank discounts in three stages in an amount of RMB300 billion, RMB500 billion, and RMB1 trillion, respectively. Interest rates were more market-based and policy coverage was becoming increasingly wide. Moreover, the PBOC introduced two instruments that could provide direct support for the real economy, i.e., the support instrument for deferred repayments of inclusive MSB loans and the support scheme for unsecured loans, both of which were later converted into the instrument supporting inclusive MSB loans so as to enhance funding support for MSBs. Since 2021, the PBOC has set up a carbon emission reduction facility (CERF) and special central bank lending for the clean and efficient use of coal, with the aim of promoting green development in a scientific and orderly manner; it has launched special central bank lending facilities for sci-tech innovation, inclusive elderly care services, the transport and logistics sectors, and equipment upgrading and renovation, strengthening targeted support for key areas; guided the launch of two batches of policy-based and development-oriented financial instruments with a total amount of RMB739.9 billion, leveraging effective infrastructure investment; introduced special loans to ensure delivery of residential buildings worth RMB350 billion and a support scheme for loans to guarantee property delivery in the amount of RMB200 billion, buttressing the sound operation of the real estate market. As of end-2022, the outstanding balance of structural monetary instruments posted RMB6.4 trillion, about 15 percent of the PBOC's total assets.

In general, the sound monetary policy has strongly promoted the achievement of an optimal mix of policy objectives, i.e., rapid social and economic development, full employment, and price stability. From 2018 to 2022, the average annual growth rate of China's GDP exceeded 5 percent, significantly higher than the global average, and the average annual increase in urban employment was over 12 million. In 2022, China's CPI rose by 2 percent year on year, far below the average global figure of more than 8 percent. Against the backdrop of elevated global inflation, prices remained basically stable. Average inflation rates in the CPI during the past five and ten years were both around 2 percent, achieving the long-term inflation target of 2 percent that has been pursued by the major economies. Moreover, residents' inflation expectations remained stable, laying a foundation to ensure price levels are kept generally stable in the medium and long terms.

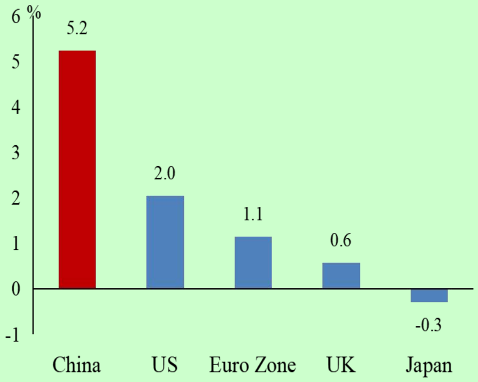


Figure: Average GDP Growth Rates of the Major Economies from 2018

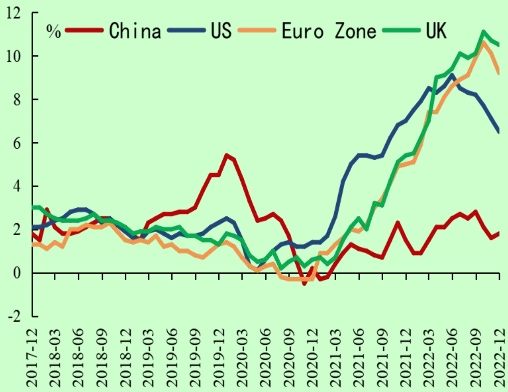


Figure: Movement of YoY CPI Growth Rates in China, US, Euro Zone, and UK

Going forward, the PBOC will, in accordance with the arrangements of the CPC Central Committee and the State Council, continue to promote financial development with Chinese characteristics. It will implement the sound monetary policy in a precise and effective manner, maintain \appropriate growth of money and credit, steadily bring down overall financing costs, and bring into play the guiding and incentivizing role of structural monetary policy instruments. All these policy efforts will provide stable strategic support and gather momentum for high-quality economic development and they will contribute to realization of the Chinese path to modernization.

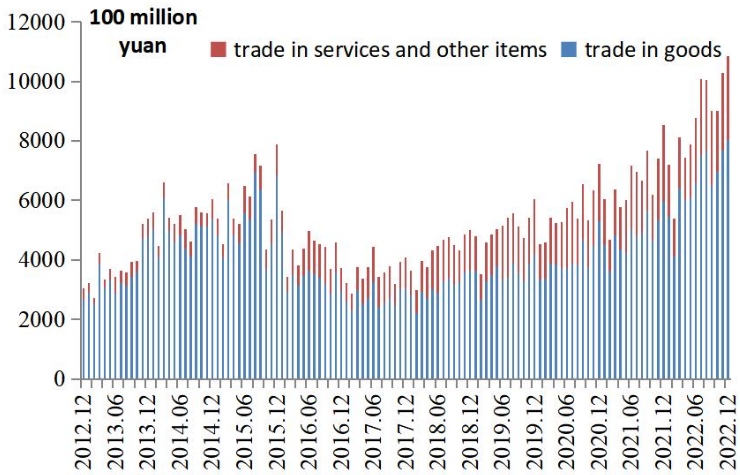
IV. The RMB exchange rate remained basically stable at an adaptive and equilibrium level

In 2022, amid complicated changes in international economic and financial developments, the central banks of the major developed economies took swift actions to raise interest rates, and volatility in global foreign exchange markets intensified. The US dollar index fluctuated violently, hitting a 20-year high, but falling continuously starting in November. Major non-US dollar currencies also repeatedly hit 20-year lows. The RMB enjoyed relatively stable performance among the major global currencies, featuring two-way fluctuations and enhanced flexibility throughout the year, and it played a role as an auto stabilizer in macroeconomic management and in the balance of payments. The market plays a decisive role in the formation of the

RMB exchange rate. Cross-border capital flows and foreign exchange supply and demand have been basically in equilibrium, and market expectations have been stable on the whole. In 2022, based on market supply and demand, the RMB exchange rate depreciated against a basket of currencies. At end-2022, the China Foreign Exchange Trade System (CFETS) and the RMB Exchange Rate Index based on the special drawing rights (SDRs) basket closed at 98.67 and 96.08, respectively, down 3.7 percent and 4.3 percent, respectively, from end-2021. According to calculations by the Bank for International Settlements (BIS), from end-2021 to end-2022, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB depreciated 2.9 percent and 7.9 percent, respectively. From 2005 when the reform of the RMB exchange-rate formation regime began to December 2022, the NEER and REER of the RMB appreciated 44.2 percent and 45.6 percent, respectively. At end-2022, the central parity of the RMB against the US dollar was 6.9646, depreciating 8.5 percent from end-2021 and appreciating 18.8 percent on a cumulative basis since the beginning of the reform of the exchange rate formation regime in 2005. In 2022, the annualized volatility rate of the RMB against the US dollar was 6.4 percent.

In 2022, cross-border RMB settlements increased 15 percent year on year to RMB42.1 trillion, 49 percent of total annual cross-border settlements in RMB and foreign currencies. Specifically, RMB receipts and payments posted RMB20.5 trillion and RMB21.6 trillion, respectively. Cross-border RMB settlements under the current account grew by 32 percent year on year to RMB10.5 trillion. In particular, RMB settlements under trade in goods registered RMB7.9 trillion, while RMB settlements under trade in services and under other items registered RMB2.6 trillion. Cross-border RMB settlements under the capital account registered RMB31.6 trillion, increasing 10 percent year on year. In 2022, cross-border RMB settlements under trade in goods and under direct investment accounted for 18 percent and 70 percent of total annual cross-border settlements in RMB and foreign currencies, respectively, the highest level in recent years.

Figure 2 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In Q4 2022, the PBOC studied and implemented the guiding principles of the 20th CPC National Congress, and, in accordance with the decisions and arrangements made by the CPC Central Committee and the State Council, it fully implemented a package of policies and follow-up measures. It worked to keep the liquidity adequate at a reasonable level, smooth liquidity supply at junctures such as year-end, guide steady growth of money and credit, scale up financial support for the real economy, especially for weak links and key areas, promote a steady decline in overall financing costs, and uphold the decisive role of the market in exchange rate formation. These efforts laid a solid foundation for the economy to stabilize and gain momentum.

I. Conducting open market operations in a flexible manner

Conducting open market operations in a flexible manner. In Q4 2022, following the macroeconomic and financial situations at home and abroad, the PBOC injected medium and long-term liquidity by adopting a mix of tools, such as the required reserve ratio (RRR) cut, the medium-term lending facility (MLF), and central bank lending. In addition, the PBOC conducted open market operations on a daily basis, managed the intensity and pace of open market operations in a flexible and targeted manner in view of the demands of primary dealers, adjusted the maturities of operations to offset the impacts of temporary factors such as fiscal levies, government bond issuances, and liquidity fluctuations at year-end, thus keeping liquidity adequate at a reasonable level. In mid-to-late December, responding to an increasing number of

COVID-19 cases, the growing number of absences in financial institutions, and rising demand for precautionary funds, the PBOC preemptively pumped cross-year liquidity at an early stage. From December 19 to December 30, the PBOC injected a total of RMB1.73 trillion into the market via 7-day and 14-day reverse repos, averaging more than RMB200 billion daily in the last week, which effectively satisfied market demand and ensured ample liquidity at year-end as well as smooth movement of money market rates. In 2022, the rates of the open market 7-day reverse repos fell by 20 basis points after two cuts, which was conducive to boosting market confidence, bringing down overall financing costs, and providing strong support for the real economy. The annual weighted average rate of 7-day repos between depository institutions in the interbank market (DR007) posted 1.76 percent, a decrease of 41 basis points from 2021. Interest rates witnessed heightened stability at quarter-end and at year-end.

Continuously conducting central bank bill swap (CBS) operations. In Q4 2022, the PBOC 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. In 2022, the PBOC conducted CBS operations on a monthly basis, and these operations played a positive role in improving liquidity in the secondary market of bank-issued perpetual bonds, in supporting banks, especially small and medium-sized banks to replenish capital through the issuance of perpetual bonds and in strengthening the capacity for credit supply.

Issuing central bank bills in Hong Kong on a regular basis. In Q4 2022, the PBOC issued three batches of RMB-denominated central bank bills in Hong Kong, totaling RMB30 billion. Specifically, the 3-month, 6-month, and 1-year bills registered RMB10 billion, RMB5 billion, and RMB15 billion, respectively. In 2022, the PBOC issued twelve batches of central bank bills in Hong Kong, totaling RMB 120 billion. The regular issuance of central bank bills in Hong Kong is conducive to promoting sound development of the offshore RMB money market and the bond market and to propelling both domestic and overseas market entities to issue RMB-denominated bonds and conduct RMB businesses 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 roles of the medium-term policy rates, the PBOC conducted a total of RMB4.55 trillion of MLF operations in 2022, all with a maturity of one year. The interest rate registered 2.85 percent in the first seven months and 2.75 percent from August to December. In particular, the amount of MLF operations posted

RMB1.2 trillion, RMB0.45 trillion, RMB0.9 trillion, and RMB2.0 trillion in Q1, Q2, Q3, and Q4, respectively. At year-end, outstanding MLFs 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, strengthen the stability of liquidity in the banking system, and prevent liquidity risks. In 2022, the PBOC conducted a total of RMB25.3 billion of SLF operations, of which operations in Q1, Q2, Q3, and Q4 registered RMB6.4 billion, RMB2 billion, RMB2.2 billion, and RMB 14.7 billion, respectively. At year-end, outstanding SLF operations registered RMB12.3 billion. The SLF rate continued to serve as the ceiling of the interest rate corridor, which helped maintain smooth operation of the money market. At end-2022, the overnight, 7-day, and 1-month SLF rates stood at 2.85 percent, 3.00 percent, and 3.35 percent, respectively, flat with those at the end of Q3.

III. Adjusting the required reserve ratio for financial institutions

Two rounds of RRR cuts for financial institutions were announced to bolster the real economy and promote a steady decline in overall financing costs. On April 25 and December 5, the PBOC reduced the RRR for financial institutions (excluding those that had already implemented an RRR of 5 percent), by 0.25 percentage points each time. To ramp up support for MSBs and agriculture, rural areas, and farmers, urban commercial banks conducting businesses within the province of registration and rural commercial banks implementing an RRR of over 5 percent enjoyed an additional RRR cut of 0.25 percentage points starting from the RRR cut in April. About RMB1.03 trillion of long-term funds were freed up by the two cuts in 2022.

The required reserve ratio for foreign-currency deposits was lowered twice in 2022, and financial institutions were urged to enhance foreign exchange liquidity management. The PBOC lowered the required reserve ratio for foreign-currency deposits on May 15 and September 15, by 1 percentage point and 2 percentage points, respectively. The ratio declined from 9 percent to 6 percent after the two cuts, releasing around USD27 billion of foreign exchange liquidity.

The risk reserve ratio for forward FX sales was raised in due course. In order to stabilize foreign exchange market expectations, the PBOC raised the foreign exchange risk reserve ratio for forward foreign exchange sales from zero to 20 percent, effective from September 28, 2022.

IV. Further improving the macro-prudential system and the management framework

Giving full play to the role of the macro prudential assessment (MPA) in optimizing the credit structure and promoting the supply-side structural reform of the financial sector. In 2022, the PBOC further optimized the MPA framework and guided financial institutions to enhance stability in the growth of credit aggregates and to step 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.

Raising the macro-prudential adjustment parameter for cross-border financing. On October 25, in order to further improve the unified macro-prudential management of cross-border financing, expand the source of cross-border funds for enterprises and financial institutions, and guide them to optimize their liability structure, the PBOC and State Administration of Foreign Exchange (SAFE) decided to raise, from 1 to 1.25, the macro-prudential adjustment parameter for cross-border financing of enterprises and financial institutions.

Improving macro-prudential management practices of real estate finance. In 2022, the PBOC constantly improved macro-prudential management practices of real estate finance. It implemented the real estate loan concentration management system with proper intensity and at a proper pace and it refined arrangements for the transitional period. Eligible banking financial institutions were encouraged to issue real estate loans in a sound manner so as to better meet reasonable demands for housing financing. The PBOC also excluded loans for affordable rental housing projects from real estate loan concentration management to increase support for the development of affordable rental housing.

Refining the regulatory framework for systemically important financial institutions. The PBOC and CBIRC jointly solicited public opinions on the *Assessment Methodology of Systemically Important Insurance Companies (Exposure Draft)*. The document stipulates the methods, coverage, procedures, and division of work to assess 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 PBOC and CBIRC released a list of China’s systemically important banks (SIBs) for 2022. A total of 19 banks were designated as SIBs based on 2021 statistics, consisting of 6 state-owned commercial banks, 9 joint-stock commercial banks, and 4 city commercial banks.

Implementing market access management and continuous regulation of financial holding companies (FHCs) in a sound and orderly manner. In 2022, the PBOC approved establishment of China CITIC Financial Holdings, Beijing Financial Holdings Group, and China Merchants Financial Holdings. The PBOC carried out all-round, continuous, and penetrating regulation over FHCs on a consolidated basis. It enhanced supervision of shareholders and of the ownership structure, and required FHCs to maintain adequate capital, improve corporate governance, strengthen risk isolation, enhance management of related-party transactions, and operate pursuant to the laws and regulations so as to achieve high-quality development.

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 coordinate 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 PBOC 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. More relief and assistance were provided 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 COVID-19 so as to reduce their financing costs. To give play to the role of finance in supporting effective investments, the PBOC employed PSL to support the development banks and the policy banks in setting up financial instruments and providing credit support for key areas in the infrastructure sector. At end-2022, outstanding central bank lending to support rural development posted RMB600.4 billion. Outstanding central bank lending for MSBs and for poverty alleviation posted RMB1.4171 trillion and RMB146.3 billion, respectively. Outstanding central bank discounts registered RMB558.3 billion, while outstanding PSL posted RMB3.1528 trillion.

Continuously implementing instruments supporting inclusive MSB loans to bolster the development of MSBs. In Q4, the PBOC provided incentive funding of RMB 6.16 billion to locally incorporated financial institutions, facilitating an increase of RMB310.7 billion in inclusive MSB loans. Since implementation of this instrument, incentive funding from the PBOC to locally incorporated financial institutions totaled RMB27.46 billion, supporting a total increase of RMB1.6054 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 Q4, through these two instruments, the PBOC provided relevant financial institutions with RMB70.8 billion and RMB23.4 billion, respectively, or total funding of RMB94.2 billion. Since implementation of these two instruments, the PBOC cumulatively provided RMB309.7 billion and RMB81.1 billion, respectively, up to a total of RMB390.8 billion. In order to maintain financial support for green development and energy supply guarantees, implementation of the CERF will be extended to end-2024, and implementation of the special central bank lending facility for the clean and efficient use of coal will be extended to end-2023.

Accelerating implementation of special central bank lending facilities for sci-tech innovation, inclusive elderly care, the transport and logistics sectors, and equipment upgrading and renovation, respectively. In Q4, through the aforementioned four instruments, the PBOC provided relevant financial institutions with central bank lending totaling RMB120 billion, RMB300 million, RMB13.9 billion, and RMB80.9 billion, respectively. Since implementation of these instruments, the PBOC issued cumulative funds totaling RMB200 billion, RMB700 million, RMB24.2 billion, and RMB80.9 billion, respectively. In order to enhance financial support for the smooth operation of transport and logistics, implementation of special central bank lending for transport and logistics will be extended until end-June 2023, and small and medium-sized logistics and storage enterprises will be added to the list of enterprises eligible for the instrument.

Supporting financial institutions to temporarily reduce interest on inclusive MSB and toll-road loans. Following the decisions of the State Council executive meetings, the PBOC rolled out the policy of temporarily reducing interest on inclusive MSB loans in November 2022 and the toll-road loan facility in January 2023. Relevant financial institutions were supported to reduce the interest rate on inclusive MSB and toll-road loans by one percentage point and 0.5 percentage points in Q4 2022, respectively. Financial institutions were encouraged to surrender profits to enterprises through direct reductions or the return of collected interest. As for the actual amount of interest reduced by financial institutions, the PBOC provided funding incentives for them to reduce it by the full amount. Once completed, the two policies will be smoothly withdrawn.

Launching the loan support scheme to ensure deliveries of presold housing projects to support financial institutions in issuing loans to overdue housing projects so as to ensure their delivery. In line with the decisions of the State Council executive meetings, the PBOC launched the loan support scheme to ensure deliveries of presold housing projects with a quota of RMB200 billion, following the principles of targeted liquidity, positive incentives, and market-oriented approaches. In December 2022, the PBOC released the *Notice on Launching the loan support scheme to ensure deliveries of presold housing projects,* which clarifies that special central lending adopts a "reimbursement" mechanism whereby financial institutions are "reimbursed" on a quarterly basis. The scheme supports loans issued by financial institutions from November 1, 2022, to March 31, 2023. After independently making the decision to grant loans at their own risk, financial institutions can apply to the PBOC for funding support. For qualified loans, the PBOC provides funding support equal to 100 percent of the principal.

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

Constantly improving the level of financial services for MSBs. The PBOC encouraged financial institutions to follow market-oriented principles to allow deferrals of the principal and the interest repayments on loans to eligible MSBs due in Q4 2022, effectively alleviating pressure for principal and interest repayments by market entities. The PBOC promoted implementation of the *Notice on Promoting the Establishment of the Long-term Mechanism for Boosting the Financial Sector's Confidence, Willingness, Capability, and Expertise in Lending to Micro and Small Businesses* and it guided financial institutions to stipulate detailed rules for implementation and to enhance their allocations of internal resources and policy arrangements. As of end-2022, inclusive MSB loans and the number of MSBs granted loans registered a year-on-year increase of 23.8 percent and 26.8 percent, respectively.

Increasing financial support for rural revitalization. The PBOC 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 *Work Plan for Expanding Current Investment in the Construction of Agricultural and Rural Infrastructure,* enhancing financial support for the construction of agricultural and rural infrastructure and expanding effective investments. The PBOC made efforts to provide financial services for ensuring a stable and secure supply of grain and key agricultural products, increased the supply of financial resources for the production and circulation of agricultural products and the new industrial and business forms, and promoted the integrated development of the primary, secondary, and tertiary industries in the rural areas. As of end-2022, outstanding agro-related loans registered a year-on-year increase of 14.0 percent, reaching RMB49.3 trillion.

Strengthening coordination and cooperation between the industrial policy and the financial policy so as to enhance the efficiency of financing matchmaking based on the departmental coordination mechanism. The PBOC kept track of the new loans for the manufacturing sector and sci-tech innovation, strengthened supervision and guidance and promoted the channeling of more resources to the relevant areas. As of end-December, medium and long-term lending to the manufacturing sector witnessed year-on-year growth of 36.7 percent, maintaining growth of about 30 percent for 26 consecutive months.

VII. Deepening the market-oriented interest rate reform

The benefits of the loan prime rate (LPR) reform have been continuously unleashed, thus further bringing down the actual loan rates. Since 2022, under guidance, the one-year and over-five-year LPR have dropped 0.15 and 0.35 percentage points, respectively. In April, the PBOC established the market-based adjustment mechanism for deposit interest rates, urged banks to take for reference the bond rates represented by the yield on 10-year government securities and the loan rates represented by the one-year LPR so as to reasonably adjust the deposit interest rates. In September, major banks voluntarily lowered their posted deposit rates and the authorized ceiling on their internal pricing, and other banks followed suit. This marks a crucial step forward in the market-oriented reform of deposit rates.

Lowering the interest rate floor on first-home loans. The PBOC reduced the interest rate floor on first-home loans from the LPR of the corresponding duration to LPR minus twenty basis points at the national level and the interest rate policy for second-home loans remained unchanged. The interest rate on personal housing provident fund loans was cut by 0.15 percentage points, better meeting the basic funding demands of residents. Based on a temporary cut in the interest rate floor on first-home loans in some cities in September, the PBOC and the CBIRC established a dynamic mechanism for mortgage rates of first-time home buyers on December 30. It allowed the municipal governments to scientifically evaluate the price changes of local commercial housing sales on a quarterly basis, thereby dynamically adjusting their first-home loan policy. If the prices of newly built commercial housing sales witness a month-on-month and a year-on-year decline for three consecutive months, they can temporarily maintain, lower, or remove the interest rate floor for first-home loans.

VIII. Improving the regime for the market-oriented formation of the RMB exchange rate

The PBOC continued to advance the market-oriented reform of the RMB exchange rate and to improve the managed floating exchange-rate regime based on market supply and demand with reference to a basket of currencies. It ensured that the market played a decisive role in determining the exchange rate. The PBOC focused on guiding expectations and enhanced the flexibility of the RMB exchange rate while keeping it basically stable at an adaptive and equilibrium level. As a result, the exchange rate played the role of an auto stabilizer in macroeconomic management and for the balance of payments. In 2022, the highest and lowest RMB central parities against the U.S. dollar were 6.3014 and 7.2555, respectively. During the 242 trading days, the RMB appreciated on 114 days and depreciated on 128 days. The biggest intraday appreciation and depreciation was 1.4 percent (1008 bps) and 1.0 percent (681 bps), respectively. The RMB depreciated against the dollar and the euro, while it appreciated against other major currencies. As of end-2022, the central parity of the RMB against the U.S. dollar and the euro depreciated 8.5 percent and 2.7 percent, respectively, from end-2021, while the central parity of the RMB against the pound and the Japanese yen appreciated 2.5 percent and 5.8 percent, respectively, during the same period. From 2005, when the reform of the RMB exchange-rate formation regime began to end-2022, the RMB appreciated 18.8 percent, 34.9 percent, and 39.5 percent, respectively, against the U.S. dollar, the euro, and the Japanese yen cumulatively. Meanwhile, direct RMB trading was rather buoyant in the interbank foreign exchange market with stable liquidity, which reduced the exchange costs for microeconomic entities and promoted bilateral trade and investment.

As of end-2022, under the bilateral currency swap agreements between the PBOC and the overseas monetary authorities, the overseas monetary authorities utilized a total of RMB88.777 billion and the PBOC utilized foreign currencies equivalent to USD551 million. These operations promoted bilateral trade and investment.

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

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	542148.36	14395.75	2614.80	2352.68	362.55	318.52	95.10
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	103.59	152.38	288.71	4.95	41.91	1.36	46.52
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	1.58	33.19	0.01	0.28	6.80	19.93	5.40
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading	1.07	0.01	22.16	0	0.04	0.01	19.16

volume							

Source: China Foreign Exchange Trade System.

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

More achievements were made in forestalling and defusing financial risks. The PBOC remained committed to addressing risks in a market- and law-based manner, with some prominent financial risks properly resolved. Addressing the risks of key groups and large enterprises was steadily advanced, and progress was made in resolving the risks of small and medium banks in high-risk regions. Central bank ratings on financial institutions were conducted on a quarterly basis, according to which banking financial institutions in China were basically sound with controllable risks. The PBOC conducted differentiated management of financial institutions according to the rating results to make risk forestalling and defusing more targeted. It also strengthened the monitoring and early warnings on bank risks, made timely corrections in response to the emerging problems, and guided any anomaly indexes in most of the banks to return to normal, thus promoting early identification and resolution of risks. In addition, the PBOC designated some pilot areas in which it strengthened the hard constraints of early and timely rectifications of new high-risk institutions. The PBOC conducted annual stress tests on over 4,000 banking financial institutions, including 19 Domestic Systemically Important Banks, and it developed a stress-testing system that was more scientific, systematic, and automatic.

Reform of development and policy financial institutions was continuously deepened. The PBOC 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. It guided development and policy financial institutions to fulfill their responsibilities, focus on their main businesses, and play an effective role in supporting economic restructuring and high-quality development on the basis of strengthening risk prevention and control.

Box 3 Reinforcing Systems that Safeguard Financial Stability and Ensuring that No Systemic Risks Arise

During the past five years, the PBOC has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. In line with the principles of “maintaining overall stability, taking a coordinated approach, adopting differentiated measures, and defusing bombs with precision,” it has coordinated with relevant government agencies to fight the tough battle of preventing and defusing major financial risks, continuously reinforced the systems that safeguard financial stability, effectively responded to the test of serious and complicated situations in and out of China and COVID-19 shocks, and maintained financial security, stability, and development, therefore fostering a safe and stable environment for the sustained and healthy development of the financial sector.

First, resolving major financial risks in a targeted and effective manner

In line with the arrangements and requirements of the CPC Central Committee and the State Council, the PBOC has coordinated with relevant government agencies to fight the tough battle of preventing and defusing major financial risks, effectively resolving major financial risks in a targeted and effective manner and thoroughly overhauling shadow banking and cracking down on illegal financial activities. After three years of focused and arduous efforts, the rising momentum of systemic financial risks has been contained, and the trend that funds are diverted out of the real economy and there is blind expansion in the financial sector has been fundamentally reversed, holding firmly to the bottom line whereby no systemic risks will occur.

First, effectively resolving the risks of key high-risk groups. The PBOC has "defused bombs with precision" among high-risk groups with large assets and liabilities, including conglomerates such as Mingtian, Anbang, Huaxin, and the HNA Group. Decisive actions have been initiated to take over ten financial institutions under the Mingtian conglomerate, such as Baoshang Bank. Anbang Group has been split and restructured with Dajia, a newly established insurer. An integrated bankruptcy has been completed in the Huaxin Group to ensure that all creditors are repaid fairly based on the law. The bankruptcy and restructuring of the HNA group have been completed, with the rights and interests of old shareholders cleared to guarantee the rights and interests of creditors, to ensure safe operation of its main business line (aviation), and to safeguard social stability.

Second, promoting reforms and risk mitigation of small and medium-sized financial institutions in an orderly manner. The PBOC has successfully resolved risks in key financial institutions such as Hengfeng Bank. Financial restructuring as well as capital increases and share expansion plans have been smoothly implemented in Harbin Bank and Bank of Gansu. From 2020 to 2022, an additional RMB550 billion of special-purpose bonds for local governments have been issued to replenish capital for small and medium-sized banks. The PBOC supported and coordinated with relevant local governments to promote reforms and risk mitigation of small and medium-sized financial institutions, thereby decreasing the number of high-risk small and medium-sized financial institutions.

Third, thoroughly overhauling shadow banking and cracking down on illegal financial activities. The PBOC launched new rules on asset management and supporting implementation rules to introduce unified regulatory standards with a focus on breaking up the high-risk shadow banking business and cross-market financial products. "Quasi-credit" high-risk shadow banking dropped by nearly RMB30 trillion from its historical peak. The campaign to rectify risks in Internet financing has been smoothly completed, and nearly 5000 P2P lending firms have been closed. The harsh crackdown on illegal fund raising has been enforced, and a cumulative 25,000 cases have been filed and investigated during the past five years.

Second, improving the building of an institutional system that safeguards financial stability

During the past five years, the PBOC has forcefully advanced the building of an institutional system to prevent and defuse financial risks, continuously strengthened financial legislation, further improved the institutional framework for macro-prudential management, and continually enhanced the system for financial risk monitoring, assessment, and early warning. Therefore, the prevention and defusing of financial risks has become increasingly law-based and institutionalized, and an institutional foundation for sound financial operations has been further consolidated.

First, legislation on financial stability has achieved remarkable progress. In cooperation with other government agencies, the PBOC has continued to advance legislation on financial stability and major progress has been made. In December 2022, the Standing Committee of the National People's Congress for the first time reviewed the draft law on financial stability. The overall principles of the draft law are as follows: upholding the Party's centralized and unified leadership over financial work and coordinating development and security; adopting a problem-oriented approach and applying systems thinking, making active efforts to improve the institutional arrangements for the entire process of handling financial risks, i.e., fending off risks in advance, defusing risks when they arise, and ex post resolution; adhering to market-oriented and law-based principles, and ensuring that relevant parties fulfill their respective responsibilities for addressing financial risks so that systemic risks and moral hazards are both guarded against; ensuring that responsibilities are matched with power and that the division of obligations is law-based, reasonable in light of the Chinese context, and improving the working mechanism for coordination and cooperation.

Second, putting in place and improving the deposit insurance system. As of end-September 2022, there were 4,015 insured institutions nationwide. The limit of deposit insurance coverage in the amount of RMB500,000 provides full-amount insurance for 99.3 percent of depositors. Through enhanced publicity of deposit insurance, public awareness and its credibility have been built up significantly. In November 2020, the logo of deposit insurance was launched comprehensively, and regular and institutionalized promotion of deposit insurance emerged. The PBOC improved the risk-differentiated premium mechanism and early corrections have delivered initial results. By requiring insured institutions to adopt measures to defuse risks, such as the timely replenishing of capital, reining in asset growth, stemming the granting of credit for major transactions, and lowering the leverage ratio, the PBOC has pushed for hundreds of institutions to be removed from the list of problem insured institutions. The PBOC also worked to explore the role of deposit insurance as the resolution platform in a market-oriented and law-based manner to address risks in key regions and institutions.

Third, establishing a fund for ensuring financial stability (the Fund). The Fund, controlled by the central authority, is positioned to provide funds to address China's major financial risks. It is funded by financial institutions, financial infrastructure operators, and other entities. The Fund, along with the Deposit Insurance Fund and the relevant industry protection funds, comprise a "two-tier" system, and their cooperation and coordination jointly safeguard financial stability and security. In resolving major financial risks, financial institutions, shareholders and actual controllers, the Deposit Insurance Fund, and relevant industry protection funds should invest corresponding resources in accordance with the laws and their responsibilities. When financial risks seriously endanger financial stability, the Fund can ben used in line with the requirements. The basic framework of the Fund has been established with some accumulation of funds, and its funds have already been utilized in two risk resolution cases.

Fourth, continuing to improve the system for financial risk monitoring, assessment, and early warning. The PBOC has comprehensively assessed the soundness of China's financial system and since 2017 it has conducted quarterly central banking ratings of banking financial institutions, thus guiding financial institutions to operate in a prudent and sound manner. Since the end of 2020, the PBOC has conducted risk monitoring and early warning for banking financial institutions (level 1–level 7) on a quarterly basis, timely identifying any possible latent risks and taking measures to help most abnormal banking indicators return to normal levels. Stress tests have been conducted on about 4,000 banking institutions for eleven consecutive years.

Fifth, strengthening integrated supervision over systemically important financial institutions. The PBOC has approved licenses to establish three financial holding companies, and market access management and continuous supervision have been carried out in a prudent and orderly manner. The PBOC unveiled supervisory regulations for systemically important financial institutions and it has improved the supervisory framework. It strengthened integrated supervision and development planning for the financial infrastructure and it has facilitated creation of a well-organized, effective, advanced, reliable, and resilient financial infrastructure system. Release of the *Administrative Measures for the Administration of the Total Loss-absorbing Capacity of Global Systemically Important Banks* is aimed at enhancing the capability of global systemically important banks to serve the real economy and to fend off risks.

Third, working approaches for the next step

For the next step, the PBOC will fully implement the guiding principles of the 20th CPC National Congress and the Central Economic Work Conference, prioritize stability while pursuing progress, effectively prevent and defuse major economic and financial risks, and strengthen systems that safeguard financial stability. It will continuously defuse risks in key corporations, groups, and financial institutions, further deepen reforms in financial institutions, steadily advance financial legislation, and continue to strengthen prudential supervision and behavioral supervision in the financial sector. The PBOC will commit itself to both addressing existing risks and guarding against potential risks, will improve the systems of financial risk prevention, early warning, resolution, and accountability to make up for shortcomings in financial risk prevention and resolution, and will firmly defend the bottom line whereby no systemic risks will occur .

X. Improving the capability to serve foreign exchange arrangements

Supporting development of cross-border financing. In January 2022, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) issued the *Notice on Overseas Lending by Banking Institutions*, strengthening joint management of banks’ overseas lending, cross-border guarantees, outbound direct investments, and other businesses. In May, the SAFE issued the *Notice on Supporting High-tech and “Specialized, Sophisticated, Distinctive, and Innovative” Enterprises in Carrying out Pilot Programs for Cross-border Financing Facilitation*, deciding to further expand the pilot coverage to facilitate more high-tech and “specialized, sophisticated, distinctive, and innovative” enterprises to borrow foreign debt independently within a certain quota so as to accelerate their innovative development.

Promoting the coverage and quality of facilitation policies for quality enterprises. In Shanghai, Guangdong, Shaanxi, Beijing, Shenzhen, Zhejiang, Qingdao, and Ningbo, a second batch of pilot projects of integrated local and foreign-currency capital pools for multinational corporations was carried out for 40 enterprises in order to facilitate the integrated use of cross-border funds by multinational corporations.

Policy publicity and training was continuously carried out, with best business practices shared in the banking industry. More prudent and compliant banks were supported in taking facilitation measures to handle the foreign exchange trade receipt and payment business for enterprises with sound credit records, with the aim of continuously improving the convenience for market entities. The facilitation policies have covered all regions of China, and by the end of 2022, a total of USD1.2 trillion facilitation businesses had been processed.

Part 3 Financial Market Conditions

In 2022, performance of the financial market was generally stable. Money market interest rates featured a downward movement, with increased transaction volumes. The interest rates of bond issuances were generally steady, with issuance volumes of government securities picking up. The bond market witnessed active transactions. The stock market index fluctuated downward, with turnover and the amount of funds raised 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 December 2022, the monthly weighted average interest rate for interbank lending was 1.26 percent, 15 basis points lower than that in September 2022 and the monthly weighted average interest rate for pledged repos posted 1.41 percent, 5 basis points lower than that in September 2022. The monthly weighted average interest rate for government-backed bond pledged repos among depository institutions posted 1.11 percent, 30 basis points lower than the monthly weighted average interest rate for pledged repos. At end-2022, the overnight and 7-day Shibor posted 1.96 percent and 2.22 percent, respectively, down 17 basis points and 5 basis points from end-December 2021, respectively.

Transaction volumes increased. In 2022, the volume of bond repos trading on the interbank market reached RMB1380 trillion, representing an average daily turnover of RMB5.5 trillion, up 32 percent year on year. The cumulative volume of trading for interbank lending registered RMB146.8 trillion, with an average daily turnover of RMB587.3 billion and a year-on-year increase of 23.6 percent. In terms of the maturity structure, overnight repos accounted for 86.4 percent of the total turnover in bond repos, increasing 2 percentage points year on year, and overnight lending constituted 89.2 percent of the total turnover in interbank lending, the same percentage as that in the previous year. The volume of bond repos trading on the exchange markets increased 15.2 percent year on year to RMB403.5 trillion.

Table 9 Fund Flows Among Financial Institutions in 2022

Unit: RMB100 million

	Repos		Interbank lending	
	2022	2021	2022	2021
Chinese-funded large banks①	-5,159,892	-2,353,285	-461,874	-290,416
Chinese-funded medium-sized banks②	-1,505,272	-1,545,575	-173,370	-82,950
Chinese-funded small-sized banks③	156,731	59,856	86,211	106,924
Securities institutions④	1,754,480	1,374,598	443,887	214,408
Insurance institutions⑤	229,671	142,965	2,803	532
Foreign-funded banks	55,363	74,946	-20,464	-23,711
Other financial institutions and vehicles⑥	4,468,919	2,246,496	122,807	75,214

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 2022, about 26,000 interbank CDs were issued on the interbank market, raising RMB20.5 trillion. The total volume of trading on the secondary market registered RMB232.0 trillion. At end-2022, outstanding interbank CDs reached RMB14.2 trillion. In 2022, about 53,000 negotiable CDs were issued by financial institutions, raising RMB12.7 trillion, an increase of RMB1.3 trillion year on year. In 2022, the weighted average interest rate of 3-month interbank CDs was 2.22 percent, 15 basis points higher than that of the 3-month Shibor.

Interest rate swap transactions remained stable. In 2022, the RMB interest rate swap market witnessed 244,000 transactions, decreasing 3.2 percent year on year, with the volume of the notional principal totaling RMB21.0 trillion, a decrease of 0.4 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 RMB14.2 trillion, accounting for 67.7 percent of the principal of all maturities. The 7-day fixing repo rate (FR) and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 89.3 percent and 9.7 percent, respectively, of the total notional principal of the interest rate swaps. In 2022, interest rate swaps anchored to the loan prime rate (LPR) witnessed 834 transactions, with RMB124.04 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in 2022

	Transactions	Notional principal (RMB100 million)
2022	244,397	210,295.6
2021	252,443	211,166.4

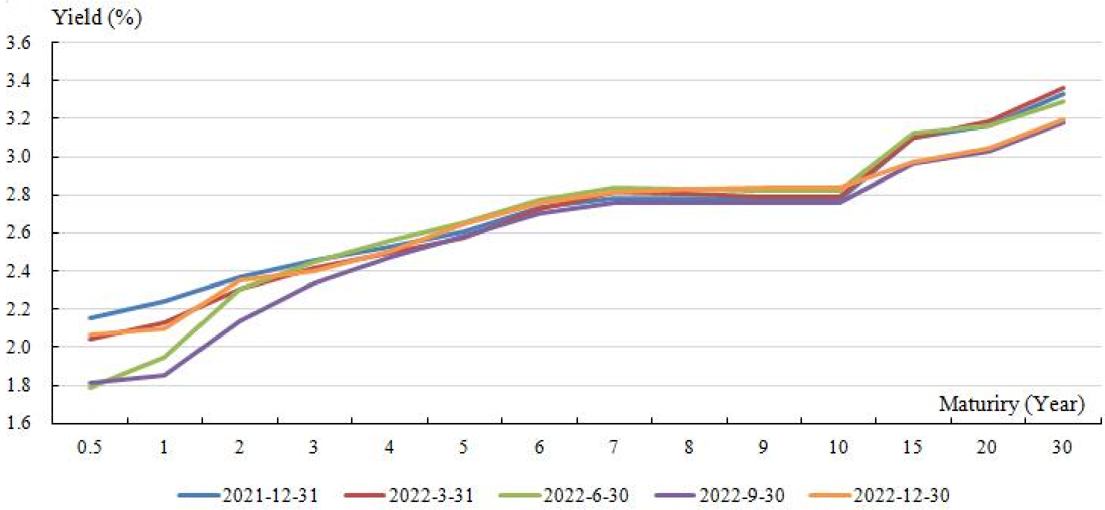
Source: China Foreign Exchange Trade System.

The interest rate options business developed at a steady pace. In 2022, a total of 525 interest rate options transactions were concluded, totaling RMB71.8 billion. Specifically, 6 were interest rate swap transactions, amounting to RMB1.7 billion of the notional principal, and 519 were interest rate cap/floor transactions, amounting to RMB70.1 billion of the notional principal.

2. The coupon rates of bonds remained generally stable, while bond issuances remained unchanged with active trading of spot bonds

The coupon rates of bonds remained generally stable. In December 2022, the yield on 10-year government securities issued by the Ministry of Finance was 2.83 percent, 1 basis point higher than that in December 2021. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 3.00 percent, 2 basis points lower than the rate in December 2021. The average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 3.85 percent, 81 basis points higher than the rate in December 2021.

Figure 3 Yield Curves of Government Securities in the Interbank Market



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

The yield on government securities was generally stable with expanded term spreads. At end-December 2022, yields on 1-year and 3-year government securities decreased by 15 basis points and 5 basis points, to 2.10 percent and 2.40 percent from end-December 2021, respectively; yields on 5-year, 7-year, and 10-year government securities increased by 4 basis points, 4 basis points, and 6 basis points, to 2.64 percent, 2.82 percent, and 2.84 percent, from end-December 2021, respectively. The term spread between 1-year and 10-year government securities was 74 basis points, expanding 21 basis points from end-December 2021.

Bond issuances remained unchanged year on year. In 2022, the cumulative value of bond issuances was RMB61.4 trillion, basically the same as that in the previous year. Specifically, the issuance of government securities increased more year on year, while the issuance of financial bonds and corporate credit bonds decreased year on year. At end-2022, outstanding bonds held in custody amounted to RMB144.8 trillion, representing an increase of 8.5 percent year on year.

The volume of spot bond transactions witnessed a marked increase. In 2022, the value of cash bonds trading on the bond market posted RMB309.1 trillion, registering an increase of 27.2 percent year on year. Specifically, the value of cash bonds trading on the interbank market was RMB271.2 trillion, representing an increase of 26.5 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB37.9 trillion, an increase of 32 percent year on year.

Table 11 Bond Issuances in 2022

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government securities	97,163	29,328

Local government bonds	73,556	-1,271
Central bank bills	0	0
Financial bonds①	306,195	-17,321
Of which: Financial bonds issued by the CDB and policy financial bonds	58,433	3,152
Interbank certificates of deposits	205,120	-12,803
Corporate credit bonds②	136,720	-10,085
Of which: Debt-financing instruments of non-financial enterprises	91,334	-5,300
Enterprise bonds	6,191	-83
Corporate bonds	28,209	-4,079
Bonds issued by international institutions	825	-32
Total	614,458	620

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

Sources: The People's Bank of China, China Securities Regulatory Commission, and China Central Depository & Clearing Co., Ltd. Updated with the latest data from the providers.

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

The bill acceptance business recorded stable growth. In 2022, commercial drafts issued by enterprises totaled RMB27.4 trillion, rising 13.4 percent year on year. At end-2022, outstanding commercial drafts stood at RMB17.4 trillion, increasing by 16.0 percent year on year. Outstanding commercial draft acceptances saw steady growth. At end-2022, outstanding commercial draft acceptances grew by RMB2.3997 trillion and RMB343.4 billion compared to the beginning of 2022 and end-Q3 2022, respectively. Of the outstanding bankers' acceptances, 68.3 percent was issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing witnessed steady growth, with interest rates generally stable. In 2022, total discounts by financial institutions amounted to RMB53.9 trillion, growing 17.5 percent year on year. At end-2022, the balance of bill financing was RMB12.8 trillion, up 30.0 percent year on year. The balance accounted for 6 percent of the total outstanding loans, up 0.9 percentage points year on year. In 2022, the interest rates for bill financing first increased and then decreased, but they remained generally stable.

4. The stock indices experienced a choppy fall with turnover and the amount of funds raised on the stock markets decreasing year on year

The stock indices dropped. At end-2022, the Shanghai Stock Exchange Composite Index closed at 3,089 points, decreasing 15.1 percent from end-2021. The Shenzhen Stock Exchange Component Index closed at 11,016 points, decreasing by 25.9 percent from end-2021. The turnover on the stock markets declined year on year. In 2022, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB224.5 trillion, and the average daily turnover was RMB927.7 billion, representing a decrease of 12.6 percent year on year. The amount of funds raised on the stock markets witnessed a decrease year on year. In 2022, cumulative funds raised for the entire year were RMB1.3 trillion, a year-on-year decrease of 10.6 percent.

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

In 2022, total premium income in the insurance sector amounted to RMB4.7 trillion, up 4.6 percent year on year, an acceleration of 5.4 percentage points compared to that recorded in 2021. Claim and benefit payments totaled RMB1.5 trillion, representing a year-on-year decrease of 0.8 percent. Specifically, total property insurance claims and benefit payments increased by 0.9 percent year on year, and total life insurance claims and benefit payments went down by 2.4 percent year on year.

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

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-2022	End-2021	End-2022	End-2021
Total assets	271,467	248,874	100.0	100.0
of which: Bank deposits	28,348	26,179	10.4	10.5
Investments	222,161	206,101	81.8	82.8

Source: China Banking and Insurance Regulatory Commission.

The growth of assets in the insurance sector accelerated. At end-2022, total assets in the insurance sector increased 9.1 percent year on year to RMB27.1 trillion, an acceleration of 2.3 percentage points from end-2021. Specifically, bank deposits increased by 8.3 percent, while investment-linked assets increased by 7.8 percent year on year.

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

In 2022, the cumulative turnover of spot RMB/foreign exchange transactions registered USD8.3 trillion, a decrease of 16.6 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD19.3 trillion, a decrease of 4.9 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD12.6 trillion, accounting for 65.1 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD129.9 billion, rising 19.3 percent year on year. The turnover of foreign currency pair transactions totaled USD1.5 trillion, decreasing by 3.3 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 53.9 percent of the total market share.

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

At end-2022, international gold prices closed at USD1,814 per ounce, representing an increase of 1.1 percent from end-2021. The Au99.99 on the Shanghai Gold Exchange closed at RMB410.5 per gram, increasing by 9.8 percent from end-2021. In 2022, the volume of gold traded on the Shanghai Gold Exchange was 39,000 tons, representing growth of 11.3 percent year on year. Turnover posted RMB15.2 trillion, representing growth of 16 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

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

The variety of financial bonds issued by commercial banks was expanded. In April 2022, the PBOC and CBIRC jointly released the *Notice on the Issuance of Total Loss-Absorbing Capacity Eligible Non-Capital Bonds by Global Systemically Important Banks*, specifying core elements and management regulations for the issuance of total loss-absorbing capacity eligible non-capital bonds. The Notice provides the basis for the orderly issuance of the said bonds by global systemically important banks.

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

2. Institutional arrangements and reforms in the securities market

The rule of law was strengthened in the capital market. In January 2022, the Supreme People's Court released the *Several Provisions on the Trial of Civil Cases for Damages for the Tort of Misrepresentation in the Securities Market*, which raise the costs for unlawful acts in the capital market, urge all market participants to perform their respective duties, and ensure investors' right to remedy. On April 20, the 34th session of the 13th NPC Standing Committee voted through the *Futures and Derivative Law of the People's Republic of China*. Aiming to serve the real economy, forestall and control financial risks, and deepen financial reform, the Law is characterized by market principles, the rule of law, and internationalization. It stipulates basic rules for futures and derivative markets in a comprehensive and systematic manner, thus filling the gaps in the legal framework of the capital market and providing legal guarantees for building a more regulated, transparent, open, vigorous, and resilient capital market.

Reform of the registration-based IPO system was advanced in a stable manner. In April 2022, the CSRC released the *Guiding Opinions on Improving Post-Delisting Supervision of Listed Companies*, improving the delisting mechanism of listed companies and helping to create a sound environment for smooth market entry and exit. In May, the CSRC released the *Provisions on Piloting the Business of Trading Stocks on the Sci-Tech Innovation Board by Securities Companies as Market Makers*, which helped to introduce the market maker mechanism to the sci-tech innovation board in a bid to improve stock liquidity and market resilience. In May, the CSRC, MOJ, and MOF jointly released the *Opinions on Strengthening Supervision of the Cleanness of Intermediaries under the Registration-based IPO System*, for the purposes of regulating the cleanness of intermediaries and their staff members, facilitating the cracking down on financial corruption along with the forestalling and controlling of financial risks, and safeguarding the reform of the registration-based IPO system.

Cooperation on audit regulation was deepened between China and the US. On August 26, 2022, the CSRC, MOF, and the US Public Company Accounting Oversight Board (PCAOB) signed an audit oversight cooperation agreement. The agreement laid a foundation for equal and efficient cooperation in the next stage under the premise of complying with both parties' respective laws and regulations. On December 15, the PCAOB issued a report confirming that the PCAOB was able to inspect and completely investigate accounting firms headquartered in Chinese mainland and Hong Kong in 2022 and vacating its December 2021 determinations regarding relevant firms. The bilateral cooperation yielded positive results.

3. Institutional arrangements in the insurance market

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

The mechanism for capital replenishment of insurance companies was improved. In August, the PBOC 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. The PBOC regulates the overall balance of capital replenishment bonds, including undated capital bonds issued by an insurance company.

Institutional arrangements of the China Insurance Security Fund (CISF) were improved. In October 2022, the CBIRC, MOF, and PBOC revised and released the *Rules on the Insurance Security Fund*. The revision covers improvements in aspects such as fund-raising, financial requirements, fund use management, bailout provisions, and fund supervision so as to give better play to the role of the CISF in forestalling and defusing financial risks.

The insurance industry was encouraged to participate in the development of the third pillar of the elderly care. In November 2022, the CBIRC released the *Notice on Matters Related to Personal Pension Business of Insurance Companies*, specifying basic requirements for insurance companies to carry out a personal pension business and allowing insurance companies to provide individuals who have personal pension accounts with qualified annuity insurance, endowment insurance, and other products approved by the CBIRC. The Notice also clarifies the management of capital, contracts, and sales, as well as customer services and the regulatory requirements of the personal pension business.

Information disclosure of life insurance products was standardized. In November 2022, the CBIRC released the *Rules on Information Disclosures of Life Insurance Products*, specifying the content and objects of information disclosure by insurance companies, requiring insurance companies to improve their internal product information disclosure management mechanism, and clarifying the responsibilities of relevant management personnel as well as the regulatory measures and punishments that may be taken for violations of the Rules. The Rules shall take effect as of June 30, 2023.

4. Institutional arrangements of the financial infrastructure

Swap Connect between Mainland and Hong Kong made its debut. On July 4, 2022, the PBOC, the Hong Kong Securities and Futures Commission (HKSFC), and the Hong Kong Monetary Authority (HKMA) jointly announced the launch of development of mutual access between the Hong Kong and Mainland interest-rate swap markets (Swap Connect). Swap Connect will facilitate participation in the mainland RMB currency swap market by overseas investors and will support the financial opening-up at a high level.

Bond Connect has operated smoothly and efficiently during the past five years. On July 4, 2022, the PBOC, HKSFC, and HKMA jointly hosted the fifth anniversary forum of Bond Connect and the ceremony launching Swap Connect via video link. Since its inception five years ago in 2017, Bond Connect has been serving as a two-way bridge and operating smoothly and efficiently, marking a major milestone in deepening the opening-up of China's financial markets.

Overall supervision and development planning of the financial infrastructure were strengthened. In December 2022, the PBOC solicited public opinions on the *Measures for the Supervision of the Financial Infrastructure (Exposure Draft)*. The Measures aims to clarify the overall framework for the supervision of the financial infrastructure and to improve access management of the financial infrastructure so as to foster a new development paradigm featuring "dual circulation" and to serve the real economy with better financial services.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

Global inflation has eased recently, but remains at a historic high. The global economic recovery is slowing and global financial markets are seeing large swings as central banks in the major advanced economies continue their policy tightening. The cumulative effect of this round of rate hikes is yet to be fully felt, and its implications for global economic growth, capital flows, and financial markets merit attention.

1. Economic performance and financial markets in the major economies

Economic growth slowed down notably. In the US, GDP grew in Q4 by 2.9 percent at an annualized pace, posting a positive quarter-on-quarter growth for two straight quarters and pointing to higher probability of a soft landing. The fast rate hike by the Federal Reserve (Fed) has taken effect, as the growth rate was lower than the 3.2 percent in Q3. The US manufacturing Purchasing Managers' Index (PMI) was 48.4 in December, contracting for two straight months, while the non-manufacturing PMI plunged to 49.6 from 56.5 in November, the biggest month-on-month decline since the outbreak of COVID-19. In December, housing sales dropped 1.5 percent from a month earlier, a negative month-on-month growth for eleven consecutive months. In the euro area, GDP grew by 0.1 percent in Q4 quarter on quarter, a further slowdown from the 0.3 percent in Q3. In December, the PMI for manufacturing and services was 47.8 and 49.8, contracting for six and five straight months, respectively. In Japan, GDP in Q4 was back to the positive territory, growing 0.6 percent on an annualized basis. However, falling enterprise capital expenditure and inventory still weighs on economic recovery.

Inflation came down in the US and Europe, but remained at a historic high. In December 2022, the US CPI was up by 6.5 percent year on year, falling for six months in a row, and the PCE rose 5.0 percent compared with the prior year. These two measures of inflation both remained elevated. The HICP in the euro area rose by 9.2 percent over the prior year, falling for two straight months. The CPI in the UK jumped by 10.5 percent compared with the previous year, 0.6 percentage points lower than the high of 11.1 percent in October. The CPI in Japan was up 4 percent year on year, the biggest jump since 1991.

The recovery of labor supply was slow. Labor shortage remains a main problem in the major advanced economies. In the US, job vacancies stood at 11.012 million in December compared with 10.44 million in November, exceeding 10 million for eighteen consecutive months. The unemployment rate fell further to 3.5 percent in December, a historic low. Growth of US non-farm payrolls slowed to 223,000 in December from 263,000 in November. Going forward, performance of the labor market will depend on the relative changes in labor supply and demand.

Global financial markets witnessed large swings. Stock markets in the US and Europe rallied, as market fears over higher rates for longer eased amid signs of falling inflation. Performance of bond markets diverged. The 10-year US Treasury yield rose above 4.2 percent in October and fluctuated downwards thereafter. As the European Central Bank (ECB) sent out a strong tightening signal, the yields on European government bonds went up at the end of the year. The yield on 10-year Japanese government bond rose as the Bank of Japan raised the cap of its yield curve control policy. The US Dollar Index once hit a 20-year high and then fell, the euro rebounded to around 1.07 dollar per euro after falling below parity against the US dollar, and the Japanese yen depreciated to levels below 150 yen per dollar and was back to slightly higher than 130 yen per dollar at year end. The euro, Japanese yen, and British pound all hit a 20-year low against the US dollar.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q4 2021			Q1 2022			Q2 2022			Q3 2022			Q4 2022		
		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	Real GDP Growth (annualized quarterly rate, %)	7.0			-1.6			-0.6			3.2			2.9		
	Unemployment Rate (%)	4.5	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5
	CPI (year-on-year, %)	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5
	DJ Industrial Average (end of the period)	35136	34484	36338	35132	33893	34678	32977	32990	30775	32845	31510	28726	32733	34590	33147
Euro Area	Real GDP Growth (year-on-year, %)	4.8			5.5			4.3			2.3			1.9		
	Unemployment Rate (%)	7.3	7.1	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.6	6.7	6.7	6.6	6.6	6.6
	HICP (year-on-year, %)	4.1	4.9	5.0	5.1	5.9	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2
	EURO STOXX 50 (end of the period)	4251	4063	4298	4175	3924	3903	3803	3789	3455	3708	3517	3318	3618	3965	3794
United Kingdom	Real GDP Growth (year-on year, %)	8.9			10.7			4.0			1.9			0.4		
	Unemployment Rate (%)	4.1	4.0	4.0	3.8	3.7	3.8	3.8	3.8	3.6	3.5	3.6	3.7	3.7	3.7	…
	CPI (year-on-year, %)	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5
	FTSE 100 (end of the period)	7238	7059	7385	7464	7458	7516	7545	7608	7169	7423	7284	6894	7095	7573	7452
Japan	Real GDP Growth (annualized quarterly rate, %)	4.4			-1.7			4.6			-1.0			0.6		
	Unemployment Rate (%)	2.7	2.8	2.7	2.8	2.7	2.6	2.5	2.6	2.6	2.6	2.5	2.6	2.6	2.5	2.5
	CPI (year-on-year, %)	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0
	Nikkei 225 (end of the period)	28893	27822	28792	27002	26527	27821	26848	27280	26393	27802	28092	25937	27587	27969	26095

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 slowed the pace of monetary tightening, but policy stance remained unchanged. In 2022, the Fed kicked off a fresh round of rate hikes since December 2018 and raised rates on seven occasions by a total of 425 basis points (bps), bringing the federal funds rate to a target range of 4.25-4.5 percent from 0-0.25 percent at the start of the year. By breakdown, it hiked rate by 25 bps in March, 50 bps in May, 75 bps each in June, July, September and November, and 50 bps in December. In December dot plot, the median forecast for the federal funds rate at the end of 2023 was 5-5.25 percent. In March, the Fed ended asset purchases, and in June began to reduce the size of its balance sheet with monthly cap for Treasury securities and agency mortgage-backed securities being USD30 billion and USD17.5 billion, respectively, which was then increased in September to USD60 billion and USD35 billion, respectively. In 2022, the ECB increased the interest rate for the first time in nearly eleven years. It raised the rate on four occasions, each by 50 bps, 75 bps, 75 bps, and 50 bps respectively. After a total hike of 250 bps, the interest rate on its main refinancing operations, marginal lending facility, and deposit facility now stood at 2.5 percent, 2.75 percent, and 2.0 percent, respectively. The ECB put an end to net asset purchases under its Pandemic Emergency Purchase Program (PEPP) at end-March, and stopped net asset purchases under the Asset Purchase Program (APP) in July. It will start shrinking its balance sheet in March 2023 by a monthly average amount of EUR15 billion before the end of Q2 of 2023. The pace of unwinding after Q2 is yet to be determined. In the meantime, the ECB created the Transmission Protection Instrument (TPI) to ensure smooth transmission of monetary policy across the euro area. TPI purchases would be focused on public sector securities of the highly indebted members of the euro area. The Bank of England (BOE) started to raise rate in December 2021, and increased the Bank Rate eight times in 2022 by a total of 325 bps to 3.5 percent. In particular, it raised the Bank Rate by 75 bps in November, the biggest single hike in 2022, and hiked again by 50 bps in December. The BOE announced the decision to reduce its balance sheet in February, and began to sell investment-grade enterprise bonds and gilts in September and November respectively. The Bank of Japan increased its cap on 10-year bond yields from 0.25 percent to 0.5 percent. It ended as scheduled additional purchases of commercial paper and corporate bonds at end-March, with the pace of asset purchase back to pre-COVID levels. Among the other central banks, the Reserve Bank of Australia hiked rate eight times, while the Bank of Canada, the Reserve Bank of New Zealand, and the Bank of Korea all raised rates seven times, by a total of 300 bps, 400 bps, 350 bps, and 225 bps, respectively.

Some emerging economies raised interest rates several times. To address domestic inflationary pressures and the spillovers from monetary policy tightening in the advanced economies, the major emerging market economies hiked their interest rates on several occasions in 2022. The central banks in Mexico and South Africa increased their interest rates eight and six times in 2022 by a total of 500 bps and 325 bps respectively, while the central banks in Brazil, India, and Indonesia all increased their rates five times by a total of 450 bps, 225 bps, and 200 bps, respectively.

3. Issues and trends that merit attention

The extent and pace of decline in overseas inflation remains uncertain. During previous episodes of high inflation caused by two oil shocks in the 1970s, it took more than one year for the elevated inflation to come down. Bringing inflation down is a gradual and bumpy journey with potential setbacks. In January 2023, the US CPI rose 0.5 percent month on month, higher than market expectations. At present, energy and other commodity prices are still susceptible to disruptions from geopolitical tensions, and the global supply chain is still facing challenges from near-shoring, friend-shoring and other protectionist measures despite eased supply chain strains.

Downward pressure on the global economy is rising. In its latest forecast, the International Monetary Fund (IMF) projected that the world economy would grow 2.9 percent in 2023, 0.5 percentage points lower than the growth in 2022. The World Bank, the Organization for Economic Cooperation and Development, and other international organizations also revised down their global economic growth forecasts for 2023. On top of geopolitical tensions, energy crunch, and high inflation, monetary tightening also weighs on the economy. As the tightening effect has a lag and the rapid rate hikes by the major advanced economies have cumulative effects, the drag on global growth may be stronger than expected.

Some financial risks may be exposed faster. First, tighter liquidity has amplified financial market adjustments. Asset prices have seen large swings. Non-bank financial institutions such as pension funds, insurers, and hedge funds are facing a mounting pressure. Some financially weak market entities may face shocks. Second, as rate hikes by the Fed speeds up flight to safety, other countries, in particular the developing economies will witness growing capital outflow pressures. Third, a stronger dollar coupled with worsening economic outlook at home may put to test the debt servicing capacity of those emerging market economies with a higher share of dollar-denominated debts.

The new climate protectionism merits attention. The US Inflation Reduction Act provides subsidies for electric vehicles, and requires, among others, a specified portion of battery components must be manufactured or assembled in North America. The European Union (EU) has decided to implement Carbon Border Adjustment Mechanism, which will increase the cost of exporting to the EU. This could have a far-reaching impact on the green transition of the global economy.

II. Macroeconomic developments in China

In 2022, in the face of the complicated and serious situations at home and abroad and the impact of multiple unexpected factors, all regions and departments coordinated COVID-19 containment and economic and social development in an effective way, and accelerated implementation of a package of policy measures, providing robust support for the stability of macro economy. Economic output reached a new level. According to preliminary statistics, GDP in 2022 grew by 3.0 percent year on year to RMB121.0207 trillion on a comparable basis. By quarters, GDP in Q1 grew by 4.8 percent year on year, while that in Q2, Q3, and Q4 grew by 0.4 percent, 3.9 percent, and 2.9 percent year on year, respectively. According to the annual average exchange rate, GDP in 2022 totaled USD18 trillion, ranking second in the world.

1. Consumption remained basically stable, investments grew steadily, and imports and exports expanded rapidly.

The increase in residents' income kept pace with economic growth, and consumption remained generally stable. In 2022, the country's per capita disposable income reached RMB36883, increasing by 5.0 percent year on year in nominal terms, or 2.9 percent year on year in real terms. The structure of income distribution continuously improved. The nominal and real growth rates of rural residents' income were 2.4 percentage points and 2.3 percentage points higher than those of urban residents, respectively. In 2022, total retail sales of consumer goods declined by 0.2 percent year on year. Consumption of basic living items saw stable growth and retail sales of grain, oil, food, and beverages by enterprises (units) above the designated size increased by 8.7 percent and 5.3 percent year on year, respectively.

Investments grew steadily with an improved structure. In 2022, national fixed-asset investments (excluding those by rural households) increased by 5.1 percent year on year to RMB57.2138 trillion. In terms of sectors, investments in manufacturing increased by 9.1 percent, 4.0 percentage points higher than the growth of total investments. Investments in infrastructure increased by 9.4 percent, 4.3 percentage points higher than the growth of total investments. Investments in real estate development decreased by 10.0 percent. Investments in the high-tech industry grew by 18.9 percent, 13.8 percentage points higher than the growth of total investments. Social investments grew by 10.9 percent year on year. Specifically, investments in health and education grew by 27.3 percent and 5.4 percent year on year, respectively.

Imports and exports expanded rapidly. In 2022, imports and exports of goods grew by 7.7 percent year on year to RMB42.0678 trillion. Specifically, exports grew by 10.5 percent year on year and imports grew by 4.3 percent year on year, with the surplus of trade in goods posting RMB5.8630 trillion. The trade structure continued to improve, with the share of imports and exports under general trade increasing by 2.2 percentage points year on year and accounting for 63.7 percent of total imports and exports. Imports and exports of private enterprises increased by 12.9 percent, accounting for 50.9 percent of total imports and exports, an acceleration of 2.3 percentage points year on year. Imports and exports of machinery and electronics increased by 2.5 percent year on year, accounting for 49.1 percent of total imports and exports. China's imports and exports with its trading partners continued to rise. Imports and exports to the ASEAN (Association of Southeast Asian Nations), China's largest trade partner, and the countries along the Belt and Road grew by 15 percent and 19.4 percent, respectively.

Foreign direct investments (FDI) continued to gather in the manufacturing and high-tech industries. In 2022, actually utilized FDI increased by 6.3 percent year on year to RMB1.2327 trillion (equivalent to USD189.1 billion, growing by 8 percent year on year). The structure of FDI continued to be optimized. Actually utilized FDI in the manufacturing industry increased by 46.1 percent year on year, accounting for 26.3 percent of the total investment, an acceleration of 7.8 percentage points year on year. Actually utilized FDI in the high-tech industry grew by 28.3 percent year on year, accounting for 36.1 of the total investment, an acceleration of 7.1 percentage points year on year.

2. Agricultural production remained stable, industrial production maintained growth, and the service industry continued to recover.

In 2022, the value-added of the primary industry totaled RMB8.8345 trillion, up 4.1 percent year on year; the value-added of the secondary industry totaled RMB48.3164 trillion, up 3.8 percent year on year; and the value-added of the tertiary industry totaled RMB63.8698 trillion, up 2.3 percent year on year.

Agricultural production saw a bumper harvest, and animal husbandry grew steadily. In 2022, the country’s total grain output totaled 686.55 million tons, up 0.5 percent year on year, and annual output has been over 650 million tons for eight successive years. Specifically, the output of summer grains, early season rice, and autumn grains increased by 1.0 percent, 0.4 percent, and 0.4 percent, respectively. In 2022, output of pork, beef, lamb, and poultry grew by 3.8 percent year on year; in particular, output of pork grew by 4.6 percent. At end-2022, the number of hogs in stock and for slaughter increased by 0.7 percent and 4.3 percent year on year, respectively.

Industrial production maintained growth, and the equipment manufacturing sector and the high-tech manufacturing sector saw rapid growth. In 2022, the value-added of industrial enterprises above a designated size (IEDS) increased by 3.6 percent year on year. Specifically, the value-added of the mining sector increased by 7.3 percent year on year. The value-added of the manufacturing sector increased by 3.0 percent year on year. The electricity, heat, gas and water production and supply sectors increased by 5.0 percent year on year. The industrial structure was continuously optimized. The value-added of the high-tech manufacturing sector and the equipment manufacturing sector increased by 7.4 percent and 5.6 percent year on year, respectively, which was

3.8 percentage points and 2.0 percentage points higher than the growth of the value-added of IEDS, respectively. In terms of products, the output of new energy cars, base station equipment of mobile communication and Industrial Control Computer and system grew by 97.5 percent, 16.3 percent, and 15.0 percent year on year, respectively.

The service industry continued to recover, and the modern service industry showed sound growth momentum. In 2022, 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 9.1 percent and 5.6 percent year on year, respectively. In 2022, the index of service production (ISP) decreased by 0.1 percent year on year. In particular, the ISP decreased by 0.8 percent year on year in December, a deceleration of 1.1 percentage points from November. From January to November, the revenue of service enterprises above a designated size (SEDS) increased by 3.9 percent year on year. Specifically, the revenue of electronic information transmission/software/information technology services, scientific research and technology services, health and social work enterprises increased by 8.3 percent, 8.3 percent, and 8.1 percent year on year, respectively.

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

Consumer prices increased moderately. In 2022, the Consumer Price Index (CPI) increased by 2.0 percent year on year, up 1.1 percentage points from that in 2021. The year-on-year increase in the CPI rose from 0.9 percent at the beginning of the year to a yearly high of 2.8 percent in September, and gradually fell back below 2 percent in the fourth quarter. Food prices increased by 2.8 percent for the entire year, accelerating by 4.2 percentage points from 2021. Non-food prices increased by 1.8 percent for the entire year, accelerating by 0.4 percentage points from 2021. Specifically, energy prices increased by 11.2 percent, constituting 40 percent of the overall CPI increase. The core CPI (excluding food and energy) rose moderately by 0.9 percent year on year, basically on par with that in the previous year.

The growth of producer prices continued to narrow. Due to the pullback by commodity prices, the relatively weak demand, and the high base effect of 2021, growth of the Producer Price Index (PPI) continued to slide in 2022. The PPI increased by 4.1 percent year on year, decelerating by 4.0 percentage points from that in 2021. Specifically, the PPI in October, November, and December decreased by 1.3 percent, 1.3 percent, and 0.7 percent, respectively, falling into negative territory. The Purchasing Price Index for Industrial Products (PPIRM) increased by 6.1 percent year on year, decelerating by 4.9 percentage points from 2021. In 2022, the Corporate Goods Price Index (CGPI) monitored by the PBOC increased by 3.5 percent year on year, a deceleration of 1.2 percentage points from the first three quarters and a deceleration of 3.6 percentage points from 2021.

Box 4 Household Consumption is Expected to Recover Steadily

Further promoting consumption is not only an intrinsic requirement for fulfilling people's aspirations for a better life but also an important component of the strategy to expand domestic demand. It is also one of the key areas of the economic work in 2023. In the new journey towards building a modern socialist country in all respects and achieving Chinese modernization, it is necessary to maintain positive growth of consumption and to enhance its fundamental role in economic development.

From a historical perspective, when development in most economies enters a certain stage, consumption becomes an important endogenous driver for long-term economic growth, which is favorable for supporting sustainable development, promoting economic circulation, and improving household well-being. This is more pronounced in the advanced economies. For instance, the household consumption rate (the ratio of household consumption expenditure to GDP) in the US has steadily increased from around 60 percent to above 68 percent over the past five decades, and the contribution of household consumption to economic growth in the past two decades has averaged over 70 percent. Household consumption rates in the euro area, the UK, and Japan have also surpassed 50 percent. China is different from other countries in terms of stage of economic development, savings culture, and statistical methods for household consumption. There are also weak links in relevant areas, such as income, distribution, social insurance, and supply. As a result, the household consumption rate in China is relatively low. Since the 18th CPC National Congress, China has deepened economic structural transformation and adjustment and won a complete victory in the fight against poverty, leading to an improvement in the household consumption rate. However, there are both room and challenges for sustained improvement.

Affected by COVID-19, the momentum of consumption in China has slowed down further during the past three years. The average year-on-year growth of total retail sales of consumer goods was 2.6 percent during the three-year pandemic period (2020–2022), 6.5 percentage points lower than that in the pre-pandemic three-year period (2017–2019). This was mainly due to the circulation bottlenecks in both supply and demand as well as the lack of consumption willingness, affected by continuous disturbances from COVID-19. **First,** from the supply side, the spread of COVID-19 limited multiple consumption scenarios, leading to "inconvenience to consume", especially for those types of consumption that involve gathering or physical contact. **Second,** from the demand side, as the downward pressure on the economy increased, households faced challenges in employment, income, investment, and wealth management, resulting in "unwillingness to consume". **Third,** from the perspective of confidence, as the complicated nature of COVID-19 further increased uncertainty of the economic outlook, the risk preference in the household sector decreased and household precautionary savings increased, leading to "reluctance to consume".

Looking ahead to 2023, the factors that have constrained recovery of consumption are expected to ease. First, with the optimization of the pandemic prevention and control measures, consumption scenarios will expand and demands for visiting family and friends, leisure and entertainment, tourism and catering that have been suppressed in recent years will recover. **Second,** as the economic recovery curve continues to rise, a mutually supportive and virtuous interaction is likely to be formed for supply and demand as well as employment and income. Therefore, households will gain more confidence in future income and consumption, and some of the previously accumulated precautionary savings will gradually be released to satisfy actual consumption demands. **Third,** the strategy of expanding domestic demand has been extensively implemented, with a series of consumption-promoting policies announced and implemented, and consumption coupons released in multiple rounds across the country. These policy measures will gradually take effect. From the high-frequency data since the beginning of 2023, volume and consumption data about passengers have both shown signs of recovery during the Spring Festival. International experience has shown that the major economies experienced a consumption recovery within one to four quarters after the peak of COVID-19, with some even surpassing pre-pandemic levels. **However, it should also be noted that uncertainty about consumption recovery still exists.** During the three-year pandemic period, household-income growth has slowed down, and to some extent, the household balance sheet has also suffered from shocks. Whether household savings can be converted into consumption remains to be seen, while the complexity of the future evolution of pandemic also requires attention. In addition, medium- to long-term factors that will influence household consumption, such as social insurance coverage for new urban residents and rural migrant workers, as well as unified national-level management for unemployment and social insurance, still need to be further improved.

From a medium- to long-term perspective, the consumption engine will provide indispensable support for the goal of reaching per capita GDP level of the moderately developed economies in 2035. Therefore, we need to be determined in giving full play to the strategic role of consumption growth. Currently, it is necessary to further release the potential of consumption growth. With China's urbanization entering advanced stage, marginal capital return decreasing, and the model of real estate development drastically changing, the sustainability of rapid expansion of investment is facing challenges. From the perspective of a more balanced and stable economic structure, consumption growth needs to play a more important role. There is still plenty of room for consumption to drive China's economic growth in the future. Currently, China's per capita GDP is close to the threshold of the high-income countries (USD13,200), but the household consumption rate is still significantly lower than that of the high-income countries. From a decomposition perspective, household consumption rate = (household consumption expenditure / household disposable income) x (household disposable income / GDP). To improve the rate of household consumption, it is important to increase both ratios. The former ratio can be improved by increasing the marginal propensity to consume (MPC) of households, especially for the medium- and low-income groups. This requires great efforts to improve the consumption environment, to increase the supply of high-quality consumer goods and services, and to guide the creation of new consumption demand. It is also necessary to maintain steady and relatively rapid growth in household income, to improve the social security system, and to continuously enhance household confidence and sense of security so as to further unleash the potential of consumption. The latter ratio mainly relies on the improvement of income-distribution patterns. There is room to further improve the ratio of household income to national income, the proportion of medium- to low-income groups and the proportion of primary distribution that goes to wages and salaries. **Overall**, in the medium- to long-term, it is necessary and feasible to maintain stable consumption growth, which will help to better achieve endogenously-driven economic growth.

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

In 2022, revenue in the national general public budget posted RMB20370.3 billion, increasing by 9.1 percent year on year (the VAT credit refund excluded), or an increase of 0.6 percent year on year (calculated on a natural basis). Specifically, central and local fiscal revenue grew by 13.1 percent and 5.9 percent year on year (the VAT credit refund excluded), respectively, increasing by 3.8 percent and decreasing by 2.1 percent (calculated on a natural basis), respectively. Tax revenue amounted to RMB16661.4 billion, increasing by 6.6 percent year on year (the VAT credit refund excluded), and decreasing by 3.5 percent year on year (calculated on a natural basis). Specifically, the domestic value-added tax increased by 4.5 percent year on year (the VAT credit refund excluded) and decreased by 23.3 percent year on year (calculated on a natural basis). The consumption tax and the corporate income tax increased by 20.3 percent and 3.9 percent, respectively. The personal income tax grew by 6.6 percent year on year. Non-tax income posted RMB3708.9 billion, increasing by 24.4 percent year on year.

In 2022, expenditures in the national general public budget posted RMB26060.9 billion, increasing by 6.1 percent year on year, 5.8 percentage points higher than that in 2021. Specifically, expenditures in the central government's general public budget and local general public budget increased by 3.9 percent and 6.4 percent year on year, respectively. In terms of the expenditure structure, expenditures related to health and social security and employment grew quickly, increasing by 17.8 percent and 8.1 percent year on year, respectively.

5. The employment situation remained generally stable.

The surveyed urban unemployment rate declined. In 2022, 12.06 million people were newly employed, exceeding the original annual target of 11 million people. The national surveyed urban unemployment rate rose in some months due to factors such as COVID-19, with an annual average of 5.6 percent. The job market for major groups improved. The number of rural migrants in 2022 registered 295.62 million, up

3.11 million from last year. The surveyed unemployment rate for youth continued to decline since Q3, posting 16.7 percent in December and decreasing by 3.2 percentage points below its peak in July.

6. The balance of payments and the external debt

According to preliminary statistics, in 2022 China's current account surplus registered USD417.5 billion, accounting for 2.3 percent of the Gross Domestic Product (GDP) and remaining within a reasonable range. Specifically, trade in goods recorded a surplus of USD685.6 billion, increasing by 22 percent year on year. Trade in services recorded a deficit of USD94.3 billion, decreasing by 6 percent year on year. Cross-border two-way investments remained generally stable and orderly. Direct investments witnessed a net inflow of USD32.3 billion, keeping the surplus of recent years. Specifically, outward direct investments registered USD158 billion. Enterprises went global in a stable and orderly manner. Foreign direct investments registered USD190.3 billion. China remained appealing to international long-term capital. As of the end of September 2022, the balance of full-caliber foreign debt (denominated in both domestic and foreign currencies) posted USD2481.5 billion. Specifically, the short-term external debt balance posted USD1355.6 billion, accounting for 55 percent of the total external debt balance.

7. Analysis by sector

7.1 The real estate sector

In December 2022, among 70 medium and large-sized cities nationwide, newly built and second-hand residential housing prices decreased by 2.3 percent and 3.8 percent year on year, respectively, down 4.3 percentage points and 4.8 percentage points, respectively, from last year. In 2022, the total floor area of sold units decreased by 24.3 percent year on year. Housing sales decreased by 26.7 percent year on year. Investments in real estate development fell by 10 percent year on year. Specifically, investments in residential housing development fell by 9.5 percent year on year.

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

	Floor area (100 million square meters)	YOY change (%)	change from the previous year (percentage point)
Floor area of newly started real estate projects	12.1	-39.4	-28
Floor area of real estate projects under construction	90.5	-7.2	-12.4
Floor area of completed real estate projects	8.6	-15	-26.2

Source: National Bureau of Statistics of China.

At end-2022, outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) grew by 1.5 percent year on year to RMB53.2 trillion. Specifically, outstanding individual housing loans grew by 1.2 percent year on year to RMB38.8 trillion. Outstanding housing development loans grew by 2.1 percent year on year to RMB9.5 trillion.

7.2 Agriculture

Strong agriculture is the basis of a strong socialist country, as it undergirds people's livelihood, high-quality development, and national security. The top priority in building a strong agricultural country is to ensure a steady and safe supply of grain and other major agricultural products. In 2022, China's grain production recorded an all-time high despite difficulties such as the sporadic outbreaks of COVID-19, the autumn floods in the north, the extreme droughts and heat waves in the south, and the high prices of materials for agricultural production. Total grain output registered 686.53 billion kilograms, up 0.5 percent or 3.68 billion kilograms year on year, remaining above 650 billion kilograms for the eighth years in succession. A bumper grain harvest underpinned the stability of the economy, expectations, and the overall situation.

In spite of the hard-won achievements, the pressure cannot be overlooked. There are still multifaceted challenges in safeguarding food security. The first challenge is the resource and environmental constraints. Arable land per capita in China is less than 40 percent of the world's average. This, coupled with the uneven distribution and generally low quality of arable land, puts a long-term limit on rational and effective use of arable land. The second challenge is the relative backwardness of agricultural technology and marketization. The variety selection and cultivation of most staple crops is conducted independently at home. However, some crops are still import-dependent due to the definite gap between China and countries with strong seed industries in terms of the quality and productivity of the crops. Problems concerning agricultural operations include small and scattered production, low level of market organization, as well as lack of a link between smallholders and modern agriculture. The third challenge is the highly import-dependent crops and overly concentrated source of imports. In 2021, more than 80 percent of the soybeans consumed in China were imported, 60 percent of which came from Brazil and 33 percent from the United States; and 9.2 percent of the corn consumed was imported, mostly from the United States and Ukraine, with a growing dependence on imports in recent years. Against the backdrop of intensified geopolitical conflicts, global agriculture and food supply experiences shocks and there will possibly be greater fluctuations in the prices of agricultural commodities, thus presenting challenges to safeguarding national food security. The fourth challenge is the increase in extreme weather events. It has been pointed out in a report by the Food and Agriculture Organization of the United Nations and other institutions that compared with the 1980s and 1990s, extreme weather events, such as droughts and heat waves, occurred much more frequently after 2009, crippling global food supplies. In recent years, the same phenomenon occurred in China, posing serious challenges to food security.

The *Report to the 20th CPC National Congress* makes it clear that "we must reinforce the foundations for food security on all fronts", which puts forward a higher requirement on safeguarding food security. Following the *Plan for Promoting Agricultural and Rural Modernization during the 14th Five-Year Plan Period*, China will prioritize arable land and seed, step up policy and technology support, and take firm control of the food supply with the following methods. **First, the area of arable land must be strictly guaranteed.** China will ensure that the total area of farmland does not fall below the redline of 120 million hectares, and work to gradually develop all permanent basic cropland of about 104 million hectares into high-standard cropland. The agricultural layout will be balanced, with land and production guaranteed for major grain-producing areas, major grain-sales areas, and areas that coordinate grain production and sales. Mechanisms will be improved for subsidizing grain farmers and major grain-producing areas. **Second, seed security must be strengthened.** Seeds are crucial to food security. Therefore, it is important to establish a modern seed industry, to enhance the capability of protecting and utilizing seed resources, to strengthen the construction of seed banks, to improve the capacity for innovation in breeding, variety testing, and seed cultivation, and to facilitate the industrialization of biological breeding. **Third, reform of agricultural modernization and marketization must be deepened**. The reform of agricultural prices will go deeper to build an agricultural market characterized by an improved subsidy scheme, better financial services, enhanced policy insurance systems, and greater support for new types of agricultural businesses. **Fourth, development driven by technology and reform must be accelerated**. Led by core and key technologies and guided by urgent industrial needs, the development of agriculture will center on fundamental technologies, core seed sources, crucial agricultural equipment, and other areas. Research resources at all levels will be integrated and enterprises will play a more dominant role in scientific innovation so as to build a technological innovation system for agriculture featuring a clear structure, rational divisions, and moderate competition.

Part 5. Monetary Policy Outlook

I. Outlook for the Chinese economy

The year 2022 is extremely important in the history of the CPC and the Chinese nation. The successful convening of the 20th CPC National Congress marks the beginning of a new journey toward building a modern socialist country in all respects and achieving the second centenary goal. Against the backdrop of the complex and rapidly changing international environment and the arduous task of promoting reform and development at home, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China has coordinated COVID-19 containment and social and economic development, strengthened macro policy adjustments, addressed the impact of factors exceeding expectations, and maintained overall economic and social stability. The achievements have not come easily. In 2022, China's GDP grew by 3.0 percent year on year, with economic aggregates exceeding RMB120 trillion. The number of newly employed people reached 12.06 million, exceeding the target of 11 million. Prices remained stable against the backdrop of high global inflation, with the CPI recording year-on-year growth of 2.0 percent in 2022.

The overall performance of the Chinese economy was stable in Q4. In Q4 2022, China's GDP grew by 2.9 percent year on year, demonstrating the resilience of economic performance. The output of autumn grain was stable with a slight rise, and the "Chinese rice bowl" was held more firmly. Industrial production has overcome the impact of COVID-19 and maintained positive growth, with the output of green products, such as new-energy vehicles and solar cells, growing by over 50 percent. The income of residents grew steadily, and consumption momentum was constantly accumulated. Investment in infrastructure grew rapidly, and investment in technological transformation in the manufacturing sector increased with policy support, jointly playing an important role in stabilizing growth. The structure of foreign trade continued to improve, and the proportion of imports and exports of private enterprises increased by 2.3 percentage points, compared with the previous year. **Looking ahead to 2023, the overall economy is expected to pick up and economic circulation will be smoother.** First, China will stick to economic development as the central task and it will adhere to the "two unswerving rules" and opening wider to the outside world on all fronts, which will help boost the confidence of economic entities and stabilize market expectations. Second, optimization of COVID-19 containment has had a significantly positive impact on sustained economic recovery, and the order of production and life will be restored at an accelerated pace. Third, full implementation of the package of policies and follow-up measures to stabilize the economy introduced in 2022 will continue to unleash the effects of driving physical quantity and economic growth.

We should also note that the current external environment remains severe and complex, and the foundation for a domestic economic recovery is not yet solidified. From an international perspective, geopolitical conflicts are still ongoing, the momentum for global economic growth is weakening, inflation in the developed economies remains elevated, and the interest rate hikes have not yet ended. All of this will had a deeper impact on the Chinese economy. From the domestic perspective, the disturbances brought about by the evolution of COVID-19 still require attention, the momentum of household savings shifting to consumption remains to be seen, the shift in the real estate industry to the new development model will take time, and local governments will continue to face pressures from balancing fiscal revenues and expenditures. In addition, the fading demographic dividends and the promotion of a green transition also pose medium- and long-term challenges. In this regard, we must face up to the difficulties while maintaining a strategic focus. The key is to focus on accomplishing our own tasks. **Taken together, the Chinese economy is highly resilient, promising, and energetic. The fundamentals for China's sound economic growth over the long run remain unchanged.** We need to strengthen our confidence in economic work, comprehensively deepen the reform and opening-up, focus on expanding domestic demand, maintain stability of foreign trade and investment, and consolidate and expand the momentum for an economic recovery.

On the whole, inflation is expected to remain moderate, but we should also be alert to a rebound in inflationary pressures in the future. In 2022, the CPI in China rose by 2.0 percent year on year, while PPI growth declined quarter by quarter and rose by 4.1 percent year on year. During the past five or ten years, China has kept the average annual growth of CPI at around 2 percent, achieving a hard-won price stability in the face of internal and external challenges. Looking ahead, inflationary pressures are generally under control for the short term. The Chinese economy is still in the process of recovery and development, and insufficient effective demand remains to be the principal contradiction. The industrial and supply chains are operating smoothly, and PPI growth is expected to remain at a low level on the whole. In the medium- and long-term, there are favorable conditions for keeping price levels generally stable. Supply and demand in the Chinese economy is generally balanced, monetary policies remain sound and prudent, and household inflation expectations are stable. In the meantime, we should also pay attention to the uncertainties in future domestic price trends. The consumption momentum may gradually increase after optimization of the COVID-19 containment. During the Spring Festival holiday in 2023, domestic tourism revenue increased by 30 percent year on year, and the number of passengers during the Spring Festival travel season rose by over 50 percent year on year. Economic vitality has been further unleashed, enterprises are accelerating resumption of work and full production, and recovery of the labor market is speeding up, which may affect future wage changes. The cumulative effects of various policies are gradually emerging. Inflation is stubborn in the major developed economies, and there is pressure from the upward trend in commodity prices. High inflation overseas is likely to be transmitted to China through links such as production and distribution. We should strengthen monitoring and analysis and keep an eye on a rebound in inflationary pressures.

II. Outlook for monetary policy in the next stage

In the next stage, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will thoroughly study and implement the guidelines of the 20th CPC National Congress and the Central Economic Work Conference. Following the decisions and arrangements of the CPC Central Committee and the State Council, it will uphold the general principle of pursuing progress while ensuring stability, apply the new development philosophy fully, faithfully, and comprehensively, and play its part in accelerating the building of a new development paradigm and advancing Chinese modernization. It will adopt a strategic perspective, starting by improving social expectations and boosting confidence in achieving development. Pursuing a holistic approach, it will enhance coordination in the six aspects as required by the Central Economic Work Conference, making sure that implementation of the strategy to expand domestic demand is integrated with efforts to deepen the supply-side structural reform. Meanwhile, the PBOC will intensify macro adjustments, and develop a modern central banking system, and fully explore the efficacy of monetary and credit policies with a focus on stabilizing growth, employment, and prices. It will provide financial support for the real economy to effectively upgrade and appropriately expand economic output so that the journey toward a modern socialist country in all respects will get off to a good start.

The PBOC will pursue a sound monetary policy in a targeted and forceful manner. While ensuring proper intertemporal adjustments, it will back efforts to expand domestic demand to further ramp up support for the real economy, and, at the same time, it will balance short-term and long-term goals, economic growth and price stability, as well as internal and external equilibria. The PBOC will resolutely refrain from launching a deluge of strong stimulus policies to consolidate sustainable support for the real economy. It will keep liquidity adequate at a reasonable level, maintain effective growth of credit aggregates, and ensure that the growth rates of M2 and the AFRE continue to be basically in line with nominal economic growth, aiming for an overall effect of boosting consumption, expanding investment, and bolstering employment. Using the structural monetary policy tools in a targeted, appropriate, and flexible manner, the PBOC will guide financial institutions to enhance their financial services for such fields as inclusive finance, sci-tech innovation, and green development so as to foster a strong recovery of consumption and to reinforce the potential for economic growth. Additionally, policy-based and development-oriented financial instruments will be further brought into play to better stimulate effective investments. The PBOC will continue to deepen the market-oriented interest rate reform. It will optimize the central bank policy rate system, give play to the important role of the mechanism for market-oriented deposit rate adjustments, and tap into the LPR reform and the LPR's guiding role. With these efforts, the costs for business financing and for consumer credit are expected to decline. Keeping a close watch on inflation development, it will provide support to ensure sufficient supplies and stable energy and grain prices to keep prices basically stable. 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 PBOC will enhance the flexibility of the RMB exchange rate and improve expectation management so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Meanwhile, it will coordinate efforts to provide financial support for the real economy and to prevent risks, and it will take steady steps to defuse risks, such as those associated with key conglomerates and small and medium-sized financial institutions. The PBOC will maintain overall stability in the financial system and defend the bottom line whereby no systemic risks will occur.

First, the PBOC will maintain reasonable and stable growth in money and credit. By using a mix of monetary policy tools, it will keep liquidity adequate at a reasonable level and ensure that the growth rates of money supply and the AFRE continue to be basically in line with nominal economic growth. It will support financial institutions meeting the effective financing needs of the real economy based on market principles and the rule of law, and it will make the growth of credit aggregates more stable and sustainable. Closely following economic and financial developments at home and abroad as well as the monetary policy shifts of the major central banks, the PBOC will strengthen monitoring and analysis of liquidity supply and demand and financial market movements so as to conduct open market operations in a flexible manner and further improve the foresightedness, flexibility, and effectiveness of operations.

Second, the PBOC will bring into play the roles of structural monetary policy tools in motivating and guiding financial institutions. It will keep central bank lending and discount policies stable to continue providing inclusive and sustainable funding support to agro-related businesses, micro and small businesses (MSBs), and private businesses. It will effectively implement the inclusive MSB lending facility to keep up financial support for MSBs and to back efforts to stabilize businesses and to secure employment. It will carry on implementation of the carbon emission reduction facility and special central bank lending for clean and efficient use of coal, which encourage eligible financial institutions to provide funding at preferential interest rates to key projects that significantly reduce carbon emissions and in support of clean and efficient use of coal as well as coal-fired power. The PBOC will make effective use of special central bank lending for sci-tech innovation and that for equipment upgrading to meet the relevant credit demand from the manufacturing sector, social services sectors, micro, small, and medium-sized enterprises (MSMEs), and self-employed traders. Furthermore, it will continue to implement special central bank lending for inclusive elderly care services and that for transport and logistics sectors, put into operation facilities supporting interest rate cuts for inclusive MSB loans and toll road loans, and move forward with implementation of the loan support scheme aimed at ensuring timely deliveries of presold homes.

Third, the PBOC will build the systems and mechanisms needed to provide effective financial support for the real economy. Continued efforts will be made to advance the project for enhancing the ability to provide financial services for MSMEs. The PBOC will 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, and it will optimize the effectiveness assessment of the MSB credit policy orientation to further improve the quality and efficiency of financial services for MSBs. Focusing on the key fields of rural revitalization, the PBOC will ensure the provision of effective financial services for the production of grain and important agricultural products, step up financial support for revitalizing the seed industry, and maintain support for the efforts to advance rural revitalization across the board and to accelerate building up China's strong agriculture. Additionally, the PBOC will push for quicker payments from policy-based and development-oriented financial instruments and timely issuances of supporting loans, and it will strengthen management of the existing facilities so that the funded projects will play their roles in boosting investment and stabilizing the macro economy. 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 PBOC 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 while taking concrete steps to ensure timely deliveries of presold homes, to secure the people's livelihood, and to maintain stability. Moreover, it will meet reasonable financing needs of the real estate sector, promote restructurings, mergers, and acquisitions in the sector, and improve the balance sheets of the top high-quality developers. It will adopt city-specific measures to meet the rigid demand for housing and the needs to improve living conditions, and it will offer home-related financial services to new urban residents and young people. All these efforts are aimed at ensuring the stable development of the real estate market.

Fourth, the PBOC 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 advance the market-oriented interest rate reform and to smooth the channels for monetary policy transmission. It will improve the market-oriented interest rate formation and transmission mechanism by optimizing the central bank policy rate system and guiding market rates to move around the policy rates. It will put into use the mechanism for market-oriented deposit rate adjustments to stabilize bank liability costs. It will also tap into the LPR reform to help stabilize and bring down the financing costs for businesses and the costs of consumer credit for individuals. Taking steady steps to deepen the market-oriented exchange rate reform, the PBOC will improve the managed floating exchange rate regime that is based on market supply and demand with reference to a basket of currencies. Letting the market play a decisive role in the formation of exchange rates, the PBOC will enhance the flexibility of the RMB exchange rate and strengthen expectation management. At the same time, it will uphold bottom-line thinking, duly conduct monitoring and analysis of cross-border capital flows, and stress risk prevention. By doing so, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level while giving play to the role of the exchange rate in macroeconomic management and as an automatic stabilizer for the balance of payments. In addition, the PBOC will continue to develop the foreign exchange market. Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing services of exchange rate risk hedging for MSMEs with authentic needs based on a risk-neutral concept, thereby maintaining the stable and sound development of the foreign exchange market. Moreover, the PBOC will continue to advance RMB internationalization in an orderly manner. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary cooperation, and promote the development of offshore RMB markets. It will carry on the pilot programs for high-standard 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 and the institutional opening-up of financial markets.

Fifth, the PBOC will make continued efforts to deepen the financial reforms, 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 business management 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 important roles in serving the real economy and supporting national strategies. The PBOC will improve the legal system for the bond market and consolidate the legal basis for corporate credit bonds. It will accelerate the building of a multi-tiered bond market system and continue to expand the pilot programs for balance-based management and macro-prudential management of financial bonds. It will support the commercial banks in replenishing capital through multiple channels and improve the mechanism for sustainable capital replenishment. Moreover, the PBOC will promote the development of the over-the-counter bond business in order to diversify the channels for bond investments, trading, custody, and settlement of small and medium-sized financial institutions, to increase bond market liquidity, and to contribute to the continuity and effectiveness of price formation in the secondary market. It will further improve the mechanisms for bond underwriting and market-making to enhance the synergy between the primary and secondary markets and the effectiveness of bond pricing as well as its function as a transmission channel. Adhering to market principles and the rule of law, the PBOC 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, it will remain firmly committed to advancing the opening-up of the bond market.

Sixth, the PBOC will improve the systems of financial risk prevention, early warning, resolution, and accountability, and it will build a long-term mechanism to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning. It will also enrich the macro-prudential policy tools and steadily expand the coverage of the macro-prudential policy. The PBOC will improve regulation of systemically important financial institutions. It will urge systemically important banks to meet the additional regulatory requirements as scheduled. Meanwhile, 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. The PBOC will conduct access management of financial holding companies in a prudent and orderly manner. Coordinated efforts will be made to supervise and regulate them, and the relevant regulatory system will be continuously improved to promote the sound, well-regulated, and sustainable development of financial holding companies. The PBOC will work toward more effective regulation, enhancing prudential regulation and conducting regulation of the financial sector on an on-going basis, and strengthen protection of consumers and investors. Furthermore, it will strengthen the financial legal system. More work will be done to improve and consolidate long-term mechanisms for financial risk prevention, mitigation, and resolution in order to put in place a routine mechanism for risk resolution that is based on market principles and the rule of law. Meanwhile, the PBOC 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 reduce existing risks and strictly guard against emerging risks while tightening prevention and control of financial and local debt risks. Additionally, the PBOC will further tap into the functions of deposit insurance for early corrections and risk resolution, continuously improve its abilities of risk monitoring and early warning, leverage the role of risk-differentiated premiums as both incentives and restraints, and enhance the authority of early corrections. Solid 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 PBOC 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.