INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/67

PEOPLE'S REPUBLIC OF CHINA

February 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE PEOPLE'S REPUBLIC OF CHINA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with the People's Republic of China, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 12, 2023 consideration of the staff report that concluded the Article IV consultation with the People's Republic of China.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 12, 2023, following discussions that ended on November 16, 2022, with the officials of the People's Republic of China on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 19, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the People's Republic of China.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with the People's Republic of China

FOR IMMEDIATE RELEASE

Washington, DC – **February 3, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the People's Republic of China.

Following an impressive recovery from the initial impact of the pandemic, China's growth slowed significantly in 2022. It remains under pressure as more transmissible variants have led to recurring outbreaks that have dampened mobility, the real estate crisis remains unresolved, and global demand has slowed. Real estate investment has contracted by about one-fifth in the first eleven months of 2022 amid intensifying financial stress among developers. Growth is projected at 2.6 percent for 2022, improving to 4.2 percent in 2023[2] as the full lifting of COVID containment measures is expected to eventually boost private demand. Near-term price pressures are expected to remain muted as the output gap closes only gradually and sectoral demand-supply imbalances are expected to remain small despite re-opening. The current account surplus is expected to narrow to 1.3 percent of GDP in 2023 from 2.1 percent in 2022 on the back of weaker growth in main trading partners, relatively lower spending on durable goods in advanced economies, and a gradual resumption of Chinese overseas travel.

In response to slowing growth momentum, macroeconomic policies appropriately turned expansionary in 2022. On the fiscal side, the main measures included a series of tax and other relief measures for small and medium-sized enterprises (SMEs) and spending on infrastructure investment projects, with the augmented cyclically-adjusted primary deficit being estimated to have increased by 2.2 percentage points of potential GDP. Monetary policy has become moderately accommodative following modest interest rate-based easing measures, cuts to the reserve requirement ratio, adjustments to deposit rate guidance policies that have helped lower deposit rates, and the use of credit policies to steer credit to SMEs and other borrower segments. The authorities have steadily stepped up support measures for the property sector, but much-needed developer restructuring continues to be slow.

Structural policy trends are clouding medium-term growth prospects amid weak productivity growth, in large part because of the role of low-productivity state-owned enterprises (SOEs) and declining business dynamism. Reforms securing competitive neutrality between SOEs and privately owned firms have been lacking, while SOEs are being tasked to make advances in strategically important sectors and technologies affected by growing geoeconomic fragmentation pressures, further burdening them with responsibilities. While China is a world leader in renewable energy, the unbalanced recovery and extreme weather events have made the achievement of near-term climate goals more challenging.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The projections presented in the Press Release were based on information available as of January 9, 2023. See the IMF country page for latest projections.

Executive Board Assessment[3]

Executive Directors noted that, following an impressive economic recovery from the initial impact of the pandemic, growth in China has slowed amid recurring COVID outbreaks, the contraction in the real estate sector, and weakened global demand. In this context, Directors called for macroeconomic and health policies to support the economy in the near term and for growth-enhancing reforms to secure high-quality—balanced, inclusive, and green—growth in the medium term.

Directors agreed that fiscal policy should bolster the recovery and facilitate economic rebalancing, with fiscal support geared toward households and by efforts to further strengthen the social protection system. They recommended that monetary policy also remain accommodative, given currently low CPI inflation and negative output gap and to support the adjustment in the property sector. While a number of Directors acknowledged the authorities' preference for using a mix of quantitative and price instruments, Directors encouraged more reliance on interest rate-based measures to increase the effectiveness of monetary policy. Many Directors welcomed the authorities' commitment to increasing exchange rate flexibility, which should help the economy absorb shocks. Given the recent loosening of COVID-related restrictions, Directors recommended re-accelerating vaccinations and further scaling up health care capacity.

Directors welcomed the authorities' stepped-up efforts to contain the financial stress in the property sector. They stressed the need to pave the way for market-based restructurings and restoring homebuyer confidence. Directors also recommended structural reforms to gradually bring the property sector to a more sustainable size over the medium term. They emphasized that stronger prudential policies for the banking sector will help identify vulnerabilities, while upgrades to restructuring frameworks would help facilitate exit of nonviable firms and banks while protecting financial stability. Directors welcomed the authorities' continued efforts to strengthen the AML/CFT framework and looked forward to further improvements in this area.

Directors stressed that structural reforms are key to raise productivity growth; in particular, by ensuring competitive neutrality between private and state-owned firms, removing local protectionism, and through a greater reliance on market forces. To support the implementation of China's climate agenda, Directors highlighted the need to implement market-based reforms to the power sector. They also noted that further development of climate finance could provide additional impetus to the transition toward a carbon-neutral economy. Directors emphasized that addressing remaining macroeconomic data gaps would enhance data transparency and strengthen policy making.

Directors underscored that China, together with other countries, can play a leading role in multilateral efforts to tackle global challenges, including seeking collaborative solutions to address geoeconomic fragmentation, alleviating debt burden in economies in debt distress—with the recent agreement reached by Chad and its creditors under the Group of 20 Common Framework being a positive first step—, strengthening global trade openness and transparency, and confronting climate change.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

China: Selected Economic Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
	(Annual percentage change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP (base=2015)	6.9	6.7	6.0	2.2	8.1	2.6	4.2	5.1	4.1	4.0	3.8
Total domestic demand	6.8	7.4	5.3	1.7	6.6	2.0	4.3	5.3	4.3	4.1	3.9
Consumption	7.2	7.9	6.3	-0.3	9.8	1.6	4.7	5.3	4.3	4.2	3.9
Fixed investment	6.2	7.3	5.3	3.4	3.5	2.4	4.0	5.3	4.3	4.0	4.0
Net exports (contribution)	0.3	-0.5	0.7	0.6	1.7	0.6	0.1	0.0	0.0	0.0	0.0
Total capital formation (percent of GDP)	43.2	44.0	43.1	42.9	42.8	43.5	43.4	43.2	42.9	42.6	42.3
Gross national saving (percent of GDP) 1/	44.7	44.1	43.8	44.5	44.6	45.6	44.7	44.4	43.8	43.3	42.8
Output gap estimate	-0.6	-0.5	-1.0	-3.6	-1.5	-2.8	-2.4	-1.3	-0.7	-0.3	0.0
LABOR MARKET											
Unemployment rate (annual average) 2/	5.0	4.9	5.2	5.6	5.1	5.5	...	...	...	...	...
PRICES											
Consumer prices (average)	1.6	2.1	2.9	2.5	0.9	1.9	1.5	1.7	2.0	2.0	2.0
Consumer prices (end of period)	1.8	1.9	4.5	0.2	1.5	1.9	1.9	1.7	2.0	2.0	2.0
GDP Deflator	3.9	3.5	2.1	1.3	2.7	3.0	-0.2	1.1	1.4	1.3	1.3
FINANCIAL											
7-day repo rate (percent)	5.4	3.1	3.1	2.6	2.5	...	...	...	...	...	...
10 year government bond rate (percent)	3.7	3.0	3.9	3.3	2.8	...	...	...	...	...	...
Real effective exchange rate (average)	-4.7	-2.9	1.4	-0.6	2.0	...	...	...	...	...	...
Nominal effective exchange rate (average)	9.7	-5.4	-2.5	1.5	5.4	...	...	...	...	...	...
MACRO-FINANCIAL											
Total social financing	14.1	10.3	10.7	13.3	10.3	10.3	8.9	7.6	6.6	6.3	6.1
In percent of GDP	248	248	254	278	276	288	302	305	308	311	314
Total nonfinancial sector debt 3/	14.4	10.8	10.8	13.2	10.4	10.4	9.2	7.8	6.8	6.4	6.2
In percent of GDP	248	248	254	278	277	284	295	301	305	308	311
Domestic credit to the private sector	10.9	8.6	8.7	10.9	8.5	8.3	6.2	4.7	3.5	3.3	3.3
In percent of GDP	164	161	162	173	170	174	177	175	171	168	165
Household debt (percent of GDP)	48.9	52.3	55.8	61.6	62.5	61.1	60.7	60.6	60.4	60.8	61.6
Non-financial corporate domestic debt (percent of GDP)	115	109	106	112	107	113	117	114	111	107	104
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-3.4	-4.3	-6.1	-9.7	-6.1	-9.5	-7.7	-7.6	-7.4	-7.3	-7.2
Revenue	29.2	29.0	28.1	25.7	26.8	25.1	26.0	26.1	26.2	26.4	26.5
Additional financing from land sales	2.5	2.8	2.9	2.5	2.3	1.4	1.4	1.3	1.2	1.2	1.1
Expenditure	35.1	36.1	37.1	37.9	35.2	36.0	35.1	35.0	34.9	34.8	34.8
Debt	36.2	36.5	38.5	45.4	47.2	51.0	55.1	57.9	60.9	63.8	66.7
Structural balance	-3.2	-4.1	-5.8	-8.8	-5.7	-8.7	-7.0	-7.2	-7.3	-7.2	-7.2
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	1.5	0.2	0.7	1.7	1.8	2.1	1.3	1.2	1.0	0.7	0.5
Trade balance	3.9	2.7	2.7	3.4	3.2	3.8	3.6	3.6	3.4	3.2	3.0
Services balance	-2.1	-2.1	-1.8	-1.0	-0.6	-0.8	-1.7	-1.8	-1.8	-1.8	-1.7
Net international investment position	16.8	15.2	16.0	15.4	11.2	12.1	12.9	13.1	13.1	12.9	12.5
Gross official reserves (billions of U.S. dollars)	3,236	3,168	3,223	3,357	3,427	3,277	3,339	3,410	3,472	3,511	3,526
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	82,898	91,577	99,071	102,563	113,818	120,215	125,018	132,933	140,340	147,811	155,411
Augmented debt (percent of GDP) 6/	77.9	80.8	86.3	98.8	101.4	109.6	120.5	127.4	134.4	140.9	146.9
Augmented net lending/borrowing (percent of GDP) 6/	-13.0	-11.4	-12.4	-18.4	-13.8	-16.8	-16.7	-15.6	-15.1	-14.6	-14.1

Sources: Bloomberg; CEIC Data Company Limited; IMF International Financial Statistics database; and IMF staff estimates and projections.
1/ 2021 GDP will be revised to match official revisions, once full official data are released.
2/ Surveyed unemployment rate.
3/ Includes government funds.
4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.
5/ Production side nominal GDP.
6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

December 19, 2022

KEY ISSUES

Context. Following an impressive recovery from the initial impact of the pandemic, China's growth has slowed significantly in 2022. It remains under pressure as more transmissible variants have led to recurring outbreaks that have dampened mobility, the real estate crisis remains unresolved, and global demand has slowed. Macroeconomic policies have been eased appropriately, but their effectiveness has been diminished by a focus on enterprises and increasingly less effective traditional infrastructure investment rather than support to households. The pandemic and its impacts have also been a setback to economic rebalancing toward private consumption and to reducing greenhouse gas emissions. A slowdown in growth-enhancing reforms against the backdrop of increasing geoeconomic fragmentation pressures stand in the way of a much-needed lift to productivity growth, weighing on China's medium-term growth potential.

Policies. Despite these multifaceted challenges, achieving sustainable, high-quality growth is well within China's reach with the right policies:

- *Safely easing remaining COVID restrictions*. Reducing the tradeoff between growth and health outcomes requires urgently re-accelerating vaccinations, securing treatments, and ramping up health care capacity.
- *Ending the real estate crisis*. Further action at the national level is needed to protect homebuyer interests by increasing funding for completion of troubled projects, thus paving the way for market-based restructuring. This would also contribute to containing financial stability risks. Structural reforms are needed to facilitate a transformation of the sector to a sustainable size.
- *Recalibrating macroeconomic policy support*. Given the negative output gap, low inflation, and significant downside risks, a more accommodative fiscal policy stance than under the baseline and a shift to greater support for households, combined with some additional interest rate-based monetary policy easing, would promote a balanced recovery.
- *Implementing reforms to lift potential growth*. Re-accelerating pro-growth reforms, such as ensuring competitive neutrality between private and state-owned firms, is the most effective response to fragmentation risks and to shore up productivity growth at a time of shrinking labor supply.
- *Contributing to multilateral solutions*. Together with other countries, China can play a leading role in addressing geoeconomic tensions, alleviating debt distress in low-income economies, strengthening global trade openness and transparency, and confronting climate change.

Approved By
Thomas Helbling and Kenneth Kang

Discussions took place by video conference Nov 2–16, 2022. The team comprised S. Jain-Chandra (head), J. Kang (co-head), D. Cerdeiro, H. Hoyle, N. Novta, A. Oeking (all APD), J. Ralyea (FAD), Y. Chen (MCM), F. Zhang (RES), Y. Wu (SPR), and S. Barnett, P. Jeasakul, and X. Li (Resident Representatives). H. Berger led the initial preparations for the Article IV. T. Helbling (APD) joined most meetings. Z. Zhang and X. Bai (all OED) joined the official meetings. V. Ashtakala, A. Balestieri, J. Li, and Q. Shan supported the mission.

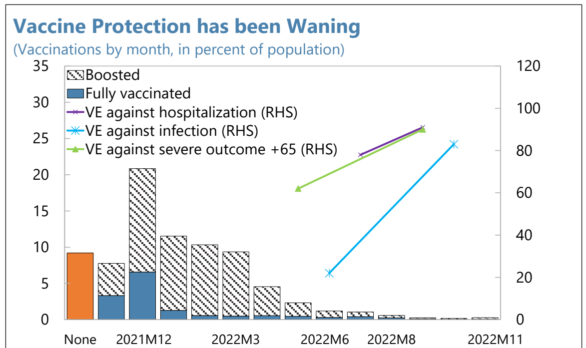
CONTENTS

TABLES

APPENDICES

CONTEXT

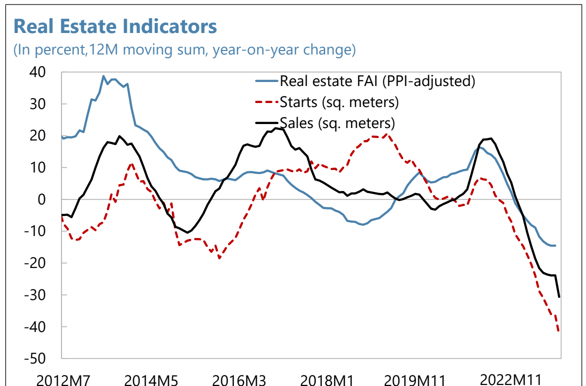
1. **China's growth is slowing in the face of both cyclical and structural headwinds**. With this slowdown, China's growth in 2022 is expected to be below global growth for the first time in over 40 years. In the near term, the pandemic, the deep contraction in the real estate sector, and weaker global growth are the main drags, while a secular decline in productivity growth and demographic headwinds, amid geoeconomic fragmentation pressures, are weighing on medium-term growth prospects.



Sources: Our World in Data; BMC Infectious Diseases; The Lancet; and IMF staff estimates.
Notes: Intertemporal vaccine efficacy (VE) in percent based on studies for US-approved vaccines. Due to irregular reporting intervals, some numbers are linearly interpolated. Numbers cannot account for people who have been both fully vaccinated and boosted in a given time period, so present an upper bound.

2. **China weathered the initial impact of the pandemic well.** The zero-COVID strategy allowed the economy to swiftly bounce back from the early-2020 lockdowns, while maintaining the death rate at remarkably low levels. This also allowed China to significantly expand the global supply of medical goods and meet the increased demand for durable goods at a critical time for the global economy.

3. **Amid the sharpening tradeoff between growth and protecting lives, the authorities started relaxing COVID policies.** The appearance of more contagious variants in 2022 has led to more frequent and longer lockdowns under the zero-COVID policy, with the restrictions and related uncertainty weighing on domestic demand. After a series of announcements in November and December 2022, the containment strategy was relaxed, allowing home quarantine, only very targeted lockdowns, and reduced testing requirements to enter public places and transportation. The authorities' reported vaccination targets to improve protection among the elderly are welcome, although a broader re-acceleration of vaccinations is urgently needed to address waning immunity in the general population. Given this, further easing of the containment measures could have severe health consequences.



Sources: CEIC Data Company Limited; and IMF staff calculations.

4. **The property crisis has intensified during 2022.** Beginning in the mid-2010s, developers responded to the authorities' efforts to limit debt risks by increasingly financing new housing through pre-sales of unfinished homes to households. This helped the sector grow above estimates of fundamental demand (see Box 1) but shifted risks to homebuyers. The regulatory tightening, which intended to address this imbalance and associated risks, that started in 2020 has caused

severe financial strains for developers, with homebuyers losing confidence in developers' ability to complete pre-sold housing units. The resulting liquidity crisis has, for many developers, morphed into a broader solvency crisis, leading to a rapid slowdown in new housing starts and overall housing investment, along with a sharp decline in local government land revenues. The authorities have steadily stepped up support measures, but much-needed developer restructuring continues to be slow, in part complicated by the fact that pre-sale homebuyers awaiting delivery would face disproportionately large losses in market-based liquidation. House price declines have so far been modest, partly due to price floors, pointing to accumulating adjustment pressures.

5. Structural policy trends are clouding medium-term growth prospects. Productivity growth is weak, in large part because of the role of low-productivity state-owned enterprises (SOEs) and declining business dynamism.[1] Reforms securing competitive neutrality between SOEs and privately owned firms have been lacking, while SOEs are being tasked to make advances in strategically important sectors and technologies affected by growing geoeconomic pressures, further burdening them with responsibilities. Guidelines to unify domestic markets and prevent anticompetitive behavior at the local level so far largely rely on voluntary compliance by local governments. Credit allocation is becoming less market-determined, as credit policies increasingly use lending targets to support specific sectors, while the announced "traffic-light" system for capital seems to signal more guidance for private capital allocation.

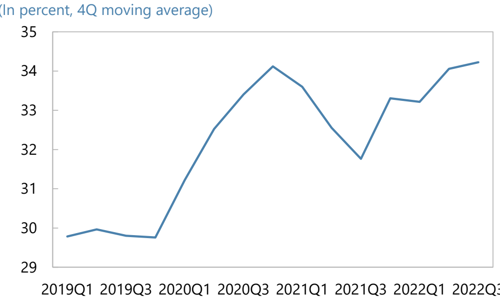
RECENT DEVELOPMENTS

A. Growth Remains Under Pressure

6. Growth remains under pressure and lacks balance as private consumption continues to underperform. After a rebound in the third quarter as a result of the recovery from the April-May lockdowns, activity in the fourth quarter is estimated to be contracting amid widening outbreaks, with sequential GDP growth estimated at -5.4 percent annualized. Private investment and especially private consumption show persistent weakness, reflecting COVID-related restrictions, a contracting real estate sector, and heightened uncertainty. These factors are reflected in an elevated household saving rate, which, at 32 percent on average in the four quarters ending in September 2022, remains above pre-pandemic levels. As a result, among many areas where rebalancing has faced setbacks (Table 6), internal demand-side rebalancing has been particularly

Household Saving Rate

(In percent, 4Q moving average)



Sources: CEIC Data Company Limited; National Bureau of Statistics China Household Survey; and IMF staff calculations.

Note: Saving rate calculated as (1 - household consumption per capita/household disposable income per capita).

[1] See E. Jurzyk and C. Ruane, "*Resource Misallocation Among Listed Firms in China: The Evolving Role of State-Owned Enterprises*," IMF Working Paper 21/75, 2021; and D. Cerdeiro and C. Ruane, "*China's Declining Business Dynamism*," IMF Working Paper 22/32, 2022.

affected, as measured by the share of private consumption in GDP. The GDP share of private consumption in 2022 is projected to be about 2 percentage points lower than in 2019, and about 4 percentage points below the pre-pandemic forecast for 2022. Private investment, therefore, lacks a sustainable driver at a time when the pandemic-related export boost is unwinding and real estate activity is declining. Real estate investment through November 2022 contracted by around 20 percent compared to the same period in 2021.

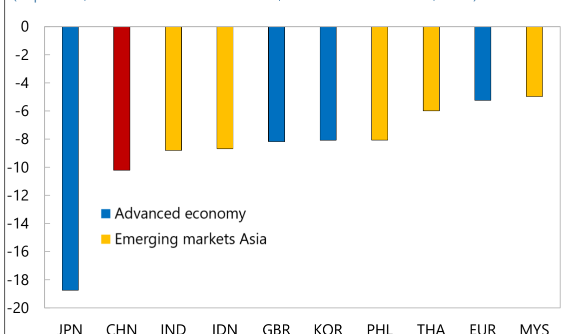
7. External tailwinds are fading, with increased capital outflow and exchange rate pressures (Figure 3).

- *Exports* have been declining sequentially in volume terms, as pandemic-specific factors are unwinding and global growth is softening. The strong trade surplus in the first half of 2022 was primarily driven by weak *imports* amid the domestic slowdown, with the real estate contraction dampening commodity imports—despite the infrastructure focus of fiscal policy support and the rise in global commodity prices.

- *Capital outflows* (especially bond outflows) have increased since February 2022, driven by interest rate differentials given monetary policy tightening in advanced economies. However, compared to the cumulative equity and bond inflows of recent years and the trade surplus, total outflows through October 2022 have been small. Similarly, net capital outflows (including net errors and omissions) in the first half of 2022 were smaller than in the previous episode of large outflows in 2015-16.

- The *RMB* has depreciated by around 10 percent against the U.S. dollar since March 2022 in the wake of the strongest U.S. dollar in decades. Reflecting similar movements in non-U.S. trading partners' currencies, the NEER has been relatively stable with about 3.7 percent depreciation (as of November), while the REER depreciated by about 7.4 percent reflecting relatively low inflation in China. The authorities have taken steps to stabilize exchange rate expectations, including by lowering the FX reserve requirement ratios in May and September to provide more onshore FX liquidity, tightening the reserve requirement on FX forwards (an outflow capital flow management measure (CFM)) in September, and raising the cross-border financing macro-prudential adjustment parameter for financial institutions and enterprises (relaxation of an inflow CFM) in October.

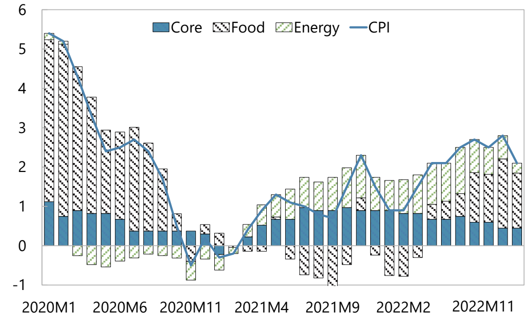
Bilateral US$ Exchange Rate, Cross-country Comparison
(In percent, difference between March 1, 2022 and December 9, 2022)



Sources: Haver Analytics; and IMF staff calculations.

8. Weak demand has resulted in labor market strains and muted inflation pressures. Unemployment remains slightly above pre-pandemic levels at 5.7 percent as of November. Unemployment among the young is particularly high at 17.1 percent, 4.6 percentage points higher than the same month in 2019, at a time in which there are a record number of graduates amid weak demand, especially in sectors disproportionately employing younger workers. The number of migrant workers as of the third quarter remains 4 percent below the pre-pandemic trend. With the output gap widening from -1.5 percent of potential GDP in 2021 to -2.8 percent in 2022, both headline and core CPI inflation have remained below the PBC's 3-percent goal, with headline CPI inflation reaching 1.6 percent y/y in November on the back of elevated pork and energy prices.

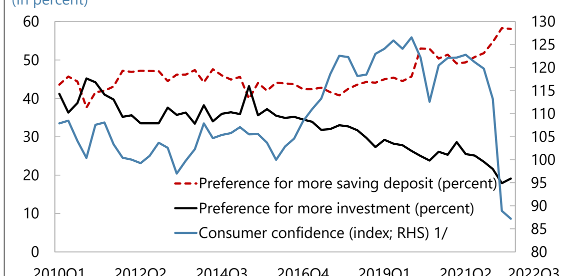
CPI Inflation
(In percent, year-on-year)



Sources: National Bureau of Statistics China; and IMF staff calculations.

9. Macroeconomic policies appropriately turned expansionary again, but providing little support to rebalancing. On the fiscal side, the main steps included a series of tax and other relief measures for small and medium sized enterprises (SMEs) impacted by lockdowns and the expected spending on investment projects of the carryover from the issuance of Special Local Government Bonds in 2021 (RMB 700 billion, or about 0.6 percent of GDP) and the proceeds from 2022 issuance quota (RMB 4.15 trillion, an increase of RMB 500 billion relative to 2021). Overall, staff estimates suggest that, with these measures, the augmented cyclically-adjusted primary balance (CAPB) deficit will increase by 2.2 percentage points of potential GDP in 2022.[2] Monetary policy has become moderately accommodative following modest interest rate-based easing measures, cuts to the reserve requirement ratio, adjustments to deposit rate guidance policies that have helped lower deposit rates, and the use of structural credit policies to steer credit to SMEs and other borrower segments. The growth impact of the fiscal measures has, however, been constrained by a focus on enterprises and increasingly less effective infrastructure investment, underscoring the limited role of automatic stabilizers. The effect on confidence and growth would also have been greater if the extent of support that was ultimately delivered had been communicated from the outset, rather than through a series of announcements.

Confidence by Businesses and Consumers
(In percent)

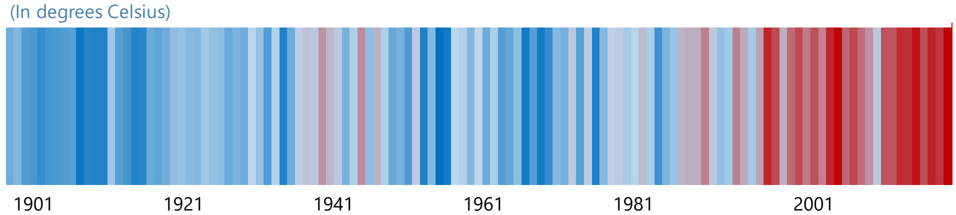


Sources: CEIC Data Company Limited; and IMF staff calculations.
1/ The Consumer Confidence Index ranges between 0 (most pessimistic) to 200 (most optimistic), with 100 being neutral.

[2] The uncertainty around this estimate is considerable because of data gaps.

10. The unbalanced recovery and extreme weather events have made the achievement of China's near-term climate goals more challenging. China is a world leader in renewable energy. In the first half of 2022, China's installed solar power generation capacity jumped by about 26 percent y/y and installed wind power generation capacity increased by around 17 percent y/y. Given the higher energy intensity of investment and exports, the lagging consumption recovery, however, makes it more difficult to reduce the overall energy intensity of growth—a crucial component of China's path to carbon neutrality (see 2021 Article IV staff report).[3] At the same time, climate change-induced heatwaves have raised energy demand while droughts reduced the availability of hydro power, leading to an increased reliance on domestically-available coal. The latter has been reinforced by higher global energy prices. In response, policymakers have eased some intermediate climate targets on energy intensity and energy consumption so as to ensure energy security. These developments, together with the intrinsic variability of wind and solar power and the need to limit emissions, underline the importance of recently announced market-based reforms in the power sector which aim to unify China's regionally divided power markets by 2025 and scale up the grid system to onload more renewable energy capacity. The current regulatory framework—largely based on administrative pricing—still lacks efficiency as well as incentives to lower energy consumption, to scale up renewable energy, and to provide ancillary services that would enhance grid stability and inter-provincial power trading (see SIP on market reforms in the power sector).

Temperatures have Increased Dramatically in Recent Years
(In degrees Celsius)



Sources: World Bank Climate Change Knowledge Portal; and University of East Anglia CRU database.
Note: Data is observable mean temperature.

Authorities' Views

11. The authorities noted that growth was affected by significant shocks in 2022. They argued that decisive economic measures and their accumulated experience with containment allowed them to further optimize COVID policies and minimize economic disruptions while saving lives. They highlighted that monetary policy tightening in advanced economies had led to moderate capital outflows and exchange rate pressures. Notwithstanding softening external demand, China's goods exports showed resilience. Climate change was viewed as a growing threat and the authorities highlighted their steadfast implementation of measures to ensure reaching their climate goals.

[3] For further background, see also Chateau and others, "*A Comprehensive Package of Macroeconomic Policy Measures for Implementing China's Climate Mitigation Strategy*," IMF Working Paper 2022/142.

12. The authorities stressed that macroeconomic policies had proactively supported the economy in 2022. The authorities estimated that the government provided more than RMB 4.2 trillion in tax relief and fee rebates to enterprises. In addition, the business support scope of government funded financing guarantee companies has been expanded and policy bank loans have been expanded to support specific industries. They observed that these measures had clear objectives, were sustainable and targeted with precision, and were promptly implemented to achieve swift results. Monetary policy helped stabilize the macroeconomy by ensuring a reasonable increase in money and credit and providing a modest reduction in financing costs for firms and households. Financial policies have guided financial institutions to increase loans to small and micro enterprises and other groups, support the rescue and development of small and micro enterprises, and actively respond to the adverse impact of cyclical fluctuations on their production and operation.

B. Rising Financial Vulnerabilities

13. Real estate developer restructuring continues to be slow, despite a very large share of the sector being in financial distress. As of November 2022, developers that have already defaulted or are likely to default—with average bond prices below 40 percent of face value—represented 38 percent of the 2020 market share of firms with available bond pricing. Despite these strains, the pace of restructuring has been slow, partially hampered by the potential for very large losses for pre-sale homebuyers due to the large backlog of troubled projects. The sector's contraction is also leading to strains in local governments. Falling land sale revenues have reduced their fiscal capacity at the same time as local government financing vehicles (LGFVs) have also significantly increased land purchases.

14. The authorities have stepped up their response to the crisis. Central and local governments have taken wide-ranging measures to boost homebuyer demand and have begun to provide funding to complete pre-sold unfinished housing (see text table). After some homebuyers with mortgages secured against unfinished housing threatened to withhold payments to banks in July 2022,

Text Table. Selected Property Sector Support Measures in 2022

Demand-side measures
- Easing city-level home purchase restrictions, reducing downpayment ratio minimums, and increasing targeted subsidies for home purchase
- Lowering nationwide mortgage rates
- Rebate for individual income tax for home transactions

Supply-side measures
- Quantitative credit growth targets and window guidance to support developer financing and mortgage loans
- Bond guarantee schemes for selected developers (RMB 30 bn)
- Forbearance for nonperforming loans to property developers
- Relaxed presale escrow requirements for qualifying developers
- Postponement of property loan concentration limits for banks

Restructuring and other measures
- Policy bank-funded special loan facility for completion of troubled unfinished housing projects (RMB 200 bn)
- PBC interest-free funding facility for commercial bank lending to support completion of troubled unfinished housing projects (RMB 200 bn)
- Local government troubled project rescue funds
- Mortgage repayment moratoria and waived credit reporting impact for borrowers affected by delayed housing delivery or COVID
- Guide financial institutions to increase support for rental and affordable housing development, including through purchasing and re-purposing unsold apartments.

Source: IMF staff.

regulators introduced mortgage repayment moratoria for affected homebuyers and a central government-funded mechanism for the completion of troubled unfinished housing projects. Since mid-2022, the authorities stepped up support for developer sector financing via bond guarantee schemes, quantitative credit growth targets for banks, and a variety of supply-side measures, notably including bank forbearance.

15. Despite the broadening policy response, the crisis has continued and the need for large-scale restructuring remains. Demand-side easing measures have had limited traction in boosting sales amid widening financial turmoil among private developers. The new housing completion funding mechanism will partially address the backlog of unfinished housing, but its scope appears small relative to the potential scale of construction needs should demand remain weak (see Box 1), and formalized forbearance policies are likely to limit creditor incentives to pursue restructuring. Adding to local government difficulties, while the scheme is funded by the central government, local governments must still backstop housing completion loans, and several highly-indebted regions also have large stocks of unfinished housing.

16. The real estate crisis and the growth slowdown reinforce vulnerabilities from high debt in the non-financial sector and add to financial sector strains.

- Balance sheet pressures are rising at *financial institutions*, particularly at *smaller banks* and *some non-bank lenders* as asset quality has deteriorated. Moratoria on inclusive and pandemic-related loans continue to grow and banks are allowed easing in NPL classification rules for loans to sectors affected by the real estate crisis and the pandemic. Developer bond price declines and some households' efforts to suspend mortgage repayments imply worsening credit quality in many smaller banks and some non-bank financial institutions from their real estate-related exposures (see Chapter 1 in IMF's October 2022 *Global Financial Stability Report*), raising financial stability risks given their limited capital buffers and interconnectedness to the broader banking sector. Funding conditions for some smaller banks have tightened notably, despite ample aggregate liquidity in the system, reflecting in part governance concerns, lower profitability, and slow progress in their recapitalization efforts,[4] although profitability pressures and resulting declines in capital adequacy ratios have also emerged in the banking system more broadly.

- Debt levels remain particularly elevated for the *corporate* sector and continued to increase for the *government* and *household* sectors. Government and household debt-to-GDP ratios are estimated to have increased to new highs of 108 and 62 percent in the second quarter of 2022, respectively, while corporate debt is hovering around a very elevated 125 percent. While balance sheet risks in the household sector continue to be cushioned by high savings rates, financial stability risks have risen as firms' debt-servicing capacity has weakened due to the growth slowdown, including beyond the real estate sector—such as those sectors most affected by

[4] National Audit Office investigations also point to widespread underwriting problems at smaller banks in the fast-growing financial inclusion segment.

pandemic control measures. The authorities have unveiled a new draft *Financial Stability Law* that clarifies the policy framework for addressing stability risks, but key features remain undefined.

Authorities' Views

17. The authorities were of the view that the problems in the real estate sector remained broadly contained and they were taking strong action. They noted that excessive leverage and weak governance of several large real estate firms had strong spillover effects on the broader property market since the second half of 2021, which were exacerbated by other factors such as the impact of COVID. They expected successive rounds of policy support led by local governments, which have a key role in China's system of regionally differentiated real estate regulation, to have a gradual but cumulative effect on the market, with signs of stabilization already emerging in the third quarter of 2022.

18. The authorities assessed the banking sector to be generally healthy. They emphasized that banking sector exposures to property developers were limited and that mortgage risk was low due to high prudential requirements and the lack of financial leverage. The overall capital level of the banking system is relatively high. They noted that they continuously monitor and pay close attention to the potential impact of pressure on the profitability of real estate enterprises. On leverage, the authorities emphasized that the private sector debt-to-GDP ratio had been on a downtrend in recent quarters, despite temporary increases due to slower growth.

OUTLOOK AND RISKS

19. Growth is projected at 2.6 percent for 2022, improving to 3.8 percent in 2023 and to 5.5 percent in 2024—but the forecast is based on strong assumptions and is subject to an unusually high degree of uncertainty.

- *The full lifting of COVID containment measures will eventually boost private demand*. The forecast assumes that the need for some containment measures remains in place in the first half of 2023. The recent relaxation of containment measures is expected to lead to higher case numbers than in the earlier stages of the pandemic and to overall higher uncertainty in the near term that will prevent a quick bounce back in demand from the projected 2022Q4 contraction. Alongside voluntary mobility restrictions that may also impact production, potential containment measures introduced on a temporary basis to flatten the infection curve are expected to weigh on the supply side, affecting exports in the first half of 2023. The conditions for fully lifting containment measures are assumed to be met in the second half of 2023. They include (*i*) a high vaccination rate among the vulnerable population and a sustained higher pace of booster vaccinations to maintain protection; (*ii*) the availability of pharmaceutical treatments; and (*iii*) the scaling up of health care capacity (see SIP on COVID policy). Under these assumptions, private consumption is expected to gradually gather pace towards the end of 2023 and over the course of 2024 as conditions normalize, leading to a rebound in private investment. Real estate investment, however, is assumed to continue its contraction in 2023, as the unresolved crisis keeps sales depressed even for developers with healthy balance sheets. In all, however, the significant, rapid easing of restrictions amid still-low population-wide immunity implies that the paths for private domestic demand and exports are subject to an unusually high degree of uncertainty (see ¶23 below).

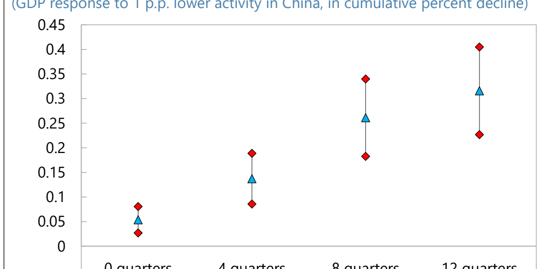
- *Macroeconomic policy support will be withdrawn gradually*. While not quite as sharply as in 2021, fiscal policy consolidation is still expected to commence—somewhat prematurely—in 2023, as public investment projects initiated towards the end of 2022 are completed and temporary measures expire. Over the medium term, annual tightening of 0.75 percent of potential GDP is projected as off-budget activity is anticipated to taper as the authorities' efforts to rein in off-budget financing gains further traction and tax revenue gradually increases to about 15 percent of GDP over the medium term. Monetary policy is expected to tighten at the margins but remain moderately loose in 2023, as credit policy support is eased and interbank rates move higher, and only become neutral in 2024.

20. Inflation is expected to remain below the authorities' target in 2023 and 2024. Near-term price pressures are expected to remain muted for two reasons. With the modest growth pickup, the output gap will only close gradually and still be large through much of 2023. Sectoral demand-supply imbalances are expected to remain small despite re-opening, as the full lifting of COVID restrictions is expected to be gradual and result in a slow shift in demand toward contact-intensive sectors. Specifically, end-of-period headline inflation is forecast at 1.9 percent for both 2022 and 2023, and at 1.7 percent for 2024, with fading effects from pork price increases. End-of-period core inflation is expected to rise from 0.4 percent in 2022 to 2.0 percent in 2023 and 2.3 in 2024.

21. The current account surplus is expected to decline, falling to 1.4 percent of GDP in 2023 and 1.2 percent in 2024, compared to a projected 2.1 percent in 2022. The decline reflects weaker growth in the main trading partners, relatively lower spending on durable goods in advanced economies with the shift in demand toward contact-intensive domestic sectors, and a gradual resumption of Chinese overseas travel from around mid-2023. On a preliminary basis and adjusting for remaining transitory pandemic-related factors, the external position in 2022 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies (see Appendix I).

Activity Spillovers to Rest of World

(GDP response to 1 p.p. lower activity in China, in cumulative percent decline)



Sources: IMF October 2022 Regional Economic Outlook, Fernald et al (2020); Response to the overall activity measure of Fernald et al (2020); and IMF staff calculations.
Notes: Triangles represent mean response in a panel of 50 countries (excluding China), lines are 68 percent confidence intervals. Shock is scaled to be equivalent of 1 percentage point decline in Chinese growth.

22. Against the backdrop of declining population and productivity growth, GDP growth is forecast to decrease below 4 percent in the medium term. On the supply side, demographic headwinds compound declining productivity growth. Weaker business dynamism and resource misallocation towards less productive and more capital intensive SOEs are expected to continue, due to a slowing pace of structural reforms. On the demand side, without sustained rebalancing towards consumption, the saving rate will remain too high, enabling continued high investment in less productive sectors even as the real estate sector shrinks (see SIP on medium- and long-term growth prospects). Lower potential growth risks worsening debt dynamics in the economy, as deleveraging through high growth becomes less likely, and creating challenging policy tradeoffs. The slower growth rates relative to the past decades will also weigh on growth in other countries, especially those with close trade links to China (see Box 1 in Chapter 1 of the IMF's October 2022 *Asia and the Pacific Regional Economic Outlook*).

23. Risks are tilted to the downside (see Appendix II). Externally, in the short term, an escalation in the war in Ukraine, a further rise in energy prices, and faster-than-expected tightening in global financial conditions would have a negative impact on trading partner growth. Longer term, rising geopolitical tensions pose risks through financial decoupling pressures (e.g., delisting of Chinese companies from U.S. market),[5] and limits to trade, FDI, and knowledge exchange around technology.[6] Domestically, there are downside risks from a deepening of the real estate crisis leading to macro-financial spillovers (see below), while broad-based and deeper-than-expected deleveraging could create adverse feedback loops significantly lowering growth. While less-stringent containment measures could lead to a somewhat quicker recovery from the 2022 fourth-quarter trough, uncertainty around case numbers amid still-insufficient population-wide immunity in early 2023 presents large downside risks to private domestic demand and exports. Insufficient preparation for a further easing of containment measures (see ¶29 below) could come with significant health consequences and further set back the recovery of private consumption and investment and impact supply chains, with spillovers to the rest of the world. Should different downside risks materialize together, their interaction would amplify their fallout. Stronger-than-expected inflationary pressures could arise if increased mobility leads to demand-supply mismatches that drive up inflation despite the negative output gap, flexible labor market, and only gradual pace of reopening.

24. Accumulating pressures from the unresolved property crisis could trigger a sharp retrenchment in aggregate demand, with adverse macro-financial feedback loops and potentially large external spillovers.

- The fall in primary home sales could be even larger than assumed under the baseline, which would deepen financial distress and weaken *aggregate demand* beyond real estate investment. Larger falls could be the result of greater risk aversion toward pre-sales, possibly due to slow progress in the restructuring of distressed developers, or due to expectations of lower future house prices. They would also exacerbate developers' liquidity problems, amplify the expected

[5] In a positive step, on August 26, 2022, the U.S. and China reached a preliminary agreement to allow U.S. officials to review audit documents of U.S.-listed Chinese firms.

[6] On October 7, 2022, the U.S. announced additional export controls that restrict access to advanced semiconductors and inputs needed for their development and production. The new measures restrict U.S. persons (citizens and companies) from providing direct or indirect support to Chinese companies involved in advanced chip manufacturing.

slump in real estate investment, and create adverse spillovers on upstream and downstream sectors. The resulting income, uncertainty, and wealth effects would weigh heavily on private consumption.

- Larger-than-expected declines in land sales could weaken public finances, particularly in provinces with weak balance sheets. Such weakness could create more stress in financially vulnerable corporates whose credit profiles strongly depend on local governments' financial strength. The additional stress would raise risks to banking system resilience and *financial stability* at large, and it would reinforce fiscal pressures. Bank profitability and capital would be further eroded by weak credit demand, narrowing margins, and rising loan loss provisions, amid tightening financial conditions. A sharper slowdown in China's growth would create external spillovers through sizable trade links and commodity prices, as well as a deterioration in global risk appetite (see Box 5 in the 2021 Article IV Staff Report and Box 1.3 in Chapter 1 of the October 2022 *World Economic Outlook*).

Authorities' Views

25. The authorities were optimistic about a steady recovery in 2023. While acknowledging significant uncertainty ahead, the authorities emphasized that they stood ready to address downside risks. They were confident they could contain future COVID outbreaks with even more targeted measures. Proactive and moderate fiscal policy and prudent monetary policy would support growth in 2023, as needed. The authorities viewed shrinking external demand, faster-than-expected tightening of monetary policy in advanced economies and global financial conditions, and uncertainty due to the war in Ukraine as the key external downside risks for 2023, and they acknowledged rising geopolitical risks. They expected the external position to remain broadly in line with the level implied by medium-term fundamentals and desirable policies.

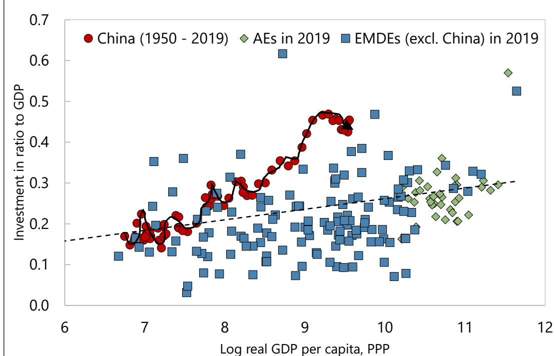
26. The authorities saw still significant potential for higher growth in the medium and long term. They agreed that potential output growth had slowed since 2008, in part due to a decline in total factor productivity growth. At the same time, they pointed to the growth targets implied in their 14^{th} Five Year Plan, which they were confident in achieving with ongoing support for technology and innovation, and improvements in human capital. This support reflected their focus on high-quality growth, including in the areas of digitalization, modernization of agriculture, and green development.

27. The authorities agreed that real estate market risks had increased, while noting that they are manageable overall. They noted considerable progress in addressing problems in the property sector and viewed that the recent policy support to the property sector and the adjustment in COVID policy will revitalize growth and housing market activities, thus effectively containing any negative macro-financial spillovers.

POLICIES: ACHIEVING HIGH-QUALITY GROWTH IN THE SHORT AND MEDIUM TERM

28. A comprehensive set of policies can help lift prospects for high-quality growth—growth that is balanced, inclusive and green. The full lifting of COVID containment measures, if preceded by urgent measures to contain the health impact, will strengthen private consumption and secure rebalancing and the recovery. A more supportive fiscal policy stance than in the baseline that entails greater support to households will bolster demand and help with rebalancing. Additional monetary policy support will cushion the impact of COVID disruptions and the property crisis, while greater reliance on interest-rate based measures will make it more effective. Just as urgent are additional measures to resolve the property crisis and reduce risks of the associated distress resulting in further macro-financial amplification and setbacks to growth. Given strong demographic headwinds, sustaining growth into the medium term will require re-accelerating market-based reforms that can lift productivity by improving the allocation of resources and facilitating the rebalancing of the economy away from a path of excessive, low-productivity investment, including in real estate. A more balanced growth model, combined with structural reforms in the power sector and the harnessing of green finance, will help China in achieving its climate goals. Contributing to multilateral action in support of global public goods such as combating climate change, helping low-income countries, and avoiding damaging risks from geoeconomic fragmentation will help China as well as the global community.

Growth with Excessive Investment



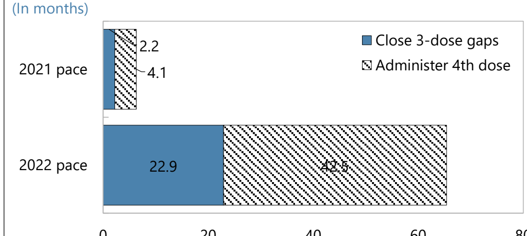
Sources: Penn World Table; and IMF staff calculations.

A. Rebalancing Growth

29. The full lifting of COVID containment measures should be preceded by urgent measures to contain the health impact.

- *Health policies:* Filling the vaccination gap, especially for the most vulnerable, will require urgently re-accelerating the pace of vaccination, and subsequently maintaining it at a sufficiently high level to ensure that protection is preserved. Rapidly scaling up health care capacity and securing necessary supplies of anti-viral treatments would

Scenarios for Vaccination Campaign Duration
(In months)



Sources: National Health Commission China; and IMF staff calculations and estimations.
Notes: "Close 3-dose gaps" scenario assumes the entire eligible population will receive 3 doses if not already received; "Administer 4th dose" scenario assumes entire eligible population will receive a fresh booster. The assumed vaccination pace is based on the median pace of China's vaccination campaign between March and October 2021 (2021 pace) or in 2022 so far (2022 pace).

complement the vaccination efforts to keep the burden on the health care sector manageable (see SIP on exit from the zero-COVID strategy). In the interim period, until these conditions are met, continued efforts to monitor infection levels will help flatten the infection curve.

- *Communication:* Clear forward-looking communication around the planned further easing of containment measures and the milestones around it will facilitate the transition and reduce the uncertainty that businesses and households face.

- *Policy support:* It will be critical to ensure that local governments have the resources to temporarily scale up health care systems, while financial relief measures should be deployed judiciously (see ¶43).

30. In the short term, fiscal policy should protect the recovery and facilitate rebalancing. A more supportive fiscal stance in 2023 compared to staff's baseline, amounting to an increase in the augmented cyclically-adjusted primary deficit of 0.3 percent of potential GDP (see Text Table) and with the composition of expenditures shifting from low-return infrastructure investment towards support for households, will help rebalancing and sustaining demand. In 2023, a combination of short-term labor tax relief such as temporary cuts in social security contributions for wage-earners, and temporary, well-targeted direct transfers to vulnerable households can boost consumption as COVID containment measures are being phased out, with the e-CNY potentially playing an important role in this regard.[7] To the extent possible, transfers should be targeted towards households in regions most severely affected by pandemic outbreaks. Under the baseline, an annual tightening of the CAPB of 0.75 percent of GDP from 2024 onwards, through a combination of tax measures and cuts in off-budget investment spending, would be required to stabilize government debt over the long run (see Appendix III). If the recommended fiscal support to restructure the property sector materialized (see ¶40), debt stabilization would be delayed even longer without greater tightening in the medium term.

China: Fiscal Policy for 2023

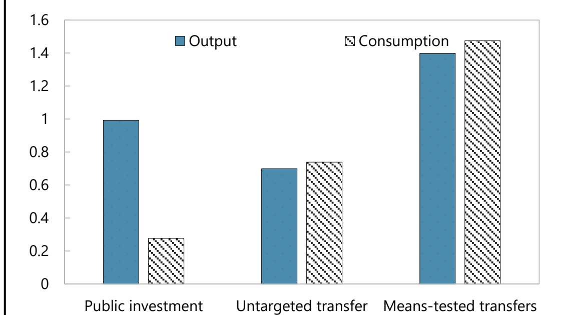
	Baseline	Recommendation
Headline deficit (percent of GDP) 1/	17.0	17.3
Change in CAPD (percentage points of potential GDP) 1/	-0.6	0.3
Memoranda:		
Tax policy	Tax policy utilized to support business, while keeping tax revenue around 15 percent of GDP over the medium term.	Over the medium-term, increase tax revenue through reform of personal income tax and introduction of property tax.
Expenditure policy	Focused on investment spending	Prioritize means-tested social spending and temporary increase overall spending envelope with the additional spending focused on households.

Sources: IMF World Economic Outlook; and IMF staff calculations.
1/ Augmented net lending /borrowing balance. Includes about 1.6 percent of GDP in unidentified expansionary measures.

[7] As of May 2022, China has expanded e-CNY pilot scheme to 23 regions, completing 264 million transactions worth RMB 83 billion (US$11.9 billion). Around 4.57 million merchants across China currently accept the e-CNY.

31. Going forward, it will take the systematic strengthening of the social protection system to sustain high-quality growth (see Box 2). Despite ongoing reform efforts, China's social protection system still provides significantly less coverage and lacks in adequacy compared to other countries at similar or higher per capita income levels.[8] Higher unemployment and medical insurance benefits would provide individuals across the income spectrum with more financial protection in the event of unexpected employment loss and health costs. Greater system integration in the form of risk pooling and benefit portability would help ensure social insurance is available when and where it is needed. With more financial security, households could draw on precautionary savings to finance increased consumption, supporting rebalancing. In addition, a rules-based automatic activation of spending measures linked to the state of the economy such as temporary expansions in coverage of means-tested social assistance programs and an increase in social assistance benefits when the unemployment rate reaches a certain level, would reduce moral hazard. By bolstering consumption, these reforms would also help create a sustainable source of demand for investment in services and consumer industries as the real estate sector stabilizes toward a smaller size and temporary pandemic-related export tailwinds fade.

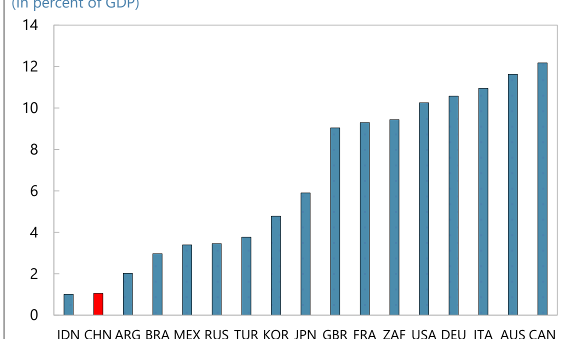
Estimated Fiscal Multipliers



Source: IMF staff calculations.
Notes: Estimated multipliers from a general equilibrium model calibrated to China. See SIP on fiscal multipliers.

32. Combined with a more progressive tax system, these reforms can make fiscal policy a substantially more effective stabilization tool. Social protection spending, particularly unemployment benefit payments, responds automatically to fluctuations in economic activity, making it also a more effective counter-cyclical tool than discretionary spending such as investments, which require long lead times to adequately prepare and execute. Reforms on the revenue side would further strengthen the counter-cyclicality of fiscal policy. Revenue from personal income taxes – one of the few progressive taxes in China – is low by international standards. It should be increased by reducing the basic allowance, while providing a tax credit to low-income wage earners, and broadening the base through removal of deductions for mortgage interest and rental expense.

G20: Individual Income Tax, 2019
(In percent of GDP)



Source: IMF World Revenue Longitudinal Database.

33. Further monetary policy easing will cushion the impact of COVID disruptions and the property crisis, while greater reliance on interest-based measures will make it more effective.

[8] See J. Ralyea, "*Adequate Social Protection for All,*" IMF 2021 China Article IV Staff Report, Selected Issues Papers.

Some additional interest rate-based monetary policy easing is warranted given the still-large output gap and absence of core inflation pressures. Additional easing can ensure that monetary conditions remain accommodative and provide support for balance sheet repair amid real estate market strains and COVID-related uncertainty, with prudential regulatory tools used to address any risks stemming from nonviable firms. Delivering support through interest rate-based measures is more effective in stimulating activity among smaller and more cyclically vulnerable firms compared to credit quantity-based policy tools such as loan growth guidance (see Box 3). Moreover, while credit policies can be targeted to support credit supply for particular regions, sectors, or groups of firms, they can also distort the market-based allocation of factors of production.

34. The RMB should be allowed to adjust flexibly to help absorb shocks and increase the effectiveness of monetary policy. Any concerns about balance sheet effects from exchange rate movements should be dealt with through prudential measures, and CFMs (including the reserve requirement on FX forwards and cross-border financing macro-prudential adjustment parameter) should not be used to actively manage the capital flow cycle and substitute for warranted macroeconomic adjustment and exchange rate flexibility. Foreign exchange intervention should be limited to disorderly market conditions.

Authorities' Views

35. The authorities noted their plan to continue prioritizing health outcomes, while adjusting measures to keep the costs to the economy to a minimum. Strengthening vaccination is a priority, especially for the elderly and vulnerable populations. The authorities are also reviewing their medical capacity and insurance coverage before considering further recalibration of COVID policies.

36. The authorities plan to implement an aggressive and more precise fiscal policy in 2023. They emphasized that fiscal policy in 2023 will maintain a positive orientation and maintain the stability, continuity and sustainability of the policy, including giving full play to the role of local government special bonds to promote the expansion of effective investment; continue to protect market entities, employment, and people's livelihood, promote consumption and expand domestic demand. In order to improve the financial situation of local governments, provincial governments will be encouraged to optimize the financial system below the provincial governments, and at the same time strengthen the coordination of financial resources to promote the smooth operation of finance. In addition, the authorities will focus on sustainability and strictly control administrative costs.

37. The authorities also plan to continue the gradual expansion of the social protection system. They noted that China had built the world's largest social security system, setting up pension, unemployment, work-related injury and medical insurance to provide more protection for the elderly, accidental unemployment, work-related injury expenses or medical expenses. They also noted their intention to further expand the coverage of subsistence allowances by including additional marginal households, and gradually expand the coverage of unemployment insurance, including temporary living allowances for unemployed migrant workers who have been insured for less than one year in 2022. They noted that eligible districts can provide a one-time employment subsidy for enterprises to absorb registered unemployed persons who have been unemployed for more than half a year. In addition, the authorities plan to expand the coverage of medical insurance, workplace insurance, and maternity insurance.

38. Monetary policy will continue to focus on macroeconomic stabilization, among other objectives, using a mix of both quantitative and price instruments. Both types of instruments have played an important role and are used based on the economic and financial situation as well as policy objectives. The authorities noted that quantitative instruments such as structural credit policies could help contribute to the guidance of overall credit growth, while ensuring that credit is directed to key goals or priority sectors for national development, such as green finance or inclusive elderly care.

39. The authorities reiterated their commitment to continue to increase exchange rate flexibility and advancing market-oriented reforms of the exchange rate regime. The authorities considered the reserve requirement on FX forwards as an FX liquidity management measure to anchor market expectations and facilitate the sound operation of the FX market.

B. Ending the Real Estate Crisis and Containing Financial Stability Risks

Strong Central Government Action to End the Deepening Real Estate Crisis

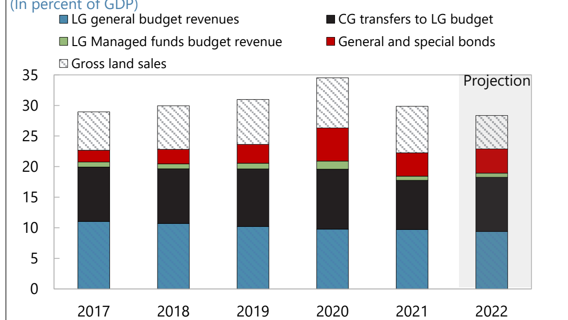
40. Setting up more robust mechanisms to facilitate restructuring and restore homebuyer confidence will be critical in the near term. With households wary of buying unfinished housing from distressed developers, breaking the negative feedback loop between developer stress and weak demand requires proactive restructuring of troubled developers. Forbearance policies, which disincentivize creditors from pursuing restructuring, should be rolled back and avoided in the future (see ¶43 below). To facilitate restructuring (which is impeded by potential losses to households) and to boost homebuyer confidence, temporary mechanisms to protect pre-sale homebuyers from the risk of non-delivery will have to be strengthened. This would include partially protecting past pre-sale homebuyers from unfavorable outcomes in restructuring—i.e., via stronger support for completion of troubled pre-sold housing projects—and reassuring new homebuyers that their consumer interests will be protected until reforms address deficiencies in the current pre-sale system (see Box 1). Although the lack of reliable publicly available data implies high uncertainty, the combined cost of these mechanisms is estimated to be manageable and should be provided by the central government, whereas the costs of delaying the necessary adjustment and restructuring would be higher. To prevent moral hazard, these measures should be done in conjunction with a commitment to legal reforms to the pre-sales model to safeguard funds and provide homebuyers protection against the risk of non-delivery.

41. Over the medium term, structural reforms can facilitate the property market's gradual transformation to a more sustainable size, where demand is driven largely by demographic

factors and household income growth. In addition to the strengthening of China's social protection systems to lower excessively high household savings (see above), providing households with alternative savings options such as "third pillar" pensions would help reduce investment-driven housing demand. Building on the measures announced in November 2022 to this end, policies aimed at increasing the quantity and quality of affordable public and rental housing will diversify housing options for households and also help ease the transition impact on the construction sector.

42. Building on efforts to rein in off-balance-sheet financing and address local SOE debt, fiscal reforms for local governments should alleviate their structural over-reliance on the property market. Such reforms should be centered on raising local government revenues—local government financing is projected to fall to 28.4 percent of GDP in 2022, while own revenues (not including land sales) only cover about half of local government expenditures—if necessary through higher central government revenues and transfers and by strengthening public financial management frameworks to ensure local government debt sustainability (see Box 2). In addition, efforts to strengthen debt frameworks for local government entities should continue. In the long run, instituting a recurrent property tax would also boost revenues in a progressive way, and help curb investment demand for housing.

Local Government Budget Financing 1/
(In percent of GDP)



Sources: CEIC Data Company Limited; Ministry of Finance 2022 budget; and IMF staff calculations.
1/ Local government general budget and local government managed fund budget. Excludes off-budget financing.

Addressing Broader Financial Vulnerabilities

43. Stronger prudential policies for the banking sector will help identify vulnerabilities and rebuild buffers to address the mounting pressures from lockdowns and real estate, especially in smaller banks.

- *Adjusting financial support:* Credit policies aimed at alleviating liquidity pressure during periods of COVID-related disruptions remain warranted, but these policies should be market-based, time-bound and targeted, with transparently funded credit guarantees in line with international best practice. Loan moratoria could be recalibrated to include principal-only repayment deferrals based on judicious eligibility criteria. To avoid future asset quality risks, regular loan classification and provisioning rules should be maintained and regulatory forbearance granted to loans benefiting from pandemic- and real estate-related relief measures should be phased out. This should be combined with banks proactively tackling and provisioning for existing asset-quality problems, by improving asset quality transparency and expanding the use of forward-looking loss provisioning in their internal risk assessment framework.

- *Taking into account real estate risks:* The authorities should continue upgrading surveillance efforts to be better prepared to address financial stability risks from the property sector and elsewhere. In the case of small- and medium-sized banks, this would entail becoming more proactive in requiring banks to meet prudential requirements supported by asset quality reviews and submit credit capital plans, all under heightened audit and supervision. For the wider system, this will require upgrading the systemic risk surveillance toolkit by filling data gaps and improving stress-test capabilities.

44. Upgrades to restructuring frameworks are urgently needed to help facilitate the exit of nonviable firms and banks while protecting financial stability. Rising financial strains underscore the urgency and complexity of addressing elevated leverage in the economy. The authorities unveiled a reform plan in 2019 to strengthen market-based exit mechanisms by making insolvency and resolution a credible option,[9] and the draft *Financial Stability Law* is a welcome step to further improve on existing restructuring and policy coordination mechanisms. To complement these efforts, the bank resolution regime should establish a single resolution authority with a clear mandate, strong operational independence, legal protection, and sufficient institutional separation from bank supervision. Local governments' role in financial stability policies should be narrowed, as legal responsibility for resolution funding can worsen their debt challenges, and because as owners, creditors or guarantors of many troubled entities, their participation in risk monitoring and resolution activities can create conflicts of interest. The use of public sector funds for recapitalization or liquidity support should be strictly limited and come only after burden sharing by existing investors, while nonviable firms and banks should exit with shareholders and uninsured creditors bearing losses in accordance with clearly established hierarchy of claims.

45. China should continue strengthening the effectiveness of the AML/CFT framework, including measures to prevent the misuse of e-CNY. A campaign was launched in 2021 to strengthen the national AML/CFT framework. The campaign includes plans to enhance organizational leadership, training and awareness, to invest in analytical capabilities, and to impose more severe fines for breaches, by financial and non-financial institutions, of AML/CFT preventative requirements of reporting entities. The planned amendments (including broadening the range of institutions that are required to comply with AML/CFT obligations and enhancing AML/CFT preventive measures) to strengthen the AML Law are welcome. As part of these efforts the authorities should further (i) enhance the transparency of beneficial owners of legal entities registered in China to prevent their misuse for criminal purposes (e.g., money laundering, corruption, tax evasion) and ensure that (as part of the development of the new beneficial ownership system) competent authorities and institutions have timely access to adequate, accurate and up to date beneficial ownership information; (ii) introduce a comprehensive legal framework to implement United Nations-based targeted financial sanctions requirements related to terrorism, and financing of terrorism and proliferation financing; and (iii) improve financial sector supervision (in particular, fit and proper assessments to prevent criminals from owning/controlling financial institutions) and compliance with AML/CFT preventive measures. To safeguard financial integrity, it should be ensured that the design of e-CNY (including anonymous lower tier wallets) is in line with the authorities' understanding and analysis of the associated ML/TF risks, and does not interfere with the

[9] "Reform Plan for Accelerating Improvements of the Exit System for Market Players."

effective implementation of the full suite of FATF recommendations (including key AML/CFT preventive measures).[10]

Authorities' Views

46. The authorities emphasized that they had already proactively addressed strains in the real estate market. They highlighted that since the second half of 2021, a range of actions had been taken to support the supply and demand sides, including reducing mortgage interest rates, supporting the construction and delivery of pre-sold projects, and city-by-city measures to support housing demand. They viewed that these measures had already largely contained the risks related to difficult-to-deliver, pre-sold housing projects and related mortgage repayment difficulties. Furthermore, they noted that many of these measures will only generate an impact with a lag. They noted local governments are playing an active role in stabilizing the real estate market and preventing and defusing financial risks.

47. The authorities agreed with the importance of continuing to strengthen the AML/CFT framework and considered the updates to the AML Law a key step. They recognized the importance of the establishment of a robust beneficial ownership system (in line with the revised FATF recommendations), highlighting the large scale of this project for China. They also outlined the progress made towards establishing an effective regime for targeted financial sanctions. The authorities agreed that AML/CFT requirements applied to e-CNY, similar to requirements for any other form of electronic payment instruments. They noted that the e-CNY did not require a change in the AML/CFT framework. While there were challenges in the implementation of certain AML/CFT measures due to the collection of some customer information, they considered that the e-CNY, with its fiat currency nature, innovative technology and risk-based rationale, will contribute to supervision efforts and regulatory compliance (*suptech* and *regtech*) for the authorities and thus strike a good balance between AML/CFT compliance and financial innovation and inclusion.

C. Responding to Potential Downside Risks

48. Additional policy support should be provided under some downside scenarios (Appendix II). Macroeconomic policies would need to be loosened compared to the baseline should aggregate demand falter, and the extent of support might need to be significantly larger should different downside risks materialize together. China has some fiscal space to respond to these scenarios, but any fiscal expansion should be on-budget, centrally financed, and focused on areas with high impact on growth such as spending on low-income households. Further monetary easing should focus on policy rate cuts. Should the lifting of COVID containment measures lead to a faster-

[10] As part of the design of e-CNY involves managed anonymity and a threshold-based approach for customer due diligence (CDD), in order to comply with AML/CFT requirements, mechanisms/controls will need to be in place for all transactions in order to enable screening for targeted financial sanctions (covered by the international standards on AML/CFT), to link transactions to understand when a customer reaches a particular threshold (at which point CDD should be carried out), and to detect instances where a customer splits a larger transaction into smaller amounts in order to avoid triggering AML/CFT controls.

than-expected rise in demand and inflationary pressures, monetary policy will need to adapt quickly. A deepening of the real estate crisis and any associated financial amplifications would further stress the urgency of facilitating the orderly restructuring of the sector. In the event of financial instability, the authorities should stand ready to ensure the functioning of core funding markets and provide emergency liquidity assistance to viable banks facing liquidity shortfalls, subject to appropriate safeguards. External short-term risks, such as those stemming from an escalation of the war in Ukraine, should be primarily faced by letting the exchange rate adjust flexibly to changes in the terms of trade.

Authorities' Views

49. The authorities noted that macroeconomic policies would remain flexible, responding to the realization of downside risks as needed. They noted that both fiscal support such as tax relief and financial support for investment could be implemented in the event of negative shocks to growth. Monetary policy will continue to give top priority to macro stabilization, including by providing needed liquidity, guiding financial institutions to provide stable credit growth, and using structural credit policy tools to increase support for key sectors and regions.

D. Lifting Medium-Term Growth

50. Re-accelerating market-based structural reforms will be key to raising domestic productivity growth. Against the backdrop of demographic headwinds, tepid productivity growth, and a decline in business dynamism in the past decade, medium-term growth prospects depend critically on success in implementing reforms to lift productivity while rebalancing away from excessive, low-productivity investment.

- *Reforming SOEs and ensuring competitive neutrality between SOEs and privately-owned enterprises (POEs)*. The authorities should avoid resorting to SOEs to respond to fragmentation pressures, further burdening them with mandates in specific sectors. As SOEs tend to be less productive, this risks further widening productivity gaps with advanced economies. Counterfactual estimates suggest that closing productivity gaps between SOEs and POEs could increase total factor productivity by about 6 percent.[11]Given this, productivity growth can be bolstered by ensuring a level playing field for all enterprises and rolling back support to SOEs, including by removing implicit guarantees, increasing banks' risk weights on corporate loans to firms with stretched debt-to-earning ratios, adjusting cost advantages provided to SOEs, strengthening financial reporting, and fostering the orderly exit of unprofitable SOEs.

- *Removing local protectionism*. Removing administrative borders between prefectures has been estimated to increase local GDP per capita by about 10 percent over the long term.[12] Removing

[11] Jurzyk and Ruane, op. cit.

[12] Y. Han, "*Administrative Barriers, Market Integration and Economic Growth*," Job Market Paper mimeo, available at https://www.econ.pitt.edu/sites/default/files/JobMarketPaper_YiHAN.pdf

obstacles generated by local protectionism, including by further opening up the domestic market, will require a lasting central-government-led effort with adequate staffing and coordination among relevant agencies. A concerted nationwide effort would strengthen the incentives for provincial governments to carry these reforms.[13]

- *Greater reliance on market forces will also help improve resource allocation*. While support for basic R&D can help foster innovation and boost productivity, industrial policy subsidies—which some estimates place well over one percent of GDP[14]—can be wasteful. Similarly, attempts to guide private capital allocation are likely to lead to productivity losses. Concerns around competition, social, and security issues can be best addressed through relevant regulation and fiscal policy.

- *Where structural reforms are needed, they should be well communicated, minimizing policy uncertainty*. Structural reforms and any new regulations should be introduced in a measured, transparent, and predictable manner, thus avoiding adverse effects on private investment and minimizing disruptive labor market dislocations.

51. Staff estimates suggest that comprehensive steps to lift productivity growth and foster rebalancing towards sustainable, less investment-driven growth could significantly raise China's growth potential (see Box 4). A comprehensive set of structural reforms could lift GDP levels by around 2½ percent over the medium term and 18 percent over the long term. Combined with a re-orientation of fiscal resources toward household support, domestic consumption would increase significantly, with private consumption share of GDP rising by 18 percentage points by 2037. This growth—estimated at an average of about 4¾ and 4½ percent over the medium and long term—would also be less risky, and would be accompanied by a reduction of the augmented general government debt burden from 173 to 146 percent of GDP by 2037.

Authorities' Views

52. The authorities agreed that reforms could boost productivity, including by increasing competition from removing local protectionism. They noted that they will build on the achievements of the existing work, improve the working mechanism, strengthen supervision and law enforcement, push for the elimination of local protection and administrative monopolies, and accelerate the development of a large unified national market. They believed that SOEs have played their due role in economic and social development and have made positive progress in reform and development. At the same time, they stressed that the Chinese government treats enterprises of all types of ownership the same and creates a level playing field for all types of market players. They remained committed to further mixed-ownership reforms that would help introduce strategic

[13] See Barwick and others, "*Local Protectionism, Market Structure, and Social Welfare: China's Automobile Market*," American Economic Journal: Economic Policy, Vol. 13, No. 4, November 2021.

[14] DiPippo and others, *"Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective,"* Center for Strategic and International Studies, May 2022.

investors and encourage different types of capital to draw on each other's strengths and promote common development. They noted that demographic headwinds would be offset by continued improvements in human capital and by further urbanization encouraged by the streamlining of *hukou*, which will improve migrant workers' access to public services.

E. Achieving the Climate Goals

53. Advancing power sector reform is critical to effectively implement China's climate agenda. Estimates suggest that China is set to over-achieve its own carbon-peaking target (see SIP on power sector reform, Box 1). However, further efforts will be needed to help close the global mitigation ambition gap. In that context, while climate change-induced weather shocks might require temporary increases in coal usage, future provisions should be made for reducing the role of coal as the baseload power. These include letting power prices fluctuate more freely based on market conditions, strengthening inter-provincial power trading, expanding the grid system, and scaling up of ancillary services to increase renewables' stability in energy generation and support their growing share in the energy mix. Rebalancing towards more consumption-led growth would shift economic activity to less energy-intensive services sectors.

54. Fostering the development of climate finance further could provide additional impetus to the transition toward a carbon-neutral economy and improve the quality of growth. China is one of the largest green finance-issuing jurisdictions in the world. Various policy initiatives have given rise to a large climate finance ecosystem that is dominated by banks' green lending. The authorities are seeking to improve green bond standards, which will help, *inter alia*, to ensure that proceeds are used for eligible climate mitigation and adaptation projects. A greater use of external reviews can also help ensure the reliability of climate-related information. A market-oriented climate finance ecosystem that attracts more domestic and foreign investors and offers more diversified products would require further improvement in climate-related data, definitions, and disclosures. China should also develop a framework to ensure adequate financing for the transition of carbon-intensive activities. At the same time, incorporating climate-related risks into the prudential policy framework and systemic risk oversight, including by further conducting climate stress testing, could help safeguard financial stability risks stemming from potential stranded assets and physical effects of climate change (see SIP on climate finance).

Authorities' Views

55. The authorities reiterated their firm commitment to reaching a carbon emissions peak by 2030 and carbon neutrality by 2060. They also emphasized their plan to establish new energy sources before closing old ones, to ensure energy security. The authorities noted that coal will continue to be an important energy source in China but based on "cleaner" technologies, in the long term mainly to meet for peak energy demand. They released the National Climate Change Adaptation Strategy 2035, the crucial first step towards increasing climate resilience. They also reported that the Emissions Trading Scheme was functioning well and will be strengthened going forward. They noted recent efforts to further enhance the climate finance ecosystem. Regulations are being prepared to implement the updated China Green Bond Principles, while new Green Finance Guidelines for the Banking and Insurance Sector were introduced to improve financial institutions' climate-related financial risk management. Last year, the PBC conducted its first climate stress test, which assessed transition risks faced by major banks. They were also developing the transition finance framework, complementing the existing green finance framework.

F. Contributing to Multilateral Solutions

56. The threat of geoeconomic fragmentation not only adds to the urgency of domestic structural reforms, but also emphasizes the importance of multilateral efforts to avoid it. Policymakers in China and other countries have some legitimate economic and geopolitical security concerns, given global markets for many goods, services, and financial instruments and the dependencies they create. But fragmentation of the current global division of labor comes at a high cost. The income losses associated with decoupling economies from each other—be it in terms of technology, energy, or financial flows—create important tradeoffs between income and security, and a careful, realistic evaluation of the costs and benefits of fragmentation is needed (see Chapter 3 in the IMF's October 2022 *Asia and the Pacific Regional Economic Outlook*). China would benefit not only from reaching new WTO-based agreements in areas like e-commerce and investment facilitation, but also from clarifying and strengthening rules on subsidies, and restoring a well-functioning dispute settlement system at the WTO. Like other major trading nations, China's ability to lead in the WTO will also depend on its demonstrated commitment to openness and transparency in its own trade policies—including the reform of SOEs. China should also continue to work with other countries to find multilateral solutions in other areas, such as climate mitigation and financing for developing countries. China is now a large creditor with an important role to play in providing debt relief when necessary, and 60 percent of low-income countries are now in or at high-risk of debt distress. The establishment, with China's support, of the G20 Common Framework for Debt Treatments to support debt resolution for low-income countries was thus a welcome and important step. The priority now is to make this process for providing relief faster and more predictable. In terms of climate issues, China has a leading role to play in international negotiations and can help catalyze action among other countries to complement their existing climate mitigation commitments.

Authorities' Views

57. The authorities stressed their support for the multilateral trading system and globalization. They emphasized the need for global cooperation to accelerate the end of the crisis and restore the cross-border mobility of factors of production. They called for countries to refrain from protectionist measures, including through the abuse of national security exceptions for economic gains. They stressed their commitment to coordination and cooperation with all parties to maintain the stability of the global supply chains. They agreed that the G20 Common Framework for Debt Treatments was an important coordination mechanism among bilateral lenders.

G. Improving Economic Data

58. Further efforts are needed to address significant remaining data gaps. While data are broadly adequate for surveillance, significant data gaps remain (see Informational Annex). These include the need for a breakdown of seasonally-adjusted real GDP by expenditure component, which would help better assess growth momentum and its drivers; general government data with a breakdown of expenditures by economic type (particularly, the decomposition between current and capital expenditure)[15] and including the sizeable operations of LGFVs, to better capture fiscal activity and strengthen policy analyses; and data on foreign exchange intervention to facilitate more integrated policy advice and support multilateral surveillance through more comprehensive monitoring of the international monetary system. In addition to China's continued commitment to timely data dissemination under the IMF Special Data Dissemination Standard and the G20 Data Gaps Initiative, addressing these gaps and improving data quality would further enhance data transparency and support policy making.

Authorities' Views

59. The authorities maintained that they complied with IMF data requirements. China subscribes to the IMF's Special Data Dissemination Standards (SDDS) requirements. GDP accounting is based on the production side, consistent with the 2008 System of National Accounts, including by publishing seasonally adjusted quarter-on-quarter real GDP growth rates. The authorities also noted that they continue to improve internal control and budget systems across central government agencies and levels of government. Moreover, they highlighted that procedures and processes continue to evolve to better monitor local government debts. They noted that China's disclosure of foreign exchange data is also in accordance with SDDS.

STAFF APPRAISAL

60. Following the impressive recovery from the initial impact of the pandemic, growth in 2022 slowed significantly, and it remains under pressure. The slowdown reflects recurring COVID outbreaks, the unresolved real estate crisis, and weakening global demand. Reduced efforts in promoting growth-enhancing reforms against the backdrop of increasing geoeconomic fragmentation pressures stand in the way of a much-needed lift to productivity growth and China's medium-term growth potential. On a preliminary basis and adjusting for remaining transitory pandemic-related factors, the external position in 2022 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

61. Macroeconomic policies were eased appropriately in 2022 but they provided little support to economic rebalancing. The effectiveness of the policy support was diminished by a

[15] China is the only G20 country not reporting the breakdown of expenditure by economic classification and the decomposition between current and capital expenditure.

focus on enterprises and increasingly less effective traditional infrastructure investment rather than household support. The lagging consumption recovery makes it more difficult to reduce the energy intensity of growth—a crucial component of China's path to carbon neutrality, while climate change-induced heatwaves have led to an increased reliance on coal as policymakers have eased some intermediate climate targets.

62. Risks are to the downside. A deepening of the property sector crisis could trigger macro-financial stress and generate potentially large external spillovers. Broad-based and deeper-than-expected deleveraging could create adverse feedback loops significantly lowering growth. While ex ante less-stringent COVID containment measures could lead to a somewhat quicker recovery, uncertainty around case numbers amid still-insufficient population-wide immunity in early 2023 presents large downside risks. Insufficient preparation for a further easing of containment measures could come with significant health consequences and set back the recovery of private consumption and investment and impact supply chains, with spillovers to the rest of the world. A well-sequenced lifting of containment measures also entails risks, including stronger-than-expected inflationary pressures.

63. Policies in the near term should protect the recovery and facilitate rebalancing. A more supportive fiscal policy stance than in the baseline and modified to bolster support for households will boost demand and help rebalancing towards consumption. Further monetary policy easing will cushion the impact of COVID disruptions and the property crisis, while greater reliance on interest rate measures will make it more effective. The full lifting of COVID containment measures should be preceded by urgently re-accelerating the pace of vaccination (and subsequently maintaining it at a sufficiently high level to ensure that protection is preserved), rapidly scaling up health care capacity, and securing necessary supplies of anti-viral treatments. These policies will help set the conditions for high-quality growth—that is, growth that is balanced, inclusive and green.

64. Further action at the national level is needed to end the property crisis and protect broader financial stability. It will be critical to set up more robust mechanisms to protect homebuyer interests and thus pave the way for market-based restructuring and restore homebuyer confidence. To avoid future asset quality risks, regular loan classification and provisioning rules should be maintained, and regulatory forbearance granted to loans benefiting from pandemic- and real estate-related relief measures should be phased out. Over the medium term, structural reforms can facilitate a gradual housing market transformation to a more sustainable size. Stronger prudential policies for the banking sector will help identify vulnerabilities, while upgrades to restructuring frameworks are urgently needed to help facilitate exit of nonviable firms and banks while protecting financial stability. China should also continue strengthening the effectiveness of the AML/CFT framework.

65. Structural reforms will be key to raise productivity growth and more effectively implement the country's climate agenda. Ensuring competitive neutrality between private and state-owned firms, removing local protectionism, and an overall greater reliance on market forces are the most effective responses to fragmentation risks and to shore up productivity growth. To implement the climate agenda, it will be critical to let power prices fluctuate more freely based on market conditions, strengthen inter-provincial power trading, expand the grid system, and scale up ancillary services. Fostering the development of climate finance further could provide additional impetus to the transition toward a carbon-neutral economy.

66. Together with other countries, China can play a leading role in addressing global challenges. These include addressing geoeconomic fragmentation risks, alleviating debt distress in low-income economies, strengthening global trade openness and transparency, and confronting climate change.

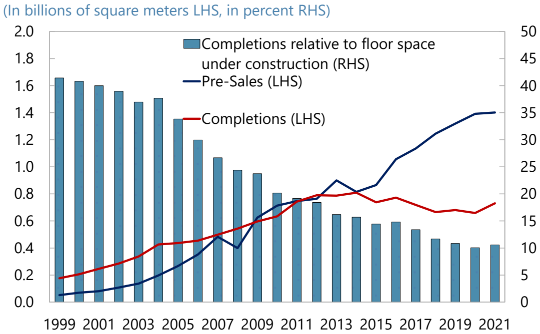
67. China should urgently address remaining macroeconomic data gaps to further improve data credibility and strengthen policy making. While data are broadly adequate for surveillance, significant data gaps remain. Addressing these gaps and improving data quality would further enhance data transparency and support policy making.

68. It is proposed that the next Article IV consultation with China takes place on the standard 12-month cycle.

Box 1. Addressing Distressed Developers' Unfinished Housing[1]

A key challenge to arresting the real estate crisis is tackling the large backlog of partially built housing, as many pre-sold projects owed by troubled developers are now at risk of non-completion. This, in turn, is further weakening homebuyers' confidence in the pre-sales system and impeding market-based restructuring, further delaying the stabilization in housing demand. Strong government policies to address this complex set of vulnerabilities will be costly but are critical to avoid deeper losses.

Residential Real Estate: Annual Pre-Sales and Completions
(In billions of square meters LHS, in percent RHS)



Sources: CEIC Data Company Limited; National Bureau of Statistics China; and IMF staff calculations.

China's property sector is going through a sharp contraction. China's residential housing sales averaged 1.5-1.6 billion square meters per year from 2018-2021, about 30-50 percent higher than estimated annual demand for the next few years based on demographic and housing stock factors.[2] Ratios of average sales prices to median household disposable incomes in the smallest cities are nearly double that of the largest OECD cities, suggesting much of the newly built housing is not affordable for most households. A decline in sales and the contraction of the real estate development sector is necessary for property-related activity to converge towards sustainable demand levels and help reallocate labor and resources to more productive sectors of the economy. However, the liquidity squeeze affecting healthy developers could drive housing demand to overshoot to the downside, adding to price adjustment pressures and increasing spillovers to aggregate demand and public and private balance sheets.

A key underlying challenge to restoring confidence and securing an orderly transition is the large backlog of partially built housing. In the years prior to the crisis, developers expanded their use of pre-sales of unfinished homes as a de facto form of financing, in part by using home purchase deposits to cover the cost of unrelated projects. The annual ratio of housing pre-sales to completions—an indicator of the growth of unfinished housing—reached an average ratio of two in the last four years, up from about one in the decade through 2015. Residential real estate under construction as a result reached 6.9 billion square meters at end-2021, ten times the average floor space completed by the sector each year. The slowdown in sales has sharply limited the availability of funds to finish construction on many pre-sold projects, particularly for distressed developers. The rising risk of non-completion for some of these projects impairs the realizable market value of developer assets, worsening their solvency and liquidity problems, and affects homebuyers' willingness to purchase homes before they are completed. This not only limits developers' capacity to continue investment, but risks sizeable losses for households and the banks that funded these purchases via mortgage credit. Homebuyers' decreased confidence in the pre-sales model also limits the traction of policies aimed at stimulating housing demand.

Without stabilization for pre-sold housing demand, a large segment of partially finished housing would be at risk of noncompletion. While significant data gaps make the task of estimating the cost of completing troubled developers' partially built housing inevitably imprecise, a range of estimates suggests the cost could be significant. The average of the midpoints of three estimation approaches places the *gross* cost of completing distressed developers' pre-sold projects—with no funding from additional sales or restructuring recoveries—at roughly 5 percent of GDP, with one approach implying costs well above that. The wide range reflects significant uncertainty around the distribution of troubled projects within the developer sector, their degree of completion, and the availability of already escrowed cash, among other factors.

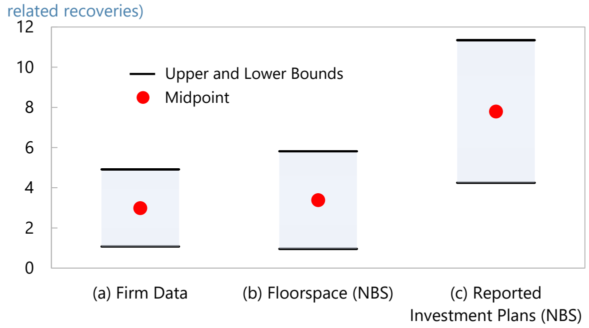
Box 1. Addressing Distressed Developers' Unfinished Housing[1] (continued)

Robust mechanisms to restore homebuyer confidence are critical to accelerating developer restructuring and ending the crisis. Launched quickly and administered and funded on an emergency basis by the central government, these measures can shore up household demand, averting the risk of disorderly declines in sales and investment. Equally importantly, these mechanisms will provide safeguards for consumer interests in restructuring, paving the way for more proactive restructuring of troubled developers.

- A ***support scheme for homebuyers awaiting delivery*** should support construction of pre-sold housing and/or compensation to homebuyers as optimal, have central government fiscal backing, capacity for front-loaded disbursement of funds, and mechanisms for ex post burden-sharing, particularly from developers and creditors whose collateral would be impaired absent government support. Its scope should be flexible, given the wide range of circumstances facing troubled projects, provided it adheres to the objective of restoring homebuyer confidence at minimum taxpayer cost. Projects assessed by the authorities to be commercially nonviable should be restructured and sold to healthy developers or taken over by the scheme at zero cost, prioritizing projects with large numbers of pre-sold units. The scheme would then complete taken-over projects or provide partial compensation to homebuyers, depending on which is less costly. Local governments should not be required to fund interventions, as that would limit their incentives for prompt action.

Ranges of Estimates of Gross Completion Costs for Troubled Pre-Sold Housing Projects

(In percent of GDP, assumes no funding from additional home sales or restructuring-related recoveries)



Sources: Capital IQ; CEIC Data Company Limited; WIND; National Bureau of Statistics China; and IMF staf calculations.

Notes: NBS = National Bureau of Statistics. Each estimation approach uses a range of assumptions for key inputs to arrive at upper and lower bound cost estimates. *Approach (a)* uses developer-reported financial data to sum up the gap between distressed developers' contract sales since 2019 and recognized revenues from mid-2020 (or 2021) onwards, a proxy for the sales value of undelivered homes. Homebuilding costs net of land purchases for these pre-sales are estimated based on developer-reported margins (40%) and a range of estimates for the blended ratio of sold to unsold units. *Approach (b)* imputes floor space under construction net of completions to distressed developers based on their share of total sector assets. This uses ranges of estimates for: total floor space under construction (based on NBS data); completion costs per square meter; and the share of floor space linked to distressed developers. *Approach (c)* uses the gap between NBS data on developer-reported planned and completed real estate investment – a proxy for planned but not yet completed investments – and imputes a portion to distressed developers based on their asset market share, deducting their assumed pro rata share of 2022 investment. For approach (a), distressed developers are those identified in a recent firm-level GFSR analysis as having liquidity, viability, and solvency vulnerabilities (for the lower bound estimate) and those with two of those three vulnerabilities or a 30-day trailing price-book ratio (or last available price-book ratio) below 0.25x. For approaches (b) and (c), distressed developers' market share uses the asset share of the firm groupings identified in the GFSR analysis, which amounts to 23 to 44 percent. All approaches deduct 10-50% of remaining project costs (or available cash, whichever is higher) to factor in uncertainty around existing escrowed funds.

- A ***future homebuyer protection scheme*** would protect new homebuyers from the risk that developers fail to deliver housing purchased via pre-sales. This could take the form, initially, of a government-established insurance policy (or guarantee) scheme to compensate homeowners in the case of project failure or delay, to be underwritten by financial institutions with central government risk-sharing and oversight. Fees would be paid by developers, limiting incentives for reliance on pre-sale funds. Financially weak developers and nonviable projects would be ineligible. Government risk-

Box 1. Addressing Distressed Developers' Unfinished Housing[1] (concluded)

sharing for this market should be eventually wound down once the crisis subsides and developers possess sufficient collateral to access such insurance on a market-driven basis, or once alternative

- reforms (including legal reforms to the pre-sales model) are in place to protect pre-sale homeowners against the risk of non-delivery.
- ***Clear communication*** of the crisis response would amplify the impact on homebuyer and investor confidence, while improving the efficiency of the support schemes will require urgently ***strengthening monitoring and data collection*** efforts on housing projects and related exposures.
- Further macroprudential and city-level regulatory housing ***policy support*** can help ensure any correction in housing demand does not create macro-financial stability spillovers. Regulatory forbearance, which can create disincentives to restructure, should be phased out and loan moratoria should be subject to strict conditions. Policy interventions that distort market signals—home price floors and LGFV purchases of land—should be avoided, as these will delay needed market adjustments and make them more costly.

These policies will be costly but are critical to avoiding deeper adjustment-related losses. While the completion cost estimates are large, they could grow if the developer crisis continues, while any spending on stalled projects would avoid significantly larger losses for households stemming from non-completion. As part of a well-communicated policy package that restores homebuyer confidence in the pre-sales model and restructures developers, expanded central government support for the construction of troubled pre-sold housing projects would also help limit the expected declines in home sales, easing funding constraints on construction activity. A rebound in distressed developer sales to declines seen for non-distressed developers would yield roughly 1-2 percent of GDP annually in additional funds for completion, reducing the overall cost of such a scheme, with another 1-2 percent of GDP potentially available from modest recoveries from restructuring distressed developers' inventories and long-term investments.

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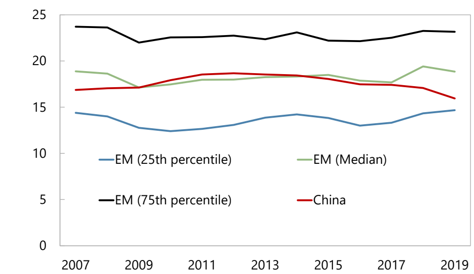
[1] Prepared by Henry Hoyle.

[2] See for instance Rogoff and Yang, "*A Tale of Tier 3 Cities*", IMF Working Paper 2022/196, International Monetary Fund, Washington, (forthcoming); Shan and Others, "*Credit supply holds the key to China housing outlook in 2022",* Goldman Sachs research report, October 2021; Xia and Huang, "How big is the room for China's real estate market in the future?" (Chinese), Evergrande Research Institute, 2019.

Box 2. A Reform Agenda for China's Fiscal Framework[1]

Further reform of China's fiscal policy to increase the progressivity of tax system, prioritize spending on households instead of infrastructure, and improve the intergovernmental framework would strengthen the role of fiscal policy as an automatic stabilizer while accelerating economic rebalancing toward private consumption. The measures would also be consistent with sustained consolidation to reduce fiscal vulnerabilities.

Despite a number of reforms, significant structural gaps remain in China's fiscal framework. A *structural tax revenue deficit* has incentivized local government recourse to opaque, off-budget financing mechanisms to cover expenditures, leading to high government debt. An *expenditure policy that prioritizes public investment* is less effective in stabilizing economic fluctuations than one that prioritizes targeted support to households. G*aps in the social protection system* have led households to self-insure through high precautionary savings, stymieing rebalancing toward a more sustainable growth model.



Sources: IMF's World Revenue Longitudinal Data set (WoRLD); and IMF staff calculations.

A fiscal framework with a more progressive tax system and high-multiplier spending would better support economic stabilization and rebalancing. China's tax revenue, which fell by 2½ ppt of GDP over the decade before the pandemic, remains low relative to its peers. Personal income tax reforms to reduce basic allowances while providing a tax credit to low-income wage earners, and broaden the base by removing various deductions would generate more tax revenue. Increasing the coverage and benefit payments of social protection[2] would allow households to reduce their high savings rate, facilitating rebalancing towards private consumption. Prioritization of spending on households over investment would also deliver larger stabilization benefits. For example, means-tested transfers to households would boost aggregate demand 50 percent more than an equivalent amount of public investment (see SIP on fiscal multipliers). To ensure consistency across policies, fiscal policy should be undertaken within a medium-term fiscal framework.

Intergovernmental reform would help address fiscal imbalances at the local level. Many local governments face permanent funding gaps and have heavily relied on real estate for revenues and as collateral for off-balance sheet borrowing. Building on earlier efforts to rein in off-balance-sheet financing and address local SOE debt, further reforms should be centered on increasing revenues, which could include: greater central government transfers coupled with significant improvement in local government fiscal transparency and better controls; introducing a recurrent property tax system; and establishing an automatic and non-regressive fiscal transfer system. These reforms would help address unsustainable local public finances and mitigate potential macro-financial feedback loops in provinces with relatively weak public finances.[3] Efforts should also be made to improve overall fiscal transparency and strengthen public financial management frameworks, including over public investment.[4]

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[1] Prepared by John Ralyea.

[2] See Ralyea, "Adequate Social Protection for All" IMF Selected Issues Papers, 2021 Article IV Consultation.

[3] See Han and others, "Intergovernmental Coordination in China: How Much Fiscal Risk Sharing is There, and Can It Be Improved?" IMF Selected Issues Papers, 2020 Article IV Consultation.

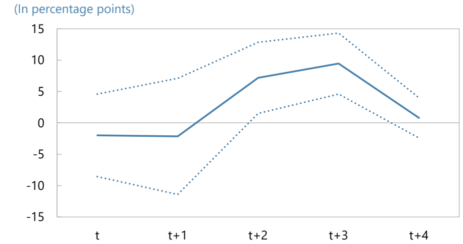
[4] For more on public financial management reforms, see the IMF Departmental Paper "Managing Down the Debt Overhang: Market-based Exit Mechanisms for the Chinese Economy," forthcoming.

Box 3. The Benefits of Interest Rate-Based Monetary Policy[1]

The Chinese authorities have recently increased the emphasis on the use of non-interest rate-based monetary policy tools. Evidence suggests that these policies cannot reproduce the benefits of traditional interest rate policy adjustments, suggesting interest rates should continue to play a primary role in the policy toolkit.

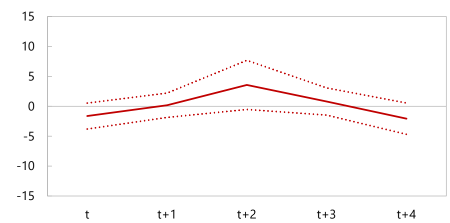
China's monetary policy framework has recently increased its emphasis on quantity-based monetary policy tools. These policies, which induce banks to increase net lending through non-interest rate means, have long featured in China's policy toolkit. Their use has recently expanded given their promise of more precisely controlling credit growth and avoiding financial risk-taking. Adjustments to policy interest rates have become less frequent, both relative to China's recent past and to other emerging markets.

Interest Rate Shock: Small Firms
(In percentage points)



Sources: Capital IQ; CEIC Data Company Limited; WIND; Bloomberg; and IMF staff calculations.
Notes: Each time period t is one half-year. Interest rate shocks are unexpected 25 basis point decreases to the 1-year interest rate swap rate on days of monetary policy announcements. Credit policy shocks are unexpected 12.5 percentage point increases in credit above trend levels. Confidence intervals shown are 90 percent.

Credit Policy Shock: Small Firms
(In percentage points)



Sources: Capital IQ; CEIC Data Company Limited; WIND; Bloomberg; and IMF staff calculations.
Notes: Each time period t is one half-year. Interest rate shocks are unexpected 25 basis point decreases to the 1-year interest rate swap rate on days of monetary policy announcements. Credit policy shocks are unexpected 12.5 percentage point increases in credit above trend levels. Confidence intervals shown are 90 percent.

Evidence suggests these quantity-based policy tools should not substitute for traditional interest rate-based monetary policy. Using local projections (Jorda, 2006), an unexpected decrease in short-term interest rates is found to generate a significant investment response among Chinese firms that peaks 1.5 years later, in line with theory and evidence on monetary policy transmission (see SIP on monetary policy). Importantly, this result is largely driven by small firms and other firm groups facing financial constraints. This response also controls for unexplained shifts in credit growth, which is used as a proxy for quantity-based monetary shocks.[2] These credit policy shocks generate a weaker response for small firms, with statistically significant responses only for large and state-owned firms.

Greater use of credit policy could weaken monetary policy's countercyclical impact and bring other downsides. Relatively muted transmission of credit policy shocks to financially constrained firms may reflect bank risk aversion as they allocate policy-induced "excess" credit to lower risk firms, or implicit guarantees and other factors that limit spillovers to riskier credit markets. As smaller firms tend to be the most financially constrained and vulnerable to cyclical fluctuations, credit policies therefore may be less effective in managing countercyclical demand fluctuations. Credit policies' clearer benefits for larger, more established firms also point to potential for exacerbating disparities in credit availability for smaller firms.

Interest rate policies' strong effects on investment suggest they should continue to play a primary role in managing cyclical fluctuations. Excessive risk-taking due to lower interest rates should be addressed via prudential policy tools. Well-designed and market-based quantity-based policy tools have a role in China's monetary policy framework—for instance in addressing market failures in credit supply or amplifying interest rate-based policies—but they should not replace interest rate policies as the primary policy instrument.

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[1] Prepared by Henry Hoyle.

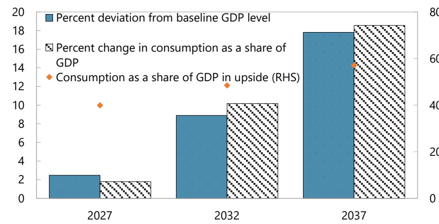
[2] Credit policy shocks are estimated as unexplained changes in credit growth relative to trend given both unexpected interest rate shocks and the expected level of interest rates based on economic activity and inflation measures.

Box 4. Policies for Higher and Higher-Quality Growth[1]

Comprehensive structural reforms to lift productivity growth and foster rebalancing towards more sustainable and less investment-driven growth can significantly raise China's growth potential over the medium- and long-term, while increasing the share of consumption, reducing emissions, and lowering debt ratios.

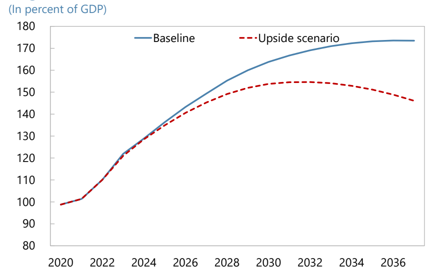
This box provides estimates of an upside scenario in the long run under the following set of recommended structural reforms (see SIP on potential growth): (i) a budget-neutral re-composition of fiscal expenditures toward households, including strengthening the social protection system, that starts in 2023 and supports a reduction of the excessively high savings rate and rebalancing toward consumption, and triggers an expansion of services/consumer industries and associated investment; (ii) implementation of SOE reforms that help close the SOE-POE productivity gap by improving resource allocation and deleveraging among SOEs, while pro-market reforms improve business dynamism;[2] (iii) labor market reforms that gradually lift the retirement age from 60 (male) and 55 (female) to 65 and education reforms that further improve access to and enhance the quality of education and therefore boost human capital.[3] This illustrative scenario assumes a linear phasing-in of these reforms over 15 years and, following the reform period, growth rates would eventually converge with the baseline. The scenario assumes the easing of COVID restrictions through 2023 as in the baseline.

Gains Over the Reform Period in Illustrative Scenario
(In percent)



Source: IMF staff estimates.
Notes: Reforms in illustrative scenario assumed to be phased in linearly over a reform period of 15 years.

Augmented Debt Scenarios
(In percent of GDP)



Source: IMF staff calculations.

The right set of policies would bring growth benefits that are shared by all. Under the upside scenario, reforms are estimated to lift the level of real GDP by around 2.5 percent by 2027, and by around 18 percent by 2037, with the bulk of the benefits stemming from productivity-enhancing reforms. This would imply average GDP growth rates of about 4¾ and 4½ percent and GDP per capita growth rates of about 5 and 4 percent between 2023-27 and 2028-37, respectively. Combined with a re-orientation of fiscal resources toward household support, domestic consumption would increase significantly, with a consumption share of GDP that is about 18 percentage points higher in 2037. As a consequence, China would not only narrow the gap to advanced economies in terms of per capita GDP but—thanks to the lower energy intensity of a more balanced GDP growth—make faster progress towards its climate coals, with the direct effect on CO2 emissions of a reduction of about 15 percent by 2037.[4]

Growth would also be less risky. Under the same path for fiscal policy, higher growth would reduce augmented general government debt by 2037 from 173 percent of GDP under the baseline to 146 percent of GDP in the upside scenario. This would create additional fiscal space the authorities could build as a buffer. The corporate debt burden would also fall, mainly because of higher growth. The reduction in saving rates would also make the economy less prone to asset bubbles and provide a sustainable driver for non-real estate investment.

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[1] Prepared by Anne Oeking.

[2] See D. Cerdeiro and C. Ruane, "China's Declining Business Dynamism," IMF Working Paper 22/32, 2022.

[3] See Selected Issues, IMF Country Report for the People's Republic of China, "Adequate Social Protection for All," 2021.

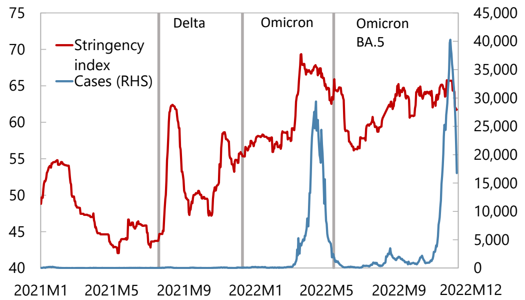
[4] See J. Chateau, W. Chen, F. Jaumotte and K. Zhunussova, "A Comprehensive Package of Macroeconomic Policy Measures for Implementing China's Climate Mitigation Strategy," IMF Working Paper 22/142, 2022.

Figure 1. China: Recent Macroeconomic Developments

Recurring outbreaks and tightening restrictions under the zero-COVID policy until Q3...

Cases and Government Response Stringency

(Index from 0–100, 100 = most strict, number of cases)



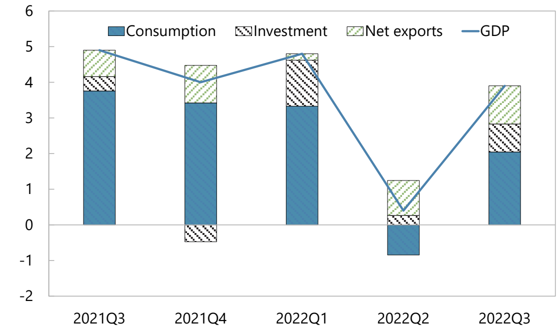
Sources: Haver Analytics; CEIC Data Company Limited; Oxford University Stringency Index; and IMF staff calculations.

Note: The stringency index shows the aggregated GDP-weighted provincial stringency indices as published by Oxford University.

...have further slowed growth momentum...

Growth Remains Under Pressure

(Real growth in percent, year-on-year)

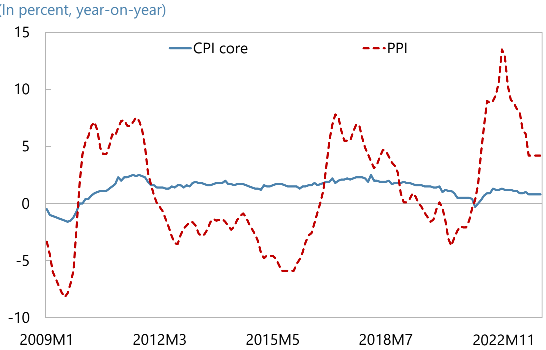


Sources: National Bureau of Statistics China; and IMF staff calculations.

...with price pressures remaining muted in line with weak domestic demand despite high global commodity prices...

CPI and PPI Inflation

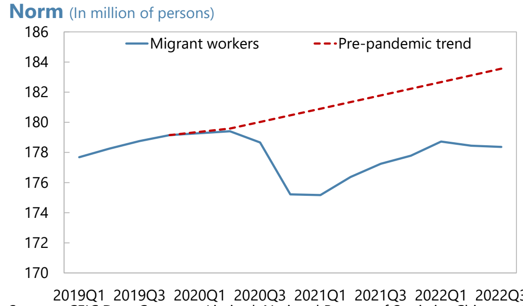
(In percent, year-on-year)



Sources: CEIC Data Company Limited; and IMF staff calculations.

...and labor market strains persisting.

Migrant Workers Going Out Falls Below Pre-Pandemic Norm (In million of persons)



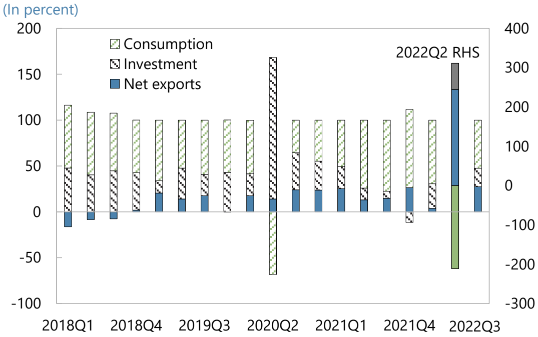
Sources: CEIC Data Company Limited; National Bureau of Statistics China; and IMF staff calculations.

Notes: Pre-pandemic trend is based on average growth rates for 2018 - 2019. "Going out" refers to migrants who leave their home for work. No data for 2020Q1.

Rebalancing towards consumption continues to be negatively impacted...

Contribution Share to Real GDP Growth Demand Side

(In percent)

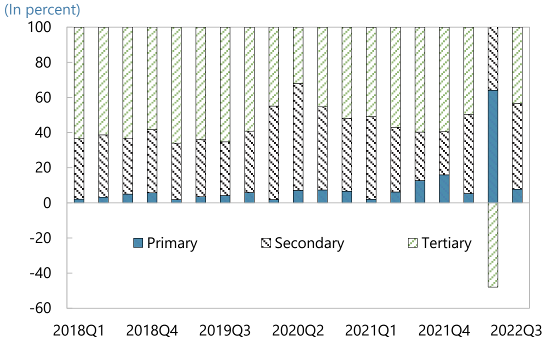


Sources: CEIC Data Company Limited; and IMF staff calculations.

...as can also be seen in the lower contribution of the tertiary sector to GDP growth since the pandemic.

Contribution Share to Real GDP Growth Supply Side

(In percent)



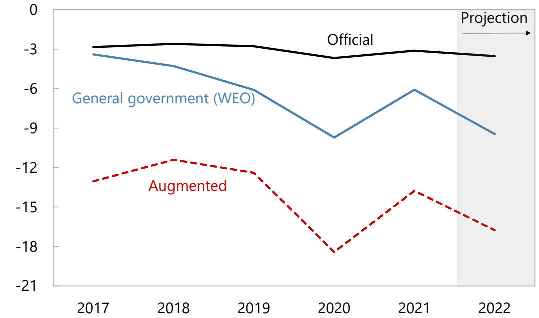
Sources: CEIC Data Company Limited; and IMF staff calculations.

Figure 2. China: Fiscal

Fiscal policy has been supportive of growth in 2022...

Government Balances

(In percent of GDP)

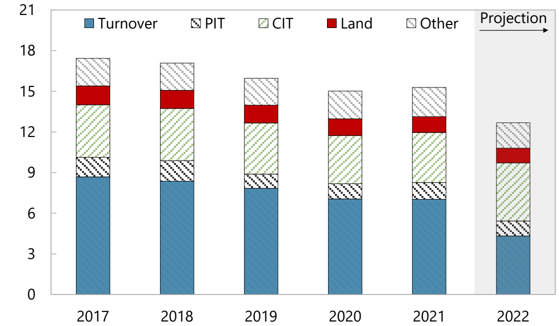


Sources: Authorities; and IMF staff calculations.
Note: See Table 2 in staff report for definitions of government balances.

...as tax relief drives down tax revenue...

Tax Revenue

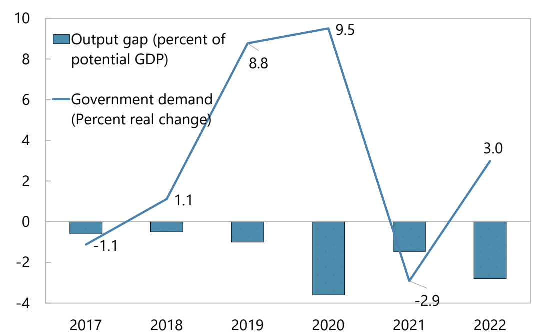
(In percent of GDP)



Sources: Authorities; and IMF staff calculations.

...and higher real spending, including infrastructure investment, boosts government demand...

Estimated Government Demand

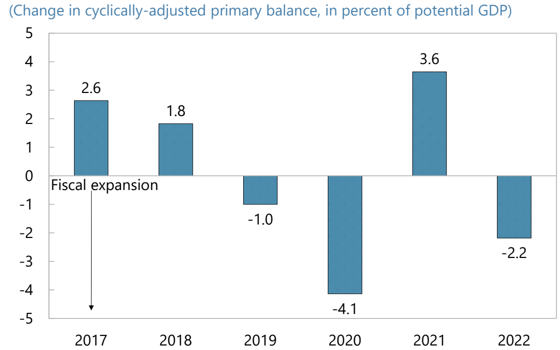


Sources: CEIC Data Company Limited; and IMF staff calculations.

...with a total fiscal effort of around 2 percent of GDP.

Fiscal Effort

(Change in cyclically-adjusted primary balance, in percent of potential GDP)

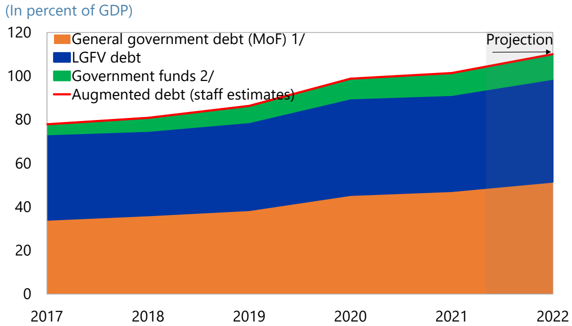


Sources: CEIC Data Company Limited; and IMF staff calculations.

Looser fiscal policies are pushing up the debt burden...

Augmented Debt

(In percent of GDP)

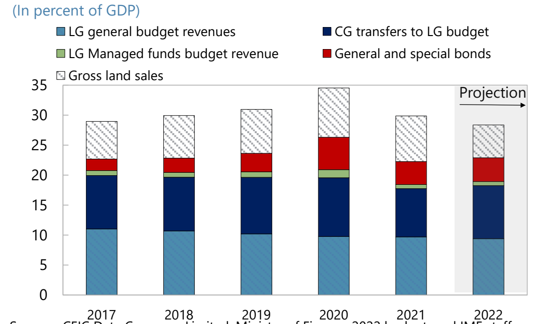


Sources: Ministry of Finance (MoF); and IMF staff calculations.
1/ Data through 2020, 2021 estimated, 2022 projection.
2/ Government guided funds and special construction funds (social capital portion only).

...while local government finances struggle amid falling land sales revenues due to the real estate crisis.

Local Government Budget Financing 1/

(In percent of GDP)



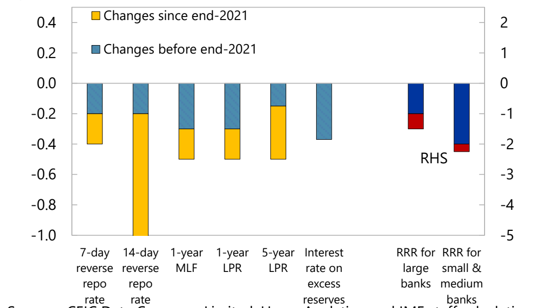
Sources: CEIC Data Company Limited; Ministry of Finance 2022 budget; and IMF staff calculations.
1/ Local government general budget and local government managed fund budget. Excludes off-budget financing.

Figure 3. China: Monetary

Policy rates have been cut modestly, with an emphasis on boosting mortgages, which are linked to the over-5-year LPR.

Policy Rate Changes Since COVID-19 Outbreak

(In percent)

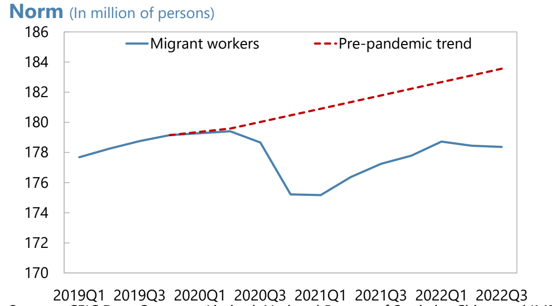


Sources: CEIC Data Company Limited; Haver Analytics; and IMF staff calculations.
Notes: MLF = medium-term lending facility; LPR = loan prime rate; RRR = reserve requirement ratio. RRR changes for small and medium banks are an average.

Credit policies continue to be a key channel for easing, most notably in ongoing requirements for MSE lending.

Migrant Workers Going Out Falls Below Pre-Pandemic Norm

(In million of persons)

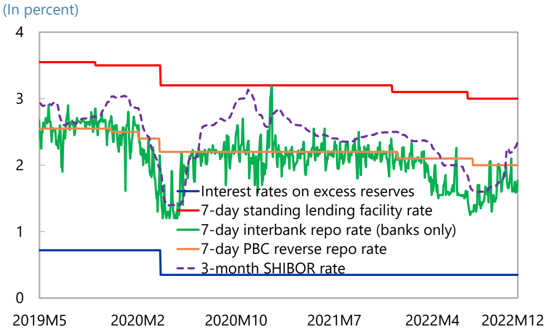


Sources: CEIC Data Company Limited; National Bureau of Statistics China; and IMF staff calculations.
Notes: Pre-pandemic trend is based on average growth rates for 2018 - 2019. "Going out" refers to migrants who leave their home for work. No data for 2020Q1.

Market rates had declined below policy rates amid weak loan demand but rebounded on reopening expectations.

Interest Rate Corridor and Short-Term Market Rates

(In percent)

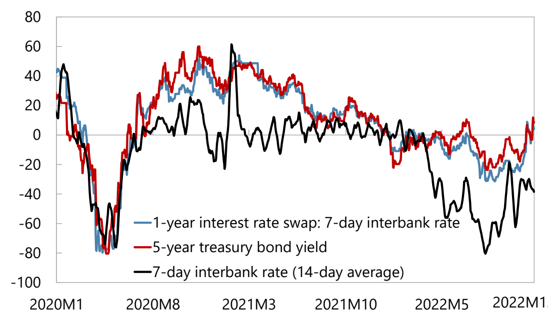


Sources: CEIC Data Company Limited; and IMF staff calculations.
Note: SHIBOR = Shanghai Interbank Offered Rate; PBC = People's Bank of China.

Transmission to longer-term risk-free yields has been limited amid expectations for tightening in 2023.

Key Market Interest Rates: Changes from End-2021

(In basis points)

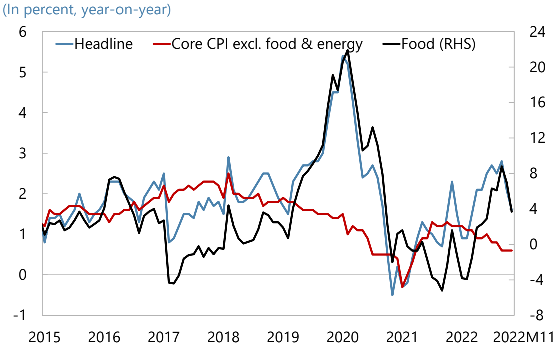


Sources: CEIC Data Company Limited; and IMF staff calculations.

Core inflation remains subdued amid weak domestic demand, offsetting a rebound in food prices.

CPI Inflation

(In percent, year-on-year)

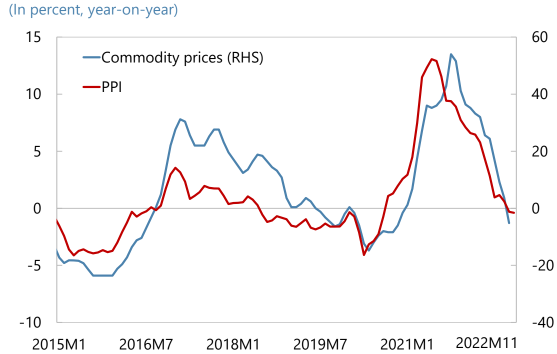


Sources: CEIC Data Company Limited; and IMF staff calculations.

Producer price pressures have moderated significantly amid easing global commodity prices.

Producer Price Index

(In percent, year-on-year)



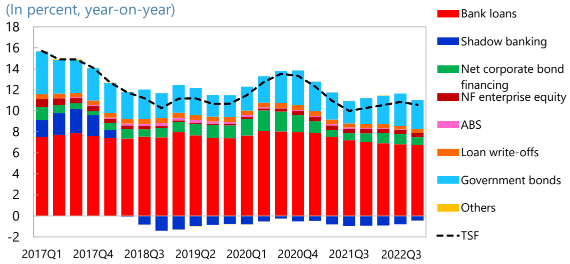
Sources: CEIC Data Company Limited; and IMF staff calculations.

Figure 4. China: Credit

TSF growth has rebounded mildly in 2022, with help from interest rate cuts and accommodative credit policies.

Contribution to TSF Stock Growth

(In percent, year-on-year)

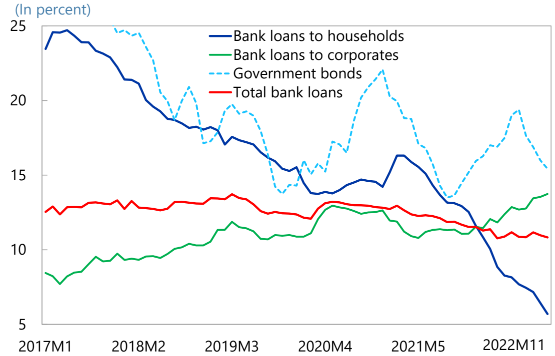


Sources: Haver Analytics; and IMF staff calculations.
Notes: Since January 2017, ABS, loan write-offs, and local government special purpose bonds are included. Since December 2019, local government special purpose bonds are expanded to government bonds (including all central and local government bonds) traced back to 2017.

The pick-up, however, mostly reflects net government bond issuance, with other credit growth mostly stable.

Growth Rate of Selected Types of Credit

(In percent)

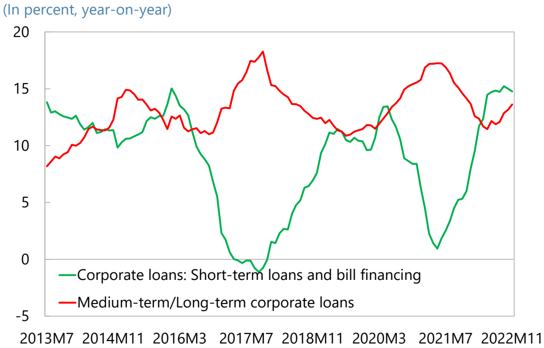


Sources: Haver Analytics; and IMF staff calculations.

Firm credit has picked up on short-term lending growth, pointing to weaker demand and bank risk aversion.

Growth Rates of Bank Loans by Borrower and Tenor

(In percent, year-on-year)

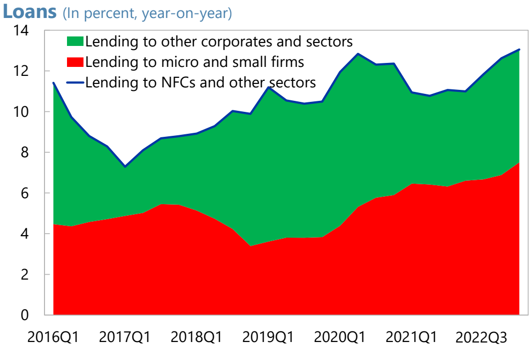


Sources: Haver Analytics; and IMF staff calculations.

Policy-mandated lending to small firms continues to be a major source of corporate lending growth.

Contributions to Growth of Non-financial Corporate (NFC) Loans

(In percent, year-on-year)

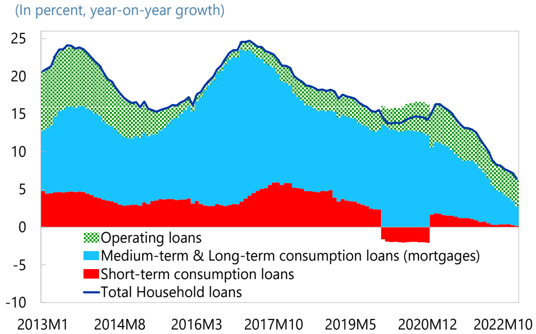


Sources: Haver Analytics; CEIC Data Company Limited; and IMF staff calculations.

Mortgage credit growth, a major driver of lending in recent years, is steadily decelerating.

Contribution to Growth of Household Loans

(In percent, year-on-year growth)

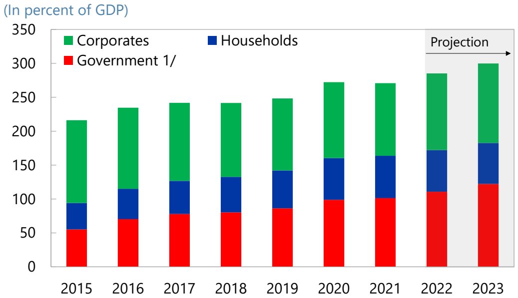


Sources: Haver Analytics; and IMF staff calculations.

Debt-to-GDP ratios fell slightly in 2021 but are expected to resume their climb higher in 2022 and 2023.

Domestic Non-financial Sector Debt

(In percent of GDP)



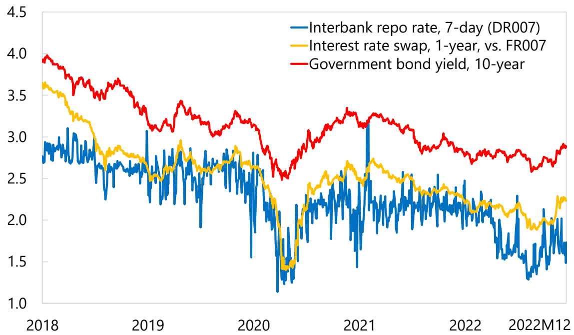
Sources: Haver Analytics; CEIC Data Limited Company; and IMF staff estimates.
1/ Government debt includes debt of central and local governments, government funds, and LGFVs.

Figure 5. China: Financial Markets

Government bond yields and money market rates have declined on continuing monetary policy easing.

Money Market Rates and Government Bond Yield

(In percent)

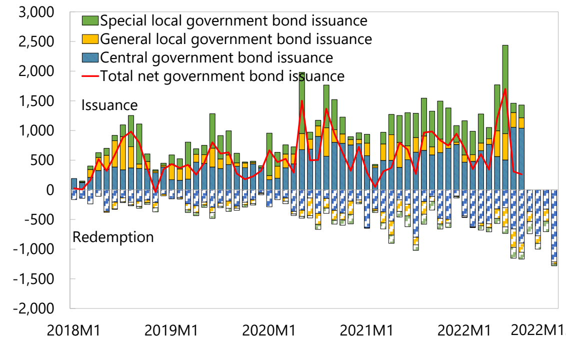


Sources: Bloomberg; and IMF staff calculations.

Government bond issuance expanded significantly on fiscal stimulus and other support measures.

Government Bond Issuance and Redemption

(In billions of RMB)

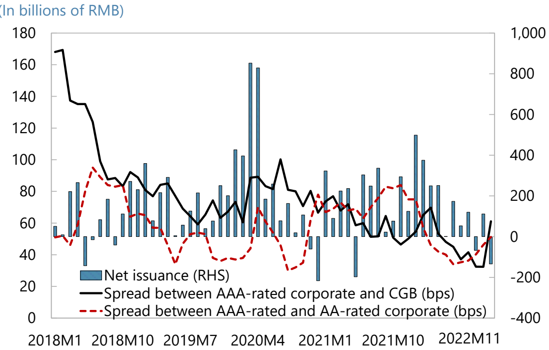


Sources: WIND; and IMF staff calculations.

Corporate net issuance weakened despite easing financial conditions.

Corporate Bond Net Issuance

(In billions of RMB)

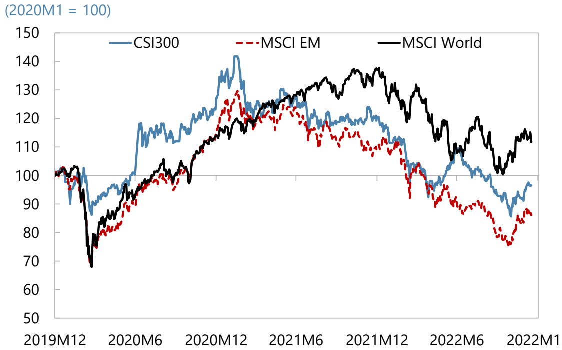


Sources: Bloomberg; WIND; and IMF staff calculations.

The selloff in stock market deepened, erasing the post-pandemic gains.

Equity Market Performance

(2020M1 = 100)

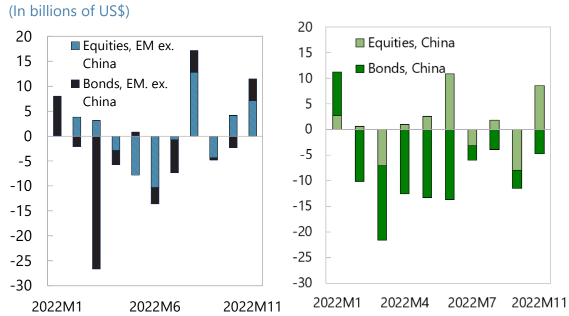


Sources: Bloomberg; and IMF staff calculations.

Foreign investors continue to be cautious towards local assets...

Local Currency Bond and Equity Flow

(In billions of US$)

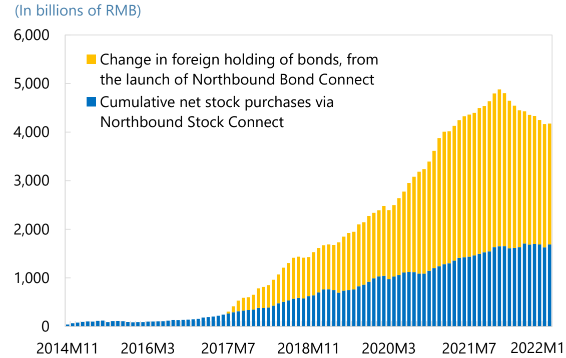


Sources: Bloomberg; and IMF staff calculations.

...after reducing fixed income exposures by 25 percent due to widening interest rate differentials relative to advanced economies.

Portfolio Investment Flows

(In billions of RMB)



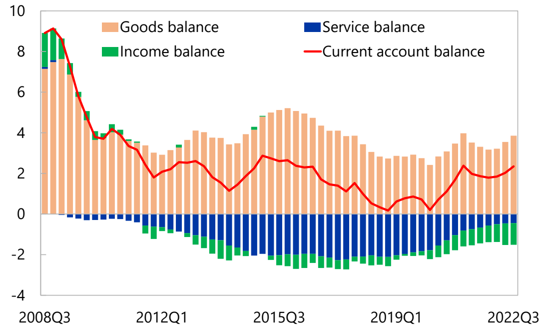
Sources: CEIC Data Company Limited; WIND; and IMF staff calculations.

Figure 6. China: External

The current account surplus remained elevated through 2022Q3, partly due to weak imports.

Current Account

(In percent of GDP, 4Q moving average)

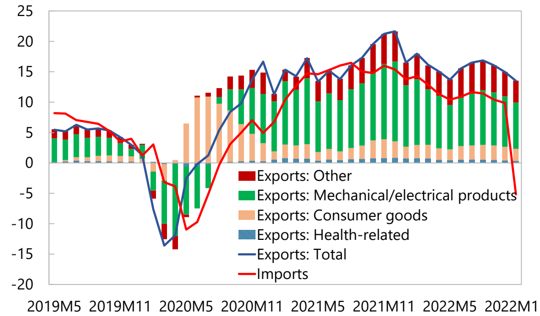


Sources: CEIC Data Company Limited; and IMF staff calculations.

Exports started to slow, driven by declining demand for pandemic-related goods and the global slowdown.

Goods Exports and Imports

(In percent, annualized growth over previous 2-year, 3-month sum)

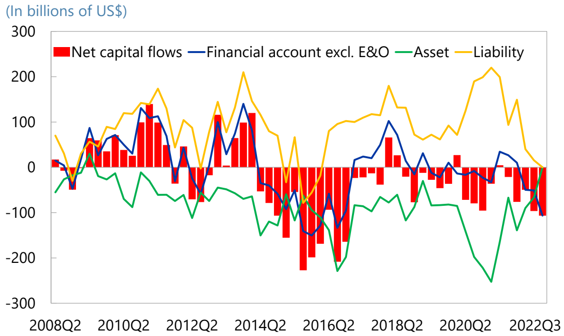


Sources: Customs Statistics China; Haver Analytics; and IMF staff calculations.

Capital net outflows increased in 2022H1 on the back of portfolio outflows and partly offset by residents' declining accumulation of other investment assets abroad.

Financial Account

(In billions of US$)

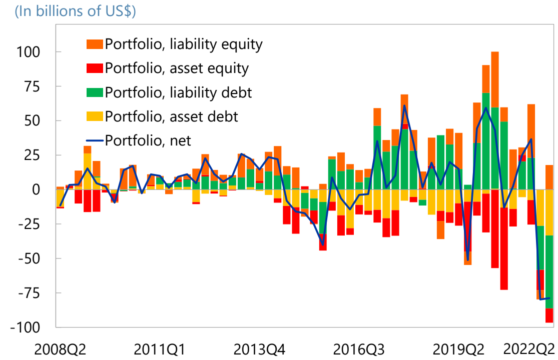


Sources: CEIC Data Company Limited; and IMF staff calculations.
Note: E&O = net errors and omissions.

In particular, portfolio investment turned to net outflows in 2022H1, with strong bond outflows.

Financial Account: Portfolio Investment

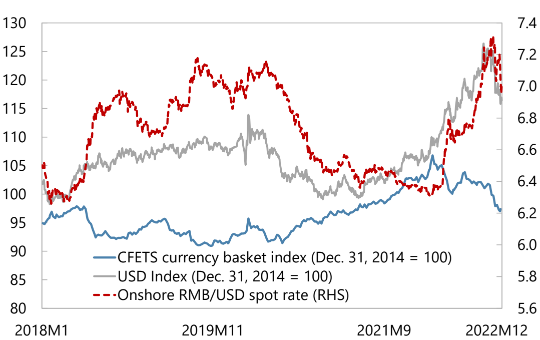
(In billions of US$)



Source: CEIC Data Company Limited.

The RMB has depreciated against the U.S. dollar since March 2022 in the wake of the strong U.S. dollar.

RMB Exchange Rate vs CFETS Index

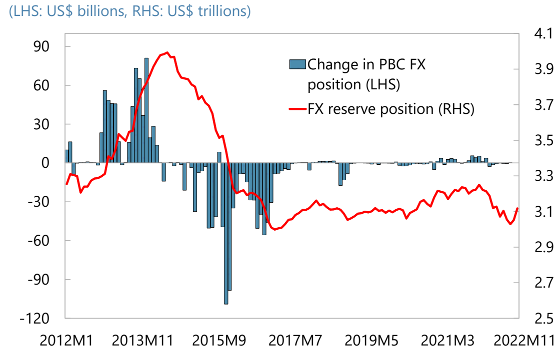


Sources: CEIC Data Company Limited; and IMF staff calculations.

FX reserves have fallen slightly, largely due to valuation effects.

Foreign Exchange Reserves

(LHS: US$ billions, RHS: US$ trillions)



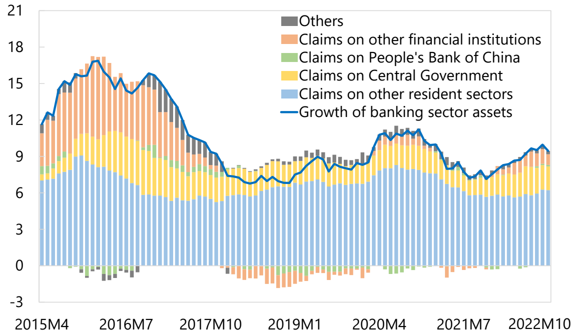
Source: Haver Analytics.

Figure 7. China: Banks

The expansion of banks' balance sheets rebounded driven by lending to official and financial sectors.

Growth of Banking Sector Assets

(In percent, year-on-year)

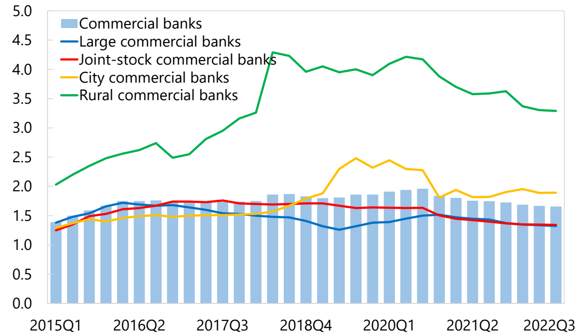


Sources: CEIC Data Company Limited; and IMF staff calculations.

System-wide asset quality held steady, though the stock of NPL at rural commercial banks remains high despite accelerated NPL disposal.

Commercial Banks: Nonperforming Loans

(In percent of total loans)

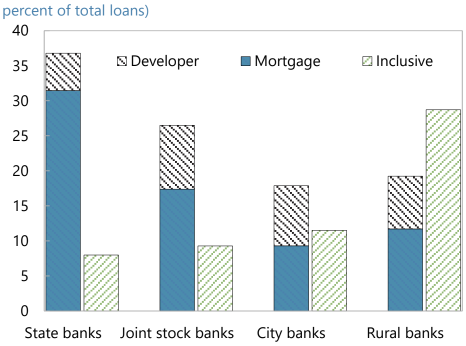


Sources: CEIC Data Company Limited; and IMF staff calculations.

Real estate and inclusive loans have grown to more than a half of banks' loan portfolios.

Real Estate and Inclusive MSE Loans 2021

(In percent of total loans)

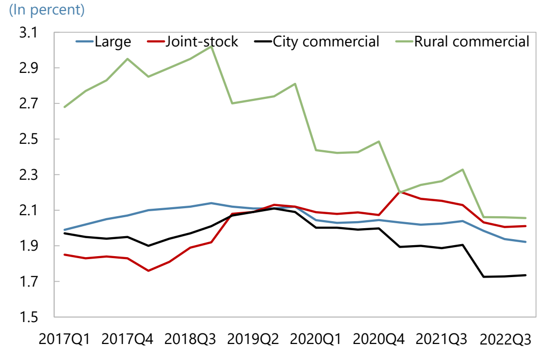


Sources: WIND; China Banking Insurance Regulatory Commission; and IMF staff calculations.

Profitability has declined further with accelerated compression in margins…

Net Interest Margin

(In percent)

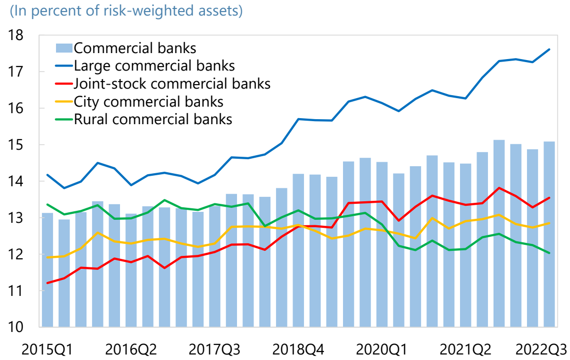


Sources: CEIC Data Company Limited; and IMF staff calculations.

…resulting in broad-based declines in capital base…

Commercial Banks Total Capital

(In percent of risk-weighted assets)

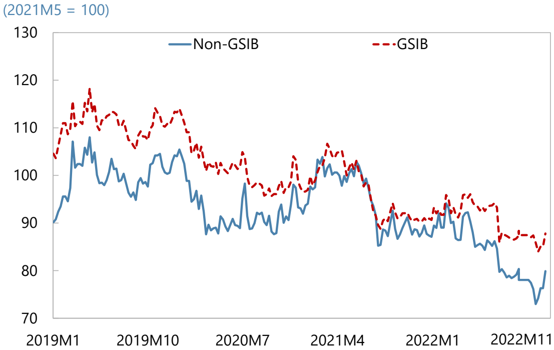


Sources: CEIC Data Company Limited; and IMF staff calculations.

…and bank valuations.

Bank Equity Performance

(2021M5 = 100)



Sources: Bloomberg; and IMF staff calculations.

Table 1. China: Selected Economic Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
	(Annual percentage change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP (base=2015)	6.9	6.7	6.0	2.2	8.4	2.6	3.8	5.5	4.1	4.0	3.8
Total domestic demand	6.8	7.4	5.3	1.7	6.6	2.0	3.8	5.7	4.3	4.1	3.9
Consumption	7.2	7.9	6.3	-0.3	9.8	1.6	3.8	6.0	4.3	4.2	3.9
Fixed investment	6.2	7.3	5.3	3.4	3.5	2.4	3.6	5.1	4.3	4.0	4.0
Net exports (contribution)	0.3	-0.5	0.7	0.6	1.7	0.6	0.1	0.0	0.0	0.0	0.0
Total capital formation (percent of GDP)	43.2	44.0	43.1	42.9	42.8	43.5	43.6	43.3	42.9	42.6	42.3
Gross national saving (percent of GDP) 1/	44.7	44.1	43.8	44.5	44.6	45.6	45.0	44.4	43.9	43.3	42.9
Output gap estimate	-0.6	-0.5	-1.0	-3.6	-1.5	-2.8	-2.7	-1.1	-0.7	-0.3	0.0
LABOR MARKET											
Unemployment rate (annual average) 2/	5.0	4.9	5.2	5.6	5.1	5.5	…	…	…	…	…
PRICES											
Consumer prices (average)	1.6	2.1	2.9	2.5	0.9	1.9	1.5	1.7	2.0	2.0	2.0
Consumer prices (end of period)	1.8	1.9	4.5	0.2	1.5	1.9	1.9	1.7	2.0	2.0	2.0
GDP Deflator	3.9	3.5	2.1	1.3	2.7	3.0	-0.2	1.2	1.4	1.2	1.4
FINANCIAL											
7-day repo rate (percent)	5.4	3.1	3.1	2.6	2.5	…	…	…	…	…	…
10 year government bond rate (percent)	3.7	3.0	3.9	3.3	2.8	…	…	…	…	…	…
Real effective exchange rate (average)	-4.7	-2.9	1.4	-0.6	2.0	…	…	…	…	…	…
Nominal effective exchange rate (average)	9.7	-5.4	-2.5	1.5	5.4	…	…	…	…	…	…
MACRO-FINANCIAL											
Total social financing	14.1	10.3	10.7	13.3	10.3	10.3	8.9	7.6	6.6	6.3	6.1
In percent of GDP	248	248	254	278	276	288	303	306	309	312	314
Total nonfinancial sector debt 3/	14.4	10.8	10.8	13.2	10.4	10.4	9.3	7.8	6.7	6.4	6.2
In percent of GDP	248	248	254	278	277	284	295	301	305	308	311
Domestic credit to the private sector	10.9	8.6	8.7	10.9	8.5	8.0	6.0	4.4	3.2	3.0	3.2
In percent of GDP	164	161	162	173	170	173	177	174	170	166	163
Household debt (percent of GDP)	48.9	52.3	55.8	61.6	62.5	61.1	60.5	60.5	60.6	61.6	63.2
Non-financial corporate domestic debt (percent of GDP)	115	109	106	112	107	112	117	113	109	105	100
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-3.4	-4.3	-6.1	-9.7	-6.1	-9.5	-7.7	-7.6	-7.4	-7.3	-7.2
Revenue	29.2	29.0	28.1	25.7	26.8	25.1	26.0	26.1	26.2	26.4	26.5
Additional financing from land sales	2.5	2.8	2.9	2.5	2.3	1.4	1.4	1.3	1.2	1.2	1.1
Expenditure	35.1	36.1	37.1	37.9	35.2	36.0	35.1	35.0	34.9	34.8	34.8
Debt	36.2	36.5	38.5	45.4	47.2	51.5	56.3	59.3	62.7	66.1	69.1
Structural balance	-3.2	-4.1	-5.8	-8.8	-5.7	-8.7	-6.9	-7.3	-7.2	-7.2	-7.2
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	1.5	0.2	0.7	1.7	1.8	2.1	1.4	1.2	1.0	0.7	0.5
Trade balance	3.9	2.7	2.7	3.4	3.2	3.8	3.7	3.6	3.4	3.2	3.0
Services balance	-2.1	-2.1	-1.8	-1.0	-0.6	-0.8	-1.7	-1.8	-1.8	-1.8	-1.7
Net international investment position	16.8	15.2	16.0	15.4	11.2	12.1	13.1	13.2	13.3	13.0	12.7
Gross official reserves (billions of U.S. dollars)	3,236	3,168	3,223	3,357	3,427	3,277	3,368	3,440	3,502	3,531	3,557
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	82,898	91,577	99,071	102,563	113,818	120,215	124,491	132,855	140,209	147,579	155,291
Augmented debt (percent of GDP) 6/	77.9	80.8	86.3	98.8	101.4	110.1	121.9	128.9	136.3	143.3	149.4
Augmented net lending/borrowing (percent of GDP) 6/	-13.0	-11.4	-12.4	-18.4	-13.8	-16.8	-16.7	-15.6	-15.1	-14.6	-14.1

Sources: Bloomberg; CEIC Data Company Limited; IMF International Financial Statistics database; and IMF staff estimates and projections.

1/ IMF staff estimates for 2021.

2/ Surveyed unemployment rate.

3/ Includes government funds.

4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

5/ Production side nominal GDP.

6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

Table 2. China: General Government Fiscal Data

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
									Projections			
							(In RMB billions)					
Balance: General Budgetary (official)												
(1)	**Revenue (incl. adjustments) (1a)+(1b)**	18,273	19,813	21,255	20,905	21,427	22,873	23,577	25,123	26,599	28,089	29,803
(1a)	Headline revenue	17,259	18,336	19,039	18,291	20,255	20,045	21,518	23,063	24,540	26,030	27,590
(1b)	Adjustments 1/	1,014	1,477	2,216	2,613	1,171	2,829	2,059	2,059	2,059	2,059	2,213
(2)	**Expenditure (incl. adjustments) (2a)+(2b)**	20,626	22,192	24,013	24,672	24,930	27,113	27,677	29,536	31,171	32,809	34,524
(2a)	Headline expenditure	20,309	22,090	23,886	24,568	24,567	27,113	27,677	29,536	31,171	32,809	34,524
(2b)	Adjustments 2/	318	102	127	104	363	-	-	-	-	-	-
(3)	**Fiscal balance (official) (1)-(2)**	(2,353)	(2,379)	(2,758)	(3,767)	(3,504)	(4,239)	(4,100)	(4,414)	(4,572)	(4,720)	(4,721)
Balance: General Budgetary (Fund definition)												
(4)	**Revenue (1a)+(4a)+(4b)**	24,233	26,551	27,790	26,343	30,512	30,231	32,387	34,662	36,781	38,914	41,148
(1a)	General budget headline revenue	17,259	18,336	19,039	18,291	20,255	20,045	21,518	23,063	24,540	26,030	27,590
(4a)	Social security revenue	6,715	7,925	8,355	7,551	9,694	9,607	10,269	10,959	11,566	12,173	12,810
(4b)	SOE fund revenues 3/	258	290	396	500	563	579	600	640	676	711	748
(5)	**Expenditure (2a)+(5a)+(5b)+(5c)**	29,136	33,078	36,739	38,834	40,046	43,332	43,650	46,466	48,941	51,422	54,018
(5a)	Social security expenses	5,714	6,779	7,535	7,861	8,673	9,241	9,570	10,213	10,778	11,345	11,937
(5b)	SOE fund expenditures 3/	201	216	229	261	277	352	365	389	411	432	455
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	2,912	3,992	5,090	6,144	6,529	6,627	6,039	6,327	6,581	6,836	7,102
(5d)	of which: net expenditure financed by land sales	2,082	2,604	2,904	2,524	2,612	1,741	1,741	1,741	1,741	1,741	1,741
(6)	**Net borrowing/lending (Fund definition) (4)-(5)+(5d)**	(2,821)	(3,923)	(6,045)	(9,967)	(6,923)	(11,360)	(9,522)	(10,062)	(10,419)	(10,767)	(11,129)
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	6,168	4,807	4,368	6,981	6,600	6,563	8,996	8,750	9,035	9,160	9,238
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	1,825	1,713	1,874	1,940	2,151	2,222	2,300	1,954	1,712	1,601	1,484
(8)	**Augmented net lending/borrowing (6)-(7a)-(7b) 5/**	(10,814)	(10,443)	(12,287)	(18,888)	(15,675)	(20,144)	(20,819)	(20,766)	(21,165)	(21,527)	(21,851)
Debt: General government												
(9)	**General budgetary debt (official) (10)+(11)**	29,987	33,423	38,114	46,552	53,740	61,902	70,064	78,813	87,960	97,496	107,284
(10)	Central government debt 6/	13,477	14,961	16,804	20,891	23,270	26,562	29,706	33,149	36,736	40,457	44,064
(11)	Explicit local government debt 7/	16,510	18,462	21,310	25,661	30,470	35,340	40,358	45,664	51,224	57,039	63,220
(11a)	Non-swap LG bonds	3,904	5,466	8,704	13,056	17,865	22,735	27,752	33,058	38,619	44,433	50,614
(11b)	Other recognized LG debt	12,606	12,996	12,606	12,606	12,606	12,606	12,606	12,606	12,606	12,606	12,606
(12)	Additional LGFV debt "possible to be recognized" 8/	30,725	35,071	39,965	45,413	50,108	56,671	65,666	74,417	83,451	92,611	101,849
(13)	Additional debt tied to SCF and GGFs 9/	3,831	5,544	7,418	9,358	11,509	13,731	16,031	17,986	19,697	21,298	22,782
(14)	**Augmented debt (9)+(12)+(13)**	64,543	74,037	85,496	101,323	115,357	132,303	151,762	171,215	191,108	211,405	231,915
Memorandum items:												
(15)	Augmented excluding "possible to be recognized" 10/	45,553	51,887	59,842	71,915	82,234	94,773	108,936	123,521	138,694	154,340	170,290
							(In percent of GDP) 11/					
Balance: General Budgetary (official)												
(1)	**Revenue (incl. adjustments) (1a)+(1b)**	22	22	21	20	19	19	19	19	19	19	19
(1a)	Headline revenue	21	20	19	18	18	17	17	17	18	18	18
(1b)	Adjustments 1/	1	2	2	3	1	2	2	2	1	1	1
(2)	**Expenditure (incl. adjustments) (2a)+(2b)**	25	24	24	24	22	23	22	22	22	22	22
(2a)	Headline expenditure	24	24	24	24	22	23	22	22	22	22	22
(2b)	Adjustments 2/	0	0	0	0	0	-	-	-	-	-	-
(3)	**Fiscal balance (official) (1)-(2)**	(3)	(3)	(3)	(4)	(3)	(4)	(3)	(3)	(3)	(3)	(3)
Balance: General Budgetary (fund definition)												
(4)	**Revenue (1a)+(4a)+(4b)**	29	29	28	26	27	25	26	26	26	26	26
(4a)	Social security revenue	8	9	8	7	9	8	8	8	8	8	8
(4b)	SOE fund revenues 3/	0	0	0	0	0	0	0	0	0	0	0
(5)	**Expenditure (2a)+(5a)+(5b)+(5c)**	35	36	37	38	35	36	35	35	35	35	35
(5a)	Social security expenses	7	7	8	8	8	8	8	8	8	8	8
(5b)	SOE fund expenditures 3/	0	0	0	0	0	0	0	0	0	0	0
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	4	4	5	6	6	6	5	5	5	5	5
(5d)	of which: net expenditure financed by land sales	3	3	3	2	2	1	1	1	1	1	1
(6)	**Net borrowing/lending (Fund definition) (4)-(5)+(5d)**	(3)	(4)	(6)	(10)	(6)	(9)	(8)	(8)	(7)	(7)	(7)
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	7	5	4	7	6	5	7	7	6	6	6
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	2	2	2	2	2	2	2	1	1	1	1
(8)	**Augmented net lending/borrowing (6)-(7a)-(7b) 5/**	(13)	(11)	(12)	(18)	(14)	(17)	(17)	(16)	(15)	(15)	(14)
Debt: General government												
(9)	**General budgetary debt (official) (10)+(11)**	36	36	38	45	47	51	56	59	63	66	69
(10)	Central government debt 6/	16	16	17	20	20	22	24	25	26	27	28
(11)	Explicit local government debt 7/	20	20	22	25	27	29	32	34	37	39	41
(11a)	Non-swap LG bonds	5	6	9	13	16	19	22	25	28	30	33
(11b)	Other recognized LG debt	15	14	13	12	11	10	10	9	9	9	8
(12)	Additional LGFV debt "possible to be recognized" 8/	37	38	40	44	44	47	53	56	60	63	66
(13)	Additional debt tied to SCF and GGFs 9/	5	6	7	9	10	11	13	14	14	14	15
(14)	**Augmented debt (9)+(12)+(13)**	78	81	86	99	101	110	122	129	136	143	149
Memorandum items:												
(15)	Augmented excluding "possible to be recognized" 10/	55	57	60	70	72	79	87	93	99	105	110

Sources: CEIC Data Company Limited; China Ministry of Finance; National Audit Office; and IMF staff estimates and projections.
1/ Includes central and local governments' transfers to general budget from various funds, carry-over.
2/ Includes adjustments to budget stabilization funds.
3/ Including only revenues/expenditures for the year, and excluding transfers to general budget and carry over.
4/ Includes carry over counted as revenue, adjustments to local government spending, proceeding from issuing special purpose bonds, and net expenditure financed by land sales estimated by subtracting the acquisition cost, compensation to farmers, and land development from the gross land sale proceeds.
5/ The overall net lending/borrowing includes net land sale proceeds as a decrease in nonfinancial assets recorded above the line.
6/ Ministry of Finance debt only, excludes bonds issued for bank recapitalization and asset management companies.
7/ Includes local government bonds and explicit debt.
8/ Two-thirds of new contingent debt is assumed likely to be recognized as general government debt.
9/ Total social capital constribution to SCF and GGFs.
10/ Includes only 2/3 of LGFV debt, being categoried as government explicit debt according to NAO report (2013), and excludes the rest 1/3, being categorized as government guaranteed debt or "possible to be recognized" debt.
11/ GDP in this table refers to expenditure side nominal GDP.

Table 3. China: Balance of Payments

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
	(In percent of GDP, unless otherwise indicated)										
BALANCE OF PAYMENTS											
Current account balance	1.5	0.2	0.7	1.7	1.8	2.1	1.4	1.2	1.0	0.7	0.5
Trade balance	3.9	2.7	2.7	3.4	3.2	3.8	3.7	3.6	3.4	3.2	3.0
Exports	18.1	17.5	16.6	16.9	18.2	19.3	18.6	18.1	17.7	17.3	16.9
Imports	14.2	14.7	13.9	13.4	15.0	15.5	15.0	14.4	14.3	14.1	13.9
Services balance	-2.1	-2.1	-1.8	-1.0	-0.6	-0.8	-1.7	-1.8	-1.8	-1.8	-1.7
Income balance	-0.1	-0.4	-0.3	-0.8	-0.9	-1.0	-0.7	-0.7	-0.8	-0.8	-0.8
Current transfers	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital and financial account balance	0.9	1.3	0.1	-0.3	0.2	-1.9	-0.9	-0.8	-0.6	-0.5	-0.4
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.9	1.3	0.1	-0.3	0.2	-1.9	-0.9	-0.8	-0.6	-0.5	-0.4
Net foreign direct investment	0.2	0.7	0.4	0.7	1.2	0.7	0.3	0.2	0.2	0.2	0.2
Foreign Direct investment	1.4	1.7	1.3	1.7	1.9	1.4	1.0	1.0	0.9	0.9	0.9
Overseas Direct Investment	-1.1	-1.0	-1.0	-1.0	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Portfolio investment	0.2	0.8	0.4	0.6	0.3	-1.0	0.2	0.2	0.3	0.4	0.4
Other investment	0.4	-0.1	-0.7	-1.7	-1.3	-1.6	-1.3	-1.2	-1.2	-1.1	-1.0
Errors and omissions 1/	-1.7	-1.3	-0.9	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	0.1	-0.1	0.2	1.1	0.2	0.5	0.4	0.3	0.1	0.1
Reserve assets	-0.7	-0.1	0.1	-0.2	-1.1	-0.2	-0.5	-0.4	-0.3	-0.1	-0.1
INTERNATIONAL INVESTMENT POSITION											
Asset	58.6	53.7	54.7	59.7	52.8	57.7	56.9	57.2	57.5	57.6	57.5
Direct investment	15.0	14.5	15.6	17.4	14.6	14.9	14.2	13.7	13.4	13.0	12.7
Securities investment	4.1	3.7	4.6	6.1	5.6	6.5	6.9	7.5	8.0	8.4	8.8
Other investment	13.1	12.6	12.0	13.6	13.1	16.0	16.1	16.4	16.6	16.7	16.7
Reserve assets	26.4	22.9	22.5	22.6	19.4	20.3	19.7	19.6	19.6	19.4	19.2
Liability	41.8	38.5	38.7	44.4	41.6	43.9	42.9	42.9	42.9	43.1	43.2
Direct investment	22.2	20.4	19.5	21.7	20.5	21.2	20.4	20.1	19.7	19.4	19.1
Securities investment	9.6	8.4	10.1	13.2	12.2	12.9	13.1	13.6	14.2	14.9	15.5
Other investment	9.9	9.6	9.0	9.4	8.8	9.8	9.4	9.2	9.0	8.8	8.6
Net international investment position	16.8	15.2	16.0	15.4	11.2	11.5	13.2	13.4	13.4	13.0	12.6
MEMORANDUM ITEMS											
Export growth (value terms, percentage change)	11.4	9.1	-1.3	5.2	28.1	7.2	0.0	4.8	5.2	4.9	4.9
Import growth (value terms, percentage change)	16.0	17.1	-2.1	0.3	32.7	4.3	0.2	4.2	6.0	6.0	5.9
FDI (inward, billions of U.S. dollars)	166	235	187	253	334	254	191	197	203	209	215
External debt (billions of U.S. dollars)	1,758	1,983	2,071	2,401	2,747	2,681	2,893	3,115	3,349	3,595	3,855
As a percent of GDP	14.3	14.3	14.4	16.2	15.6	15.0	15.6	15.6	15.6	15.6	15.6
Short-term external debt (remaining maturity, billions of U.S. dollars)	1,145	1,280	1,320	1,469	1,614	1,577	1,696	1,821	1,952	2,090	2,235
Gross reserves (billions of U.S. dollars) 2/	3,236	3,168	3,223	3,357	3,427	3,277	3,368	3,440	3,502	3,531	3,557
As a percent of short-term debt by remaining maturity	282.6	247.4	244.2	228.6	212.3	207.7	198.6	188.9	179.5	169.0	159.1
Terms of trade (percentage change)	-5.1	-2.7	4.6	4.7	4.8	-1.0	1.2	-1.2	0.4	0.1	0.1
Real effective exchange rate (2010 = 100)	123.7	120.1	121.7	120.9	123.4	...	...	...	...	...	...
Nominal GDP (billions of U.S. dollars)	12,265	13,842	14,341	14,863	17,649	17,891	18,524	20,014	21,467	23,007	24,676

Sources: CEIC Data Company Limited; IMF Information Notice System; and IMF staff estimates and projections.

1/ Includes counterpart transaction to valuation changes.

2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.

Table 4. China: Monetary and Credit Developments

	2017	2018	2019	2020	2021
MONETARY SURVEY					
	(Annual percentage change)				
Net foreign assets	-4.0	1.0	3.5	1.9	5.0
Monetary authority (contribution)	-2.4	-1.5	0.5	-0.3	2.6
Depository institutions (contribution)	-1.6	2.5	3.0	2.1	2.4
Domestic credit	11.3	10.4	10.6	12.3	9.6
Claims on government, net (contribution)	2.7	2.6	2.0	2.3	1.8
Claims on nonfinanical sectors (contribution)	7.7	9.1	9.2	10.2	7.5
Claims on other financial sectors (contribution)	0.9	-1.3	-0.6	-0.2	0.2
Broad money (M2)	9.0	8.1	8.7	10.1	9.0
M1 (contribution)	3.7	0.5	1.3	2.5	1.0
Quasi-money (contribution)	5.4	7.6	7.4	7.6	8.0
Reserve money	4.2	2.8	-2.0	1.9	-0.3
TOTAL SOCIAL FINANCING					
	(Annual percentage change)				
TSF	14.1	10.3	10.7	13.3	10.3
Bank loans (contribution)	7.6	7.5	7.4	8.0	7.0
Shadow banking (contribution)	2.0	-1.4	-0.8	-0.5	-0.9
Net corporate bond financing (contribution)	0.4	0.9	1.2	1.7	0.8
Non-financial enterprise equity (contribution)	0.5	0.2	0.2	0.4	0.4
Others (contribution) 1/	0.6	0.8	0.6	0.6	0.5
	(In percent of GDP)				
TSF	248.4	247.9	253.7	277.7	276.0
Bank loans	146.6	149.5	155.1	169.4	170.2
Shadow banking	32.4	26.2	22.4	20.4	16.0
Net corporate bond financing	22.7	22.6	23.7	26.9	26.3
Non-financial enterprise equity	8.0	7.7	7.4	8.0	8.3
Government bonds	34.0	36.0	38.1	44.9	46.6
Others 1/	4.6	5.9	6.9	8.1	19.6
MEMORANDUM ITEMS					
	(In percent)				
Non-performing loans (NPLs) ratio	1.7	1.8	1.9	1.8	1.7
Provision coverage ratio (provisions/NPLs)	181.4	186.3	186.1	184.5	196.9
Liquidity ratio (liquid assets/liquid liabilities)	50.0	55.3	58.5	58.4	60.3
Loan to deposit ratio	70.6	74.3	75.4	76.8	79.7
Return on assets	0.9	0.9	0.9	0.8	0.8
Return on equity	12.6	11.7	11.0	9.5	9.6
Capital adequacy ratio	13.7	14.2	14.6	14.7	15.1
Tier-1 capital adequacy ratio	11.4	11.6	12.0	12.0	12.4
Core tier-1 capital adequacy ratio	10.8	11.0	10.9	10.7	10.8
Net open FX position (in percent of capital)	2.5	2.4	2.7	2.1	1.6

Sources: Haver Analytics; and IMF staff estimates.

1/ Includes local government debt swap, asset-backed securities, loan write-offs, and other components.

Table 5. China: Nonfinancial Sector Debt

	(In RMB trillions)						(In percent of GDP)						Coverage	
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023		
Total non-financial sector debt	227	252	285	315	348	380	248	254	278	277	291	306		
Central government	15	17	21	23	26	29	16	17	20	20	22	23	Official Government Debt	
Local government 1/	18	21	26	30	35	40	20	22	25	27	30	32		
Local government financing vehicles (LGFV)	35	40	45	50	57	66	38	40	44	44	48	53		
"Likely" to be recognized														Staff Estimate of General Government Debt ("Augmented")
As per the 2014 audit	1	1	1	1	1	1	1	1	1	1	1	1		
New borrowing (staff estimate)	18	21	25	28	32	38	19	21	24	24	27	31		
Additional debt possible to be recognized														
As per the 2014 audit	8	8	8	8	8	8	9	8	8	7	7	6		
New borrowing (staff estimate)	9	10	12	14	16	19	10	11	12	12	13	15		
Government funds 2/	6	7	9	12	14	16	6	7	9	10	12	13		
Households	48	55	63	71	73	75	52	56	62	62	61	61		
Corporates (excluding LGFV)	105	111	121	128	142	153	115	112	118	113	119	123		Private Sector Debt
Domestic	100	105	115	122	135	146	109	106	112	107	113	117		
External	6	6	6	6	7	7	6	6	6	6	6	6		
MEMORANDUM ITEMS														
Total domestic non-financial sector debt	221	246	279	308	341	373	242	248	272	271	285	300		
Corporates (including LGFVs)	140	151	166	178	199	219	153	152	162	157	167	176		
of which LGFVs	35	40	45	50	57	66	38	40	44	44	48	53		
Households	48	55	63	71	73	75	52	56	62	62	61	61		
General government (Official definition)	33	38	47	54	62	69	36	38	45	47	51	56		
Government funds 2/	6	7	9	12	14	16	6	7	9	10	12	13		
Nominal GDP	92	99	103	114	120	124								

Sources: CEIC Data Company Limited; Capital IQ; Ministry of Finance; and IMF staff estimates.
1/ Including LGFV debt recognized as LG debt as of 2014 (by the 2014 audit).
2/ Government guided funds and special construction funds (social capital portion only).

Table 6. China: Rebalancing Scorecard Relative to Pre-Pandemic

External		Internal			Environment		Income Distribution	
Current acc.	Net exports contrib.	Cons/ Inv	Industry/ Services	Credit	Energy	Air pollution	Labor income ratio	Income inequality

	Unit	2018	2019	2020	2021	2022 Projection / YTD
1. External rebalancing						
Contribution of net exports to GDP growth	%	-0.5	0.7	0.6	1.7	0.6
Current account balance	% of GDP	0.2	0.7	1.7	1.8	2.1
FX reserve coverage	months of imports	17.2	15.1	16.1	17.3	12.4
National saving rate	% of GDP	44.1	43.8	44.5	44.6	45.6
2. Internal rebalancing						
Demand side						
Growth contribution of consumption vs investment 1/	%	1.5	2.0	-0.2	4.8	1.5
Share of private consumption (Nominal)	% of GDP	38.7	39.1	37.8	38.6	37.1
Share of investment (Nominal)	% of GDP	44.0	43.1	42.9	42.8	43.5
Supply side						
Growth contribution of Tertiary vs Secondary sector 1/	%	1.8	1.9	1.1	1.4	0.9
Share of Tertiary sector (Nominal) 1/ 2/	% of GDP	53.3	54.3	54.5	53.3	53.5
Share of Tertiary sector in total employment	%	46.1	47.1	47.7	48.0	...
Credit Side						
Private domestic credit 1/	% of GDP	161	162	173	170	173
Credit intensity		1.9	2.4	6.6	1.8	3.5
Return on asset: SOE - private 1/ 2/	%	-4.0	-3.9	-3.2	-2.7	-0.4
3. Environmental rebalancing						
Energy intensity of output 1/	per unit of output	82.4	81	74	75	72
PM 2.5 (Weighted by usual residence) 1/	mcg per cubic metre	44.2	40.3	35.7	32.0	29.2
4. Income distribution						
Gini	index number	0.468	0.465	0.468	...	...
Labor income 1/	% of GDP	59.1	60.2	61.7	59.7	59.8
Urban/rural income gap 1/ 2/	income ratio	2.69	2.64	2.56	2.50	2.57
Real disposable income growth: Median – Mean 1/ 2/	%	-0.1	0.1	-0.9	-0.3	-0.2

Note: The color coding is based on the change in each indicator relative to the previous year. Color coding: red if the changes go in the opposite direction of rebalancing; yellow if some progress was observed; and green if there was substantial progress in rebalancing. For indicators that are ratios, changes are measured in simple differences and are considered substantial if larger than 0.5 percentage points. For indicators that are indices and for the credit indicators, changes are measured in annual percent change and are considered substantial if larger than 5 percent. See Zhang, L. (2016), "Rebalancing in China—Progress and Prospects," IMF Working Paper No. 16/183 for the framework.

1/ Reported values for 2022 are for 2022 YTD (through Q3), not full year projections. Environmental indicators have been significantly affected by lockdowns throughout the pandemic.

2/ Given the importance of seasonality for this indicator, the score is calculated from the difference in this share relative to 2021 Q1-Q3 (YTD).

Table 7. China: SOE Performance

Variable	Indicator	2017	2018	2019	2020	2021	Trend
		(In percent unless otherwise indicated)					
Profitability	Return on assets SOEs 1/	1.9	1.9	0.9			
	Return on assets industrial SOEs	3.9	4.2	3.5	3.1	4.4	
	Return on assets industrial private	8.5	7.5	6.8	6.5	7.2	
Efficiency	Cost per unit of income -SOE	97.1	97.1	97.4	97.1		
Leverage	SOE debt to GDP 1/	61.4	59.2	59.5			
	Debt to equity SOEs 1/	192	183	182			
	- Central	213	210	209			
	Debt to asset SOE 1/	65.7	64.7	63.9			
	- Central	68.0	67.7	67.0			
	- Local	63.5	62.2	61.6			
	Debt to asset - above designated size industrial	56.0	55.6	56.6	56.1	55.5	
	Debt to asset - industrial state holding enterprises	60.5	58.7	58.0	57.3	57.1	
	Debt to asset - industrial private	53.0	53.7	55.6	57.4	57.7	
	Number of zombies 2/	841	141	102			
	Number of default SOE bonds	8	20	21	84	56	
Corporate governance	Central SOEs with board of directors	87	94	95	95	96	
	Number of Central SOEs 3/	98	96	97	97	98	
	Dividend payments to budget	7.6	7.4	7.6	9.1	7.3	
SOEs share in the economy	Employment	14.3	13.2	12.7	11.8		
	Above designated size industrial sales	23.4	26.9	27.2	26.0	25.7	
	Asset (industrial state holding enterprises/total above designated size industrial)	39.2	38.1	38.7	37.6	36.7	
	Liability (industrial state holding enterprises/total above designated size industrial)	42.4	40.3	39.7	38.4	37.4	

Sources: CEIC Data Company Limited; National Bureau Statistics China; and Ministry of Finance.

1/ Since June 2019, the government no longer disclose non-financial SOE assets and liabilities. The debt ratios in 2019 is calculated as of June 2019.

2/ Number of zombies refers to legal entities of central SOEs. Number of zombies in 2019 refers to data as of 2019 Q3. According to State-owned Assets Supervision and Administration Commission of the State Council's (SASAC) 3-year plan, all zombie enterprises was cleaned up by 2020.

3/ There are 98 central SOEs and 32000 legal entities affilicated to these SOEs by 2021.

Table 8. China: External Vulnerability Indicators

	2017	2018	2019	2020	2021
Monetary and financial					
General government debt (in percent of GDP, narrow definition)	36.2	36.5	38.5	45.4	47.2
Broad money (M2, annual percentage change)	9.0	8.1	8.7	10.1	9.0
Foreign currency deposits to broad money (percent)	3.1	2.7	2.7	2.7	2.7
Local currency loans to the economy (annual percentage change)	12.7	13.5	12.3	12.8	11.6
Foreign currency loans to bank domestic credit (in percent)	3.1	2.8	2.5	2.3	2.2
Stock exchange index (end-of-period, December 19, 1990 = 100) 1/	3,463	2,611	3,196	3,640	3,814
Stock exchange capitalization (percent of GDP)	94.7	77.8	93.1	117.7	119.9
Number of listed companies (A-share)	3,467	3,567	3,690	3,925	4,226
Balance of payments					
Exports (annual percentage change, U.S. dollars)	11.4	9.1	-1.3	5.2	28.1
Imports (annual percentage change, U.S. dollars)	16.0	17.1	-2.1	0.3	32.7
Current account balance (percent of GDP)	1.5	0.2	0.7	1.7	1.8
Capital and financial account balance (percent of GDP)	0.9	1.3	0.1	-0.3	0.2
Of which: gross foreign direct investment inflows	1.4	1.7	1.3	1.7	1.9
Foreign Exchange Reserve					
In billions of U.S. dollars 2/	3,236	3,168	3,223	3,357	3,427
Coverage in terms of:					
Imports (in months)	20.0	17.2	15.1	16.1	17.3
Broad money (percent)	12.9	11.5	11.2	10.6	9.3
Short-term external debt by remaining maturity (percent)	283	247	244	229	212
Assessing Reserve Adequacy (range, in percent of ARA metrics) 3/		88-227	84-217	75-193	68-175
External debt and balance sheet indicators					
Total external debt (percent of GDP)	14.3	14.3	14.4	16.2	15.6
Total external debt (billions of U.S. dollars)	1,758.0	1,983	2,071	2,401	2,747
Short-term external debt by original maturity (billions of U.S. dollars)	1,145.2	1,289.2	1,218.8	1,316.4	1,446.2
Net foreign assets of banking sector (billions of U.S. dollars)	500.5	570	666	801	924
Total debt to exports of goods & services (percent)	72.4	74.8	78.7	87.7	77.3
Total debt service to exports of goods & services (percent)	47.4	48.8	46.0	48.3	40.8
Of which: Interest payments to exports of goods & services (percent)	0.2	0.2	0.2	0.2	0.1
Foreign-currency long-term sovereign bond ratings (eop)					
Moody's	A1	Aa3	Aa3	Aa3	A1
Standard and Poor's	A+	AA-	AA-	AA-	AA-

Sources: CEIC Data Company Limited; Bloomberg; IMF, Information Notice System; and IMF staff estimates.
1/ Shanghai Stock Exchange, A-share.
2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.
3/ ARA short for assessing reserve adequacy. Range for the ARA metric under different assumptions of exchange rate regime and capital controls.

Appendix I. External Sector Assessment

Overall Assessment: *On a preliminary basis, the external position in 2022 is broadly in line with the level implied by medium-term fundamentals and desirable policies.* The CA surplus is projected to widen to 2.1 percent of GDP in 2022 reflecting sluggish imports on the back of weak domestic demand, while the influence of transitory factors linked to the global COVID-19 crisis continues. The CA surplus is expected to return to its downward trend as China's economy rebalances toward higher-quality, more consumption-driven growth. However, this assessment is highly uncertain given the lack of full-year data for 2022, and a complete analysis will be provided in the 2023 External Sector Report.

Potential Policy Responses: Policies to ensure that the external position remains broadly in line with fundamentals include (1) accelerating market-based structural reforms—a further opening up of domestic markets, ensuring competitive neutrality between state-owned and private firms, and promoting green investment—to boost potential growth; (2) shifting fiscal policy support towards strengthening social protection to reduce high household savings and rebalance towards private consumption; and (3) further increasing exchange rate flexibility to help the economy absorb external shocks.

Foreign Asset and Liability Position and Trajectory	**Background.** The NIIP is projected to increase to 12.1 percent of GDP in 2022, from 11.2 percent in 2021, although it remains significantly below the peak of 30.4 percent in 2008. The improvement reflects the CA surplus and larger net portfolio investment abroad, which more than offset higher net inward direct investment. **Assessment.** The NIIP-to-GDP ratio is expected to remain positive, with a modest decline over the medium term. The NIIP is not a major source of risk, as assets remain high—reflecting large foreign reserves (US$3.3 trillion as of November2022, 18.4 percent of GDP). Liabilities are mostly FDI-related.
2022 (% GDP)	NIIP: 12.1 · Gross Assets: 54.4 · Debt Assets:14.3 · Gross Liab.: 42.3 · Debt Liab.: 14.8
Current Account	**Background.** The CA surplus is projected to widen to 2.1 percent of GDP in 2022, from 1.8 percent in 2021, reflecting a rising trade balance. Despite higher energy and commodity prices following the war in Ukraine, merchandise imports growth is projected to decline due to the domestic slowdown with the real estate crisis reducing commodity imports. After a still strong growth in USD terms through 2022Q3, exports have started to slow amid the weak global demand and the unwinding of some pandemic-related exports (e.g., medical goods and consumer durable goods). Services deficit remains low because of still subdued outbound tourism. The income balance deficit is projected to widen further (driven by a higher investment income deficit). Over the medium term, the CA surplus is projected to converge to about 0.5 percent of GDP based on the assumption of continued rebalancing toward higher-quality and more consumption-driven growth. **Assessment.** Preliminary estimates using the EBA CA methodology suggests the CA gap to be 1.6 percent of GDP. Considering that remaining pandemic-related temporary factors raises the CA surplus by 1.0 percent of GDP (with preliminary contributions of 0.8 percentage point from the travel services balance, and 0.2 percentage point from the transport services balance, respectively), the IMF staff assesses the CA gap to range from 0 to 1.2 percent of GDP, with a midpoint of 0.6 percent. Preliminary EBA-identified policy gaps are estimated to be about -0.3 percent of GDP, driven by the larger fiscal expansion in 2022 than in other countries and slower reserve accumulation with a relatively closed capital account (in a de jure sense), offset by relatively low credit growth and inadequate social safety nets.
2022 (% GDP)	CA: 2.1 · Cycl. Adj. CA: 2.2 · EBA Norm: 0.6 · EBA Gap: 1.6 · COVID-19 Adj.: –1.0 · Other Adj.: 0 · Staff Gap: 0.6
Real Exchange Rate	**Background.** As of November 2022, the REER had depreciated by 6.3 percent from the 2021 average, with part of the NEER appreciation (0.7 percent) offset by relatively low inflation in China. This reversed the REER appreciation in 2020-21 (by 5 percent) after a depreciation of 7 percent during 2015–19. **Assessment.** The IMF staff CA gap implies a REER gap of -4.3 percent (applying an estimated elasticity of 0.14). The EBA REER index regression estimates the REER gap in 2022 to be 13.3 percent, and the EBA REER level regression estimates the REER gap to be 9.8 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER gap to be in the range of 0 to -8.6 percent, with a midpoint of -4.3 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Preliminary data suggested that net capital outflows (including net errors and omissions) increased to US$299billion (2.3percent of GDP) in the first three quarters of 2022, from $129 billion (0.7 percent of GDP) in 2021. The authorities reimposed the risk reserve requirement of 20 percent on FX forwards (an outflow CFM) in September 2022, and raised the cross-border financing macro-prudential adjustment parameter for financial institutions and enterprises from 1 to 1.25 (relaxation of an inflow CFM) in October. As of November 2022, the total Qualified Domestic Institutional Investor quota stood at US$159.7 billion. The reserve requirement ratio for FX deposits were lowed twice by 1 and 2 percent in May and September 2022, respectively. 1/ **Assessment.** Substantial net outflow pressures resurfaced with the divergence of China's monetary policy with advanced economies. Over the medium term, further capital account opening is likely to create substantially larger two-way gross flows. The sequence of capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability, while addressing the faster pace of the private sector accumulating foreign assets than nonresidents accumulating Chinese assets. CFM measures should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. Over the medium term, the CFMs should be gradually phased out in a sequence consistent with greater exchange rate flexibility and other supporting reforms.
FX Intervention and Reserves Level	**Background.** FX reserves declined (by US$133 billion in 2022) and reached US$3.1 trillion as of November 2022, mainly reflecting valuation effects, with no sign of large FX intervention. **Assessment.** The level of reserves—projected at 66 percent of the IMF's standard composite metric at the end of 2022 (68 percent in 2021) and 105 percent of the metric adjusted for capital controls (109 percent in 2021)—is assessed to be adequate. The decline in the ratios reflects higher exports, broad money, and external debt, all of which raised the metric.

1/ See 2021 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.

Appendix II. Risk Assessment Matrix[1,2]

Risks	Likelihood	Impact and policy response
Conjunctural shocks and scenarios		
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High ↓	Medium. Accelerate the push for green investment. Let the exchange rate adjust to the change in the terms of trade.
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	High ↓	Medium. Macroeconomic policy should step up should growth falter. Efforts should focus on spending on low-income households, public health, and social safety nets. Additional fiscal expansion should be on-budget and centrally financed. Let the exchange rate adjust flexibly.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High ↓	Medium. Accelerate the push for green investment. Let the exchange rate adjust to the change in the terms of trade.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	High ↓	High. Urgently increase vaccination rates and availability of antiviral treatments to minimize health costs. To avoid a persistent rise in saving rates that would jeopardize medium-term rebalancing, efforts should focus on spending on low-income households, public health, and social safety nets. Additional fiscal expansion should be on-budget and centrally financed. Monetary easing should focus on policy rate cuts. The exchange rate should remain flexible.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium ↓	Medium. Let the exchange rate adjust flexibly.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. • U.S.: Amid persistently high inflation driven by tight labor markets, supply disruptions and continued commodity price shocks, the Fed tightens policies faster and by more than anticipated, resulting in a "hard landing", housing market correction, and a stronger U.S. dollar.	Medium ↓	Medium. Let the exchange rate adjust flexibly. Accelerate the reforms needed to strengthen resolution frameworks. Contain financial spillovers to ensure the functioning of credit markets, while addressing moral hazard.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.
[2] Green upward and red downward arrows denote upside and downside risks, respectively.

• Europe: The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession. • EMDEs: Sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs.		
Deepening in the property sector slowdown. A sharper- and longer-than-expected slowdown in the property sector and their financial repercussions and/or inadequate policy responses could result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels. Broad-based and deeper-than-expected deleveraging could create adverse feedback loops significantly lowering growth.	Medium	High. Authorities should facilitate the efficient and orderly restructuring of distressed property developers, ensure the completion of unfinished, pre-sold housing to boost confidence, and prepare to deal with systemic spillovers to the financial system. Stronger prudential policies for the banking sector will help address financial vulnerabilities. Macroeconomic policy should step up should growth falter. Additional fiscal expansion should be on-budget, centrally financed, and focused on rebalancing and areas with high impact on growth such as spending on low-income households, public health, and social safety nets. Monetary easing should focus on policy rate cuts. The exchange rate should remain flexible.
Structural risks		
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	High. Accelerate domestic structural reforms. Find constructive multilateral solutions together with other countries on trade, supply-chain resilience, standard-setting for critical technologies, and climate change.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	Medium	High. Put in place adequate firewalls and security measures. Enhance crisis preparedness for cyberattacks.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	Medium	Medium. A push for green investment, combined with well-sequenced climate change mitigation strategies, would boost the near-term recovery while promising large environmental, health, fiscal, and economic benefits over the long term. Invest in climate change adaptation to increase resilience in vulnerable communities.
A comprehensive reform package. Reforms that increase the role of markets, aided by greater openness could significantly boost productivity and potential growth.	Medium	Medium. Implement a high-quality comprehensive reform package based on market-oriented policies.

Appendix III. Sovereign Risk and Debt Sustainability Analysis

The Sovereign Risk and Debt Sustainability Assessment (SRDSA) assesses sovereign risk and government debt under both the general "budgetary (official)" and staff's estimated general government "augmented" definitions. While general "budgetary (official)" debt remains manageable, "augmented" debt and associated gross financing needs are high and debt, under both definitions, is on an upward trajectory. Medium-term fiscal adjustment is expected to stabilize debt around 2037.

1. Staff assess sovereign risk based on two definitions of debt. The main difference is the coverage of local government debt.

- The general budgetary (official) coverage scenario includes central government debt and "on-budget" local government debt identified by the authorities. General government debt includes central government debt and explicit local government debt (which consists of general and special local government bonds and other recognized off-budget liabilities incurred by end-2014).[1]

- *"Augmented"* debt is used in the broad coverage scenario. It adds other types of local government borrowing, including off-budget liabilities borrowed by LGFVs via bank loans, bonds, trust loans and other funding sources, estimated by staff. It also covers debt of government-guided funds and special construction funds, whose activities are considered quasi-fiscal. The augmented deficit is the flow counterpart of augmented debt. Augmented data are staff's best estimate of general government data. Data limitations mean some nongovernment activity is likely included, and some LGFV and funds may have substantial revenues. It is also possible that some general government activity takes place outside of staff's augmented definition (e.g., public-private partnerships (PPPs)).

2. Under the baseline scenario, both definitions of debt continue to rise. Government debt under the general budgetary (official) coverage scenario increases to 69 percent of GDP in 2031 from 47 percent of GDP in 2021. Augmented debt rises to 167 percent of GDP in 2031 from 101 percent of GDP in 2021. Large primary deficits, particularly in the early years of the projection period are the main driver behind both debt increases. A favorable growth-interest rate differential and gradual fiscal consolidation, as assumed in the baseline, stabilize both debt-to-GDP ratios. The SRDSA assumes maturing debt is rolled over and asset-based financing declines gradually. Gross financing needs rise in the early part of the projection horizon before trending down. However, augmented gross financing needs remain high, hovering around 30 percent of GDP per year.

3. Several factors mitigate risks associated with China's high debt level and large financing requirements under the augmented debt scenario. Most of China's debt (around 90 – 95 percent of the total) is held by domestic residents and only a small portion is denominated in

[1] In 2014, 2/3 of existing LGFV debt was explicitly recognized as a government liability following a government audit.

foreign currency. The general government's positive net financial worth, low real borrowing cost, and a closed capital account further mitigate risks. The availability of liquid assets (government deposits in the banking system are a third of GDP), and the ability of domestic financial institutions to provide financing (the largely state-dominated commercial banking system claims on the government are only a quarter of the banking system's assets) offsets risks too.

Appendix III. Figure 1. China: Risk of Sovereign Stress (Augmented Debt: Broad Coverage)

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Staff's assessment of the overall risk of sovereign stress is moderate, w ith further dow nside risks. While the mechanical signal suggests that medium-term risks are high, risks in the near- and long-term are moderate.
Near term 1/			
Medium term	High	High	Staff's assessment of the medium term risk of sovereign stress is high. The mechanical medium-term signals for the fan chart and GFN indicate "high" risk, largely driven by the non-stabilization of debt and annual gross financing needs that hover around 30 percent of GDP.
Fanchart	High	...	
GFN	High	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are moderate as aging-related expenditures on health and social security and adaptation to and mitigation of climate change slow ly feed into debt dynamics. IMF estimates that annual pension and health spending w ill increase by 3 percent of GDP from 2021 to 2030.
Sustainability assessment 2/	Not required for surveillance countries		
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: China has at a moderate overall risk of sovereign stress. Debt is expected to rise for several years before stabilizing around 2037 w ith the implementation of the feasible fiscal adjustment anticipated in the baseline. Medium-term liquidity risks as analyzed by the GFN Financeability Module are high. How ever, China's closed capital account and the government's ample financial assets mitigate liquidity risks. Over the longer run, China should seek to close its structural revenue gap through an increase in progressive tax revenues.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Appendix III. Figure 2. China: Debt Coverage and Disclosures (Augmented Debt: Broad Coverage)

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	chosen			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: chosen coverage; Missing from recommended coverage; Not applicable

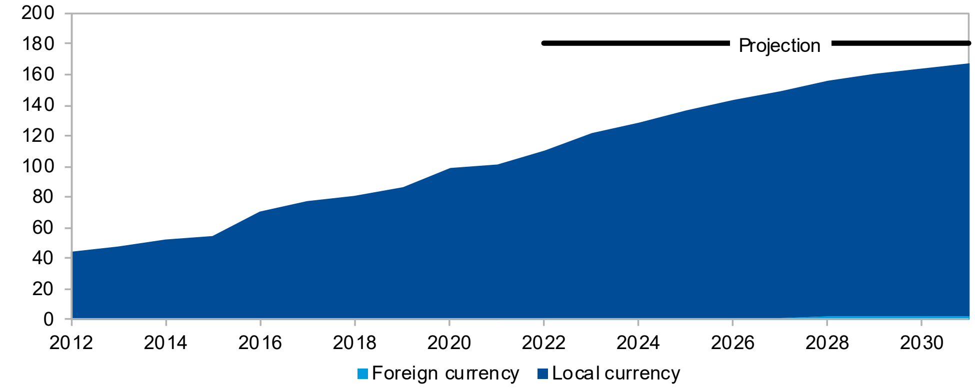
Reporting on Intra-Government Debt Holdings

Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

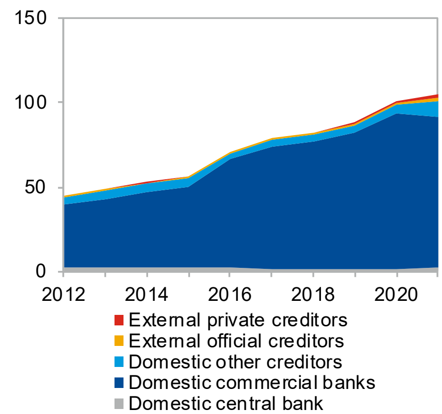
Appendix III. Figure 3. China: Public Debt Structure Indicators (Augmented Debt: Broad Coverage)

Debt by Currency (percent of GDP)



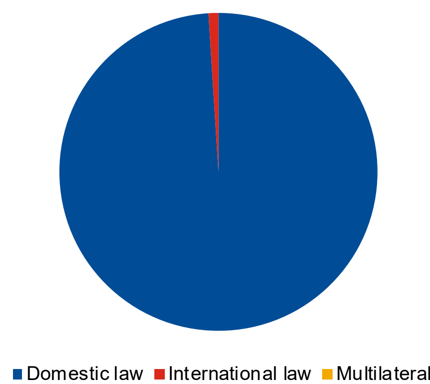
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



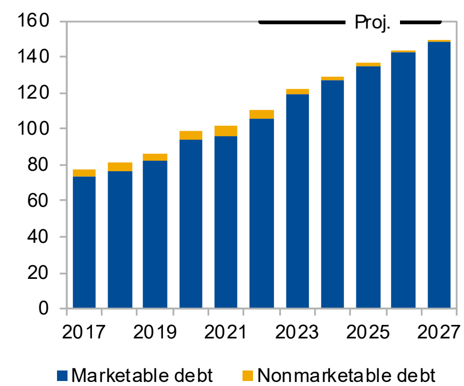
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2021 (percent)



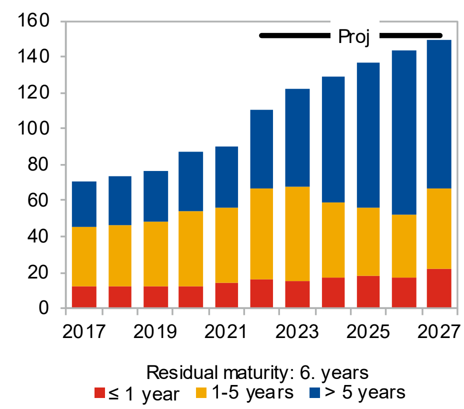
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



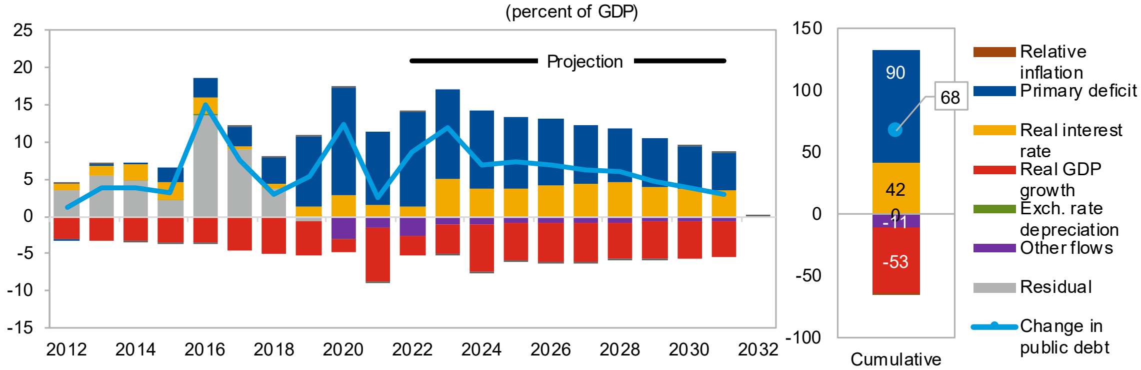
Note: The perimeter shown is general government.

Appendix III. Figure 4. China: Baseline Scenario (Augmented Debt: Broad Coverage)

	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	101.4	110.1	122.0	129.0	136.4	143.4	149.6	155.6	160.3	164.1	167.0
Change in public debt	2.6	8.7	11.9	7.0	7.4	7.0	6.1	6.0	4.7	3.8	2.9
Contribution of identified flows	2.5	8.7	11.9	7.0	7.5	7.0	6.2	6.0	4.7	3.8	2.9
Primary deficit	9.9	12.6	12.0	10.6	9.7	8.8	8.0	7.2	6.5	5.7	4.9
Noninterest revenues	26.8	25.1	26.0	26.1	26.2	26.4	26.5	26.5	26.5	26.5	26.5
Noninterest expenditures	36.7	37.7	38.0	36.7	35.9	35.2	34.5	33.7	33.0	32.2	31.4
Automatic debt dynamics	-5.9	-1.2	1.1	-2.7	-1.3	-1.0	-0.9	-0.4	-1.0	-1.2	-1.4
Int. rate-growth differential	-5.9	-1.2	1.1	-2.6	-1.3	-1.0	-0.9	-0.4	-1.0	-1.2	-1.4
Real interest rate	1.5	1.3	5.1	3.7	3.7	4.2	4.3	4.5	4.0	3.8	3.5
Real growth rate	-7.4	-2.5	-4.0	-6.3	-5.1	-5.2	-5.2	-4.9	-5.0	-5.0	-4.9
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified flows	-1.4	-2.7	-1.1	-1.0	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.4	-2.7	-1.1	-1.0	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	27.9	31.4	32.6	30.0	31.5	31.6	30.1	34.6	28.1	26.2	26.7
of which: debt service	18.0	18.8	20.6	19.3	21.8	22.7	22.2	27.4	21.6	20.5	21.8
Local currency	17.9	18.8	20.6	19.3	21.7	22.7	22.1	27.3	21.5	20.4	21.7
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	8.1	2.6	3.8	5.5	4.1	4.0	3.8	3.4	3.3	3.2	3.1
Inflation (GDP deflator; percent)	2.7	3.0	-0.2	1.2	1.4	1.2	1.4	1.4	1.8	2.0	2.2
Nominal GDP growth (percent)	11.0	5.6	3.6	6.7	5.5	5.3	5.2	4.8	5.2	5.3	5.4
Effective interest rate (percent)	4.3	4.3	4.6	4.4	4.4	4.5	4.5	4.5	4.5	4.5	4.5

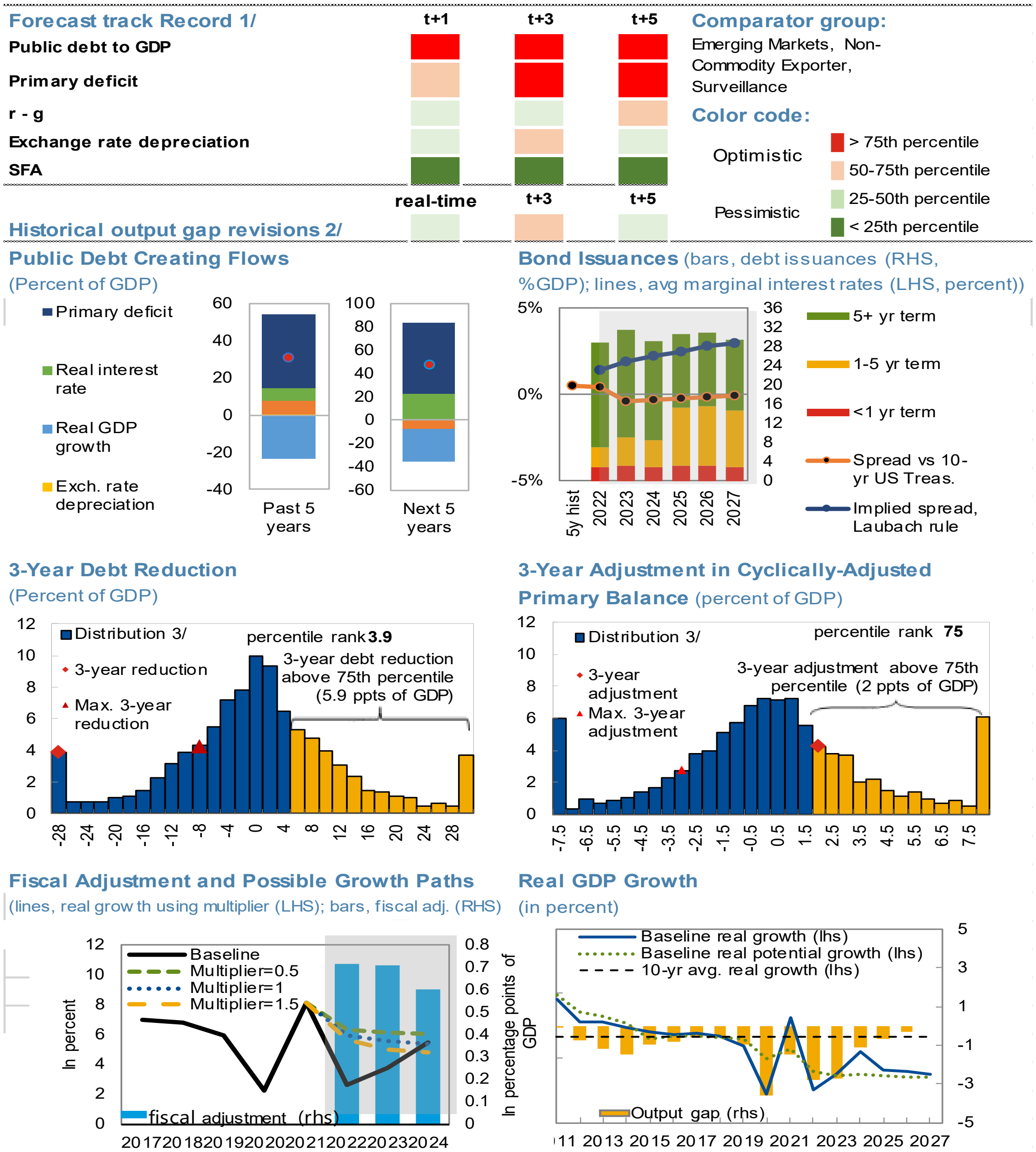
Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Public debt rises throughout the projection period and only stabilizes around 2037, reflecting expectations of a narrowing of primary deficits and stable economic conditions.

Appendix III. Figure 5. China: Realism of Baseline Assumptions (Augmented Debt: Broad Coverage)



Commentary: The authorities have demonstrated the ability and willingness to carry out the fiscal adjustment assumed in the baseline of 0.75 percent of potential GDP per year starting in 2024 to stabilize the general budgetary (official) debt at the end of the projection period. In addition, the projected growth forecast is conservative relative to the 10-year average.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Appendix III. Figure 6. China: Medium-term risk analysis (Augmented Debt: Broad Coverage)

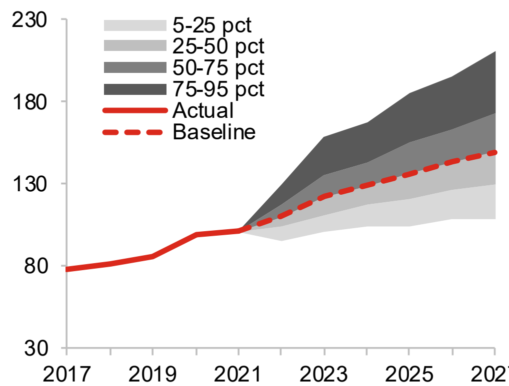
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

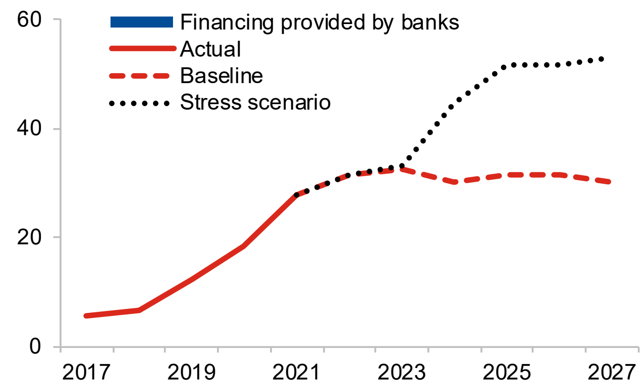
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 / 25 / 50 / 75 / 100)
Debt fanchart module	Fanchart width	102.5	1.5	…	
	Probability of debt not stabilizing (pct)	99.6	0.8	…	
	Terminal debt level x institutions index	77.8	1.7	…	
	Debt fanchart index	**…**	**4.0**	**High**	
GFN finance-ability module	Average GFN in baseline	31.2	10.6	…	
	Bank claims on government (pct bank assets)	11.2	3.6	…	
	Chg. in claims on govt. in stress (pct bank assets)	17.3	5.8	…	
	GFN financeability index	**…**	**20.1**	**High**	

Legend: Interquartile range; China

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

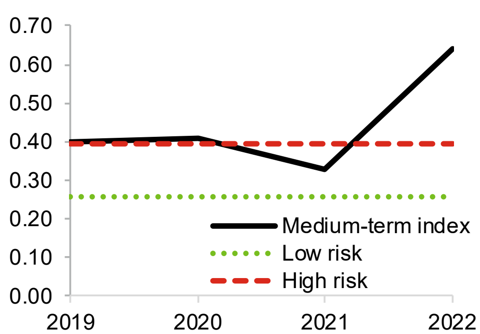


Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.9
GFN finaceability index	7.6	17.9	0.5	0.4
Medium-term index (MTI)	0.3	0.4	…	0.6, High

Prob. of missed crisis, 2022-2027 (if stress not predicted): 81.8 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 2.3 pct.

Commentary: The Debt Fanchart and GFN Modules are pointing to high level of risk. However, medium-term liquidity risks are mitigated by China's closed capital account and ample financial assets.

Appendix III. Figure 7. China: Risk of Sovereign Stress (General Budgetary (Official) Debt)

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Staff's assessment of the overall risk of sovereign stress is moderate. While the mechanical signal suggests that near term risks are low , risks in the medium and long-term are moderate. In addition, the authorities may incur direct or contingent liabilities associated resolving the current difficulties in the real estate sector.
Near term 1/			
Medium term	Moderate	Moderate	Staff's assessment of the medium term risk of sovereign stress is moderate. The mechanical medium-term signal for the fan chart indicates a "high" risk, largely driven by the probability of debt non-stabilization.
Fanchart	High	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are moderate as aging-related expenditures on health and social security and adaptation to and mitigation of climate change slow ly feed into debt dynamics. IMF estimates that annual pension and health spending w ill increase by 3 percent of GDP from 2021 to 2030.
Sustainability assessment 2/	Not required for surveillance countries		
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: China has at a moderate overall risk of sovereign stress. Debt is expected to rise for several years before stabilizing at the end of the projection period w ith the implementation of the feasible fiscal adjustment anticipated in the baseline. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Over the longer run, China should seek to close its structural revenue gap through an increase in progressive tax revenues.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Appendix III. Figure 8. China: Debt Coverage and Disclosures (General Budgetary (Official) Debt)

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	GG (chosen coverage)			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Included (chosen coverage)	Included (chosen coverage)	Included (chosen coverage)	Missing from recommended coverage	Missing from recommended coverage

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

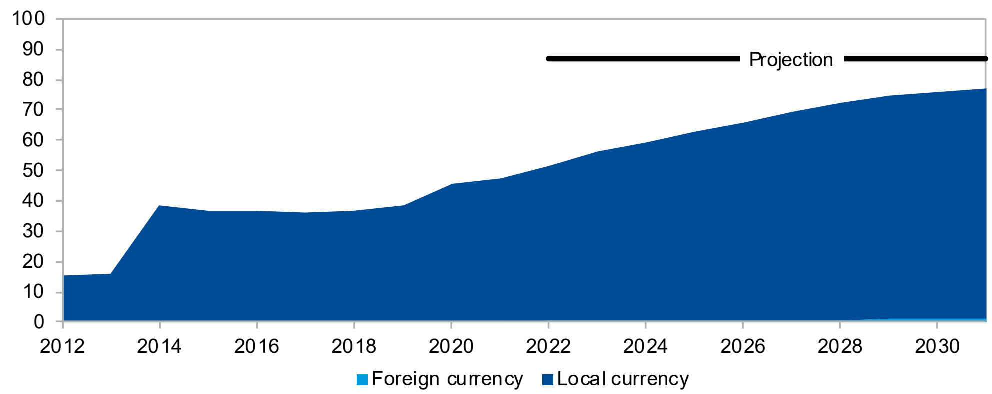
Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

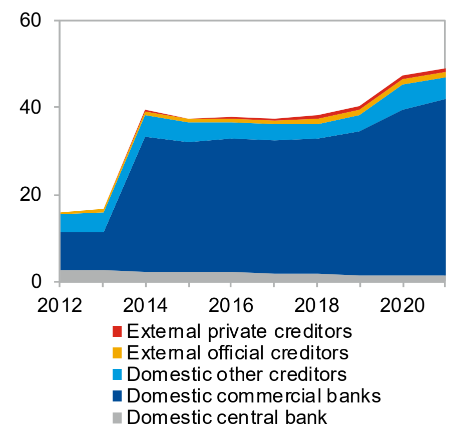
Appendix III. Figure 9. China: Public Debt Structure Indicators (General Budgetary (Official) Debt)

Debt by Currency (percent of GDP)



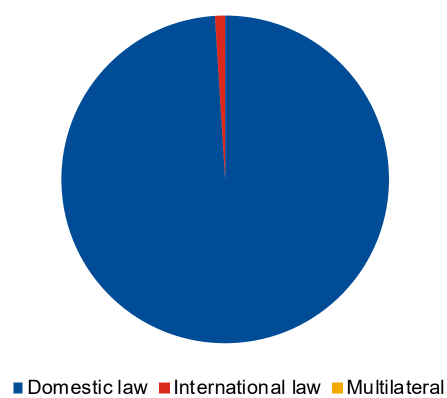
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



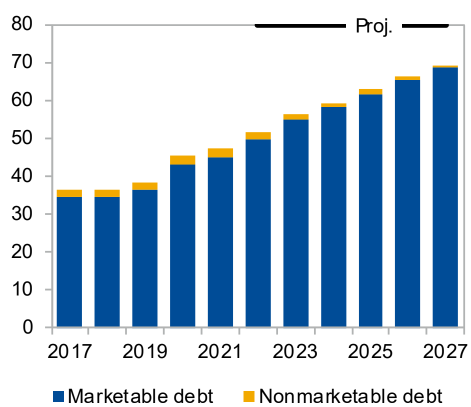
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2021 (percent)



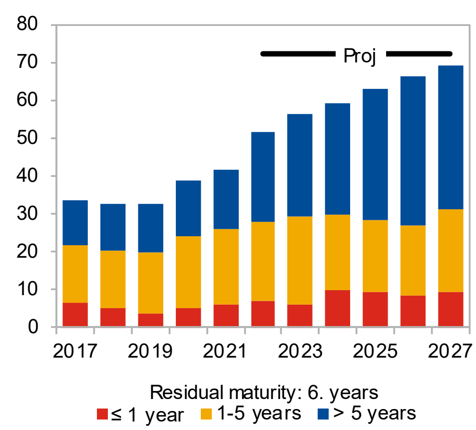
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)

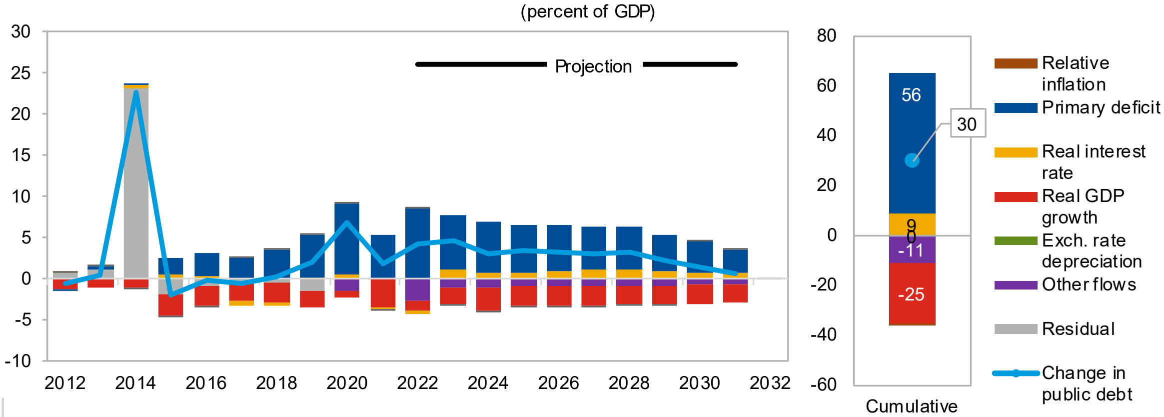


Note: The perimeter shown is general government.

Appendix III. Figure 10. China: Baseline Scenario (General Budgetary (Official) Debt)
(percent of GDP unless indicated otherwise)

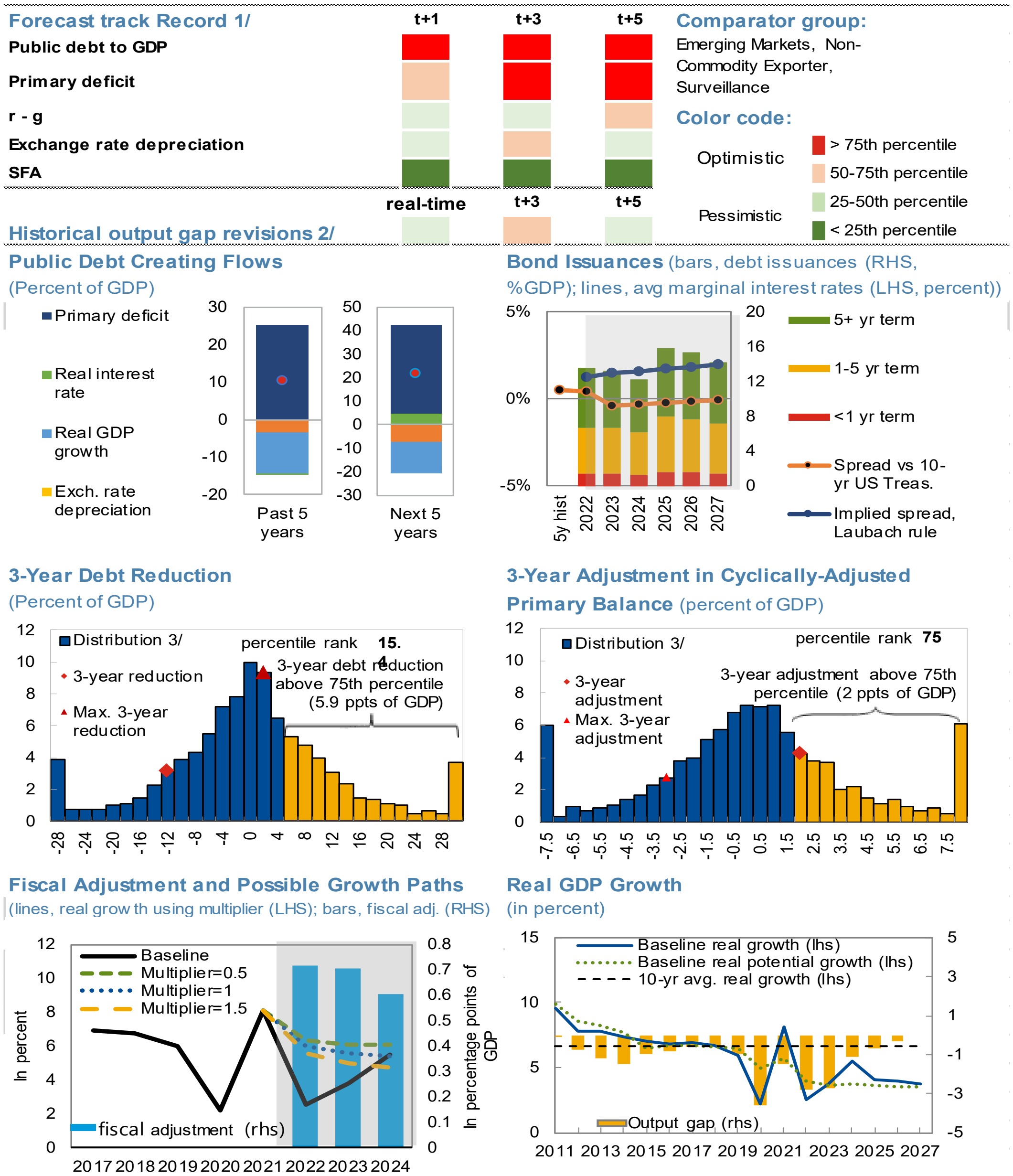
	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	47.2	51.5	56.3	59.3	62.7	66.0	69.1	72.3	74.6	76.1	76.8
Change in public debt	1.8	4.3	4.7	3.0	3.4	3.3	3.0	3.2	2.3	1.5	0.7
Contribution of identified flows	1.8	4.3	4.7	3.0	3.4	3.3	3.1	3.2	2.3	1.5	0.7
Primary deficit	5.2	8.4	6.5	6.3	5.9	5.6	5.2	5.1	4.4	3.7	3.0
Noninterest revenues	26.8	25.1	26.0	26.1	26.2	26.4	26.5	26.5	26.5	26.5	26.5
Noninterest expenditures	32.0	33.6	32.5	32.3	32.1	31.9	31.7	31.6	30.9	30.2	29.5
Automatic debt dynamics	-3.6	-1.5	-0.6	-2.2	-1.6	-1.4	-1.3	-1.1	-1.4	-1.5	-1.6
Int. rate-growth differential	-3.6	-1.5	-0.6	-2.2	-1.6	-1.4	-1.3	-1.1	-1.4	-1.5	-1.6
Real interest rate	-0.2	-0.3	1.3	0.7	0.7	1.0	1.1	1.2	0.9	0.8	0.7
Real growth rate	-3.4	-1.2	-1.9	-2.9	-2.3	-2.4	-2.4	-2.3	-2.3	-2.3	-2.3
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified flows	0.2	-2.7	-1.1	-1.0	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.2	-2.7	-1.1	-1.0	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	11.5	16.2	14.4	13.2	16.7	16.2	15.1	15.9	14.8	13.4	12.6
of which: debt service	6.3	7.7	8.0	6.9	10.8	10.6	9.9	10.8	10.3	9.7	9.6
Local currency	6.3	7.7	7.9	6.9	10.8	10.6	9.9	10.7	10.3	9.6	9.6
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	8.1	2.6	3.8	5.5	4.1	4.0	3.8	3.4	3.3	3.2	3.1
Inflation (GDP deflator; percent)	2.7	3.0	-0.2	1.2	1.4	1.2	1.4	1.4	1.8	2.0	2.2
Nominal GDP growth (percent)	11.0	5.6	3.6	6.7	5.5	5.3	5.2	4.8	5.2	5.3	5.4
Effective interest rate (percent)	2.2	2.3	2.3	2.5	2.7	2.9	3.2	3.2	3.2	3.2	3.1

Contribution to Change in Public Debt
(percent of GDP)



Staff commentary: Shortly after the end of the extended projection period, public debt stabilizes, reflecting expectations of a narrowing of primary deficits and stable economic conditions

Appendix III. Figure 11. China: Realism of Baseline Assumptions (General Budgetary (Official) Debt)



Commentary: The authorities have demonstrated the ability and willingness to carry out the fiscal adjustment assumed in the baseline of 0.75 percent of potential GDP per year starting in 2024 to stabilize the general budgetary (official) debt at the end of the extended projection period. In addition, the projected growth forecast is conservative relative to the 10-year average.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Appendix III. Figure 12. China: Medium-term risk analysis (General Budgetary (Official) Debt)

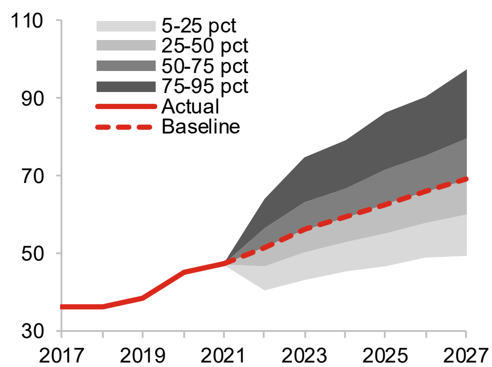
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

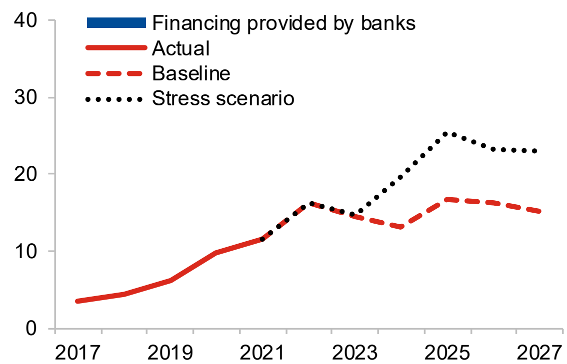
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	48.0	0.7	…	
	Probability of debt not stabilizing (pct)	100.0	0.8	…	
	Terminal debt level x institutions index	35.9	0.8	…	
	Debt fanchart index	**…**	**2.3**	**High**	
GFN finance-ability module	Average GFN in baseline	15.3	5.2	…	
	Bank claims on government (pct bank assets)	11.2	3.6	…	
	Chg. in claims on govt. in stress (pct bank assets)	6.7	2.2	…	
	GFN financeability index	**…**	**11.1**	**Moderate**	

Legend: Interquartile range; China

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

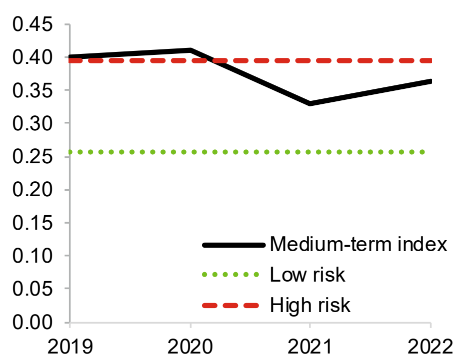


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	…	0.4, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 17.0 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN Financeability Module suggests lower, but still moderate, level of risk.

Appendix IV. Implementation of Main Recommendations of the 2021 Article IV Consultation

Progress has been made in opening up to trade and foreign investment, promoting the green transition, building a unified market, and addressing real estate developer risks against the backdrop of recurrent COVID outbreaks. At the same time, there remains significant room for rebalancing, SOE reform in core areas, advancing the green economy, monetary policy reform, addressing the local government debt problem, the coordination of fiscal and monetary policies, and safeguarding financial stability. Further reforms along these lines need to focus more on providing direct fiscal support to households, recalibrating the COVID strategy, taking action in the property sector while protecting financial stability, advancing power sector reform and fostering climate finance, and reaccelerating structural reforms such as enhancing competitive neutrality to promote economic recovery and achieve high-quality growth in the medium to long term.

Announced Reform Measures since November 2021	**Date**	**Status**
Supporting Balanced and Inclusive Growth		
Adjusting the Fiscal Policy Stance and Strengthening Social Protection		
MOF and other departments extended the implementation period of some tax preferential policies until December 31, 2023. (link)	Jan-22	Implemented
SAT and MOF issued the announcement on the continuation of the implementation of issues related to the postponement of payment of part of taxes by small, medium, and micro manufacturing enterprises. (link)	Feb-22	Implemented
The State Council issued the 14th Five-Year Plan for the Development of old-age Undertakings and the old-age Service System, no less than 55% of the lottery public welfare fund should be used to support the development of elderly services. (link)	Feb-22	Implementation in progress
SAT and MOF exempted small-scale VAT taxpayers from VAT (link), strengthened the implementation of the value-added tax rebate policy (link). Implemented preferential income tax policies for small and micro enterprises (link). Implemented the "six taxes and two fees" policy for small and micro enterprises (link). Adjusted the value-added tax policy to promote the relief and development of difficult industries in the service sector (link).	Mar-22	Implemented
The State Council issued the Notice on the Establishment of Special Additional Deduction for Personal Income Tax for Infant Care under 3 years of Age. (link)	Mar-22	Implemented from January 1, 2022
At the executive meeting of The State Council on March 21, the State Council decided to implement large-scale VAT rebates worth about	Mar-22	Implementation in progress

Announced Reform Measures since November 2021	Date	Status
RMB 1.5 trillion and introduced measures to support community-level implementation of tax rebates, tax cuts and fee cuts, and ensure employment and basic livelihood. (link)		
SAT and MOF further accelerated the implementation of the value-added tax rebate policy. (link); SAT further facilitated the handling of export tax rebates. (link); SAT and other 10 government agencies further increased support for export tax rebates. (link)	Apr-22	Implementation in progress
MOHRSS, MOF, and STA issued the Notice on Ensuring Unemployment Insurance to Stabilize Positions, Improve Skills and Prevent Unemployment, to give full play to the function of unemployment insurance in ensuring living conditions, preventing unemployment and promoting employment. (link)	Apr-22	Implemented until December 31, 2022
The General Office of the State Council issued the Opinions on Promoting the Development of Individual Pensions to coordinate the development of other individual commercial pension financial services and improve the multi-level and multi-pillar pension insurance system. (link)	Apr-22	Implementation in progress
MOF, STA, and CBIRC issued a notice on further defining the scope of insurance products applicable to individual income tax preferential policies for commercial health insurance. (link)	May-22	Implemented since release
At the executive meeting of The State Council on June 1, a package of policies and measures to speed up economic stabilization took effect. More than RMB 140 billion was added as tax rebates, an RMB 800 billion credit line was increased for policy banks to support infrastructure construction, and temporary subsidies were granted to unemployed migrant workers. (link)	Jul-22	Implementation in progress
At the executive meeting of The State Council on June 30, The State Council decided to raise RMB 300 billion by issuing financial bonds to replenish capital for major projects including new infrastructure projects. And the central government will provide appropriate discount interest based on the actual equity investment, with a term of two years. (link)	Jul-22	Implementation in progress
The General Office of the MOHRSS, the General Office of the MOE, and the General Office of MOF issued the Notice on Accelerating the Implementation of the One-time Job Expansion Subsidy Policy, giving full play to the role of unemployment insurance in helping enterprises expand their jobs, and encouraging enterprises to actively recruit college students. (link)	Jul-22	Implemented from January to December 2022
The MOFCOM and other 17 agencies issued a notice on several measures to invigorate the circulation of automobiles and expand	July-22	Implementation in progress

Announced Reform Measures since November 2021	Date	Status
automobile consumption to support the consumption of new energy automobiles and study the extension of the exemption from new energy automobile vehicle purchase tax when it expires. (link)		
NDRC and 13 other government agencies issued Policies and Measures on Relief and Support for the Elderly Care Service Industry, proposing support measures for the elderly care service industry, including tax exemptions and reductions. (link)	Aug-22	Implemented until the end of 2022
At the executive meeting of the State Council on August 19, the State Council set out measures to reduce financing costs for enterprises and credit costs for individuals consumption loans and a coordinated mechanism for periodic adjustment of price subsidies, so as to cover the newly increased number of people receiving unemployment subsidies and living on subsistence allowances (dibao). (link)	Aug-22	Implemented from September 2022 to March 2023
At the executive meeting of the State Council on August 24, the State Council adopted policies and measures to continue the economic stabilization package, adding RMB 300 billion to the RMB 300 billion of policy-based development financial instruments already available. The quota of over RMB 500 billion in special local government bonds carried over from 2021 will be fully used in accordance with the law and completed by end-October 2022 to reduce the cost of financing for enterprises and credit for individuals. (link)	Aug-22	Implementation in progress
Providing Monetary Support		
LPR: In December 2021, the PBC lowered the 1-year LPR from 3.85% to 3.8%, while the 5-year LPR remained unchanged at 4.65 percent. (link) In January 2022, the PBC lowered the one-year LPR from 3.8 to 3.7 percent, and the five-year LPR from 4.65 to 4.6 percent. (link) In May 2022, the PBC lowered the LPR, with the one-year LPR unchanged at 3.7 percent and the five-year LPR adjusted from 4.6 to 4.45 percent. (link) In August 2022, the PBC lowered the one-year LPR from 3.7 to 3.65 percent, and the five-year LPR from 4.45 to 4.3 percent. (link) ***SLF:*** In January 2022, the PBC carried out SLF operation. The overnight, 7-day and 1-month SLF interest rates were adjusted from 3.05%, 3.2%, and 3.55% to 2.95%, 3.10%, and 3.45%, respectively. (link) In August 2022, the PBC carried out SLF operation. The overnight, 7-day and 1-month SLF interest rates were adjusted from 2.95, 3.10, and 3.45 percent to 2.85, 3.00, and 3.35 percent, respectively. (link) ***MLF:***	From Nov-21 to Aug-22	Implemented

Announced Reform Measures since November 2021	Date	Status
In January 2022, the PBC carried out MLF operation, and the interest rate was adjusted from 2.95 to 2.85 percent. (link) In August 2022, the PBC carried out MLF operation, and the interest rate was adjusted from 2.85 to 2.75 percent. (link)		
PBC launched a carbon emission reduction support tool, providing financial support up to 60% of the loan principal, with an interest rate of 1.75 percent. (link)	Nov-21	Implemented
PBC printed and distributed opinions on the key work of financial support to comprehensively promote rural revitalization in 2022, which clearly strengthened the management of supporting agriculture and small firms through relending and rediscount. (link)	Mar-22	Implementation in progress
PBC and NDRC launched a pilot program of special relending facility for the elderly, with a quota of RMB 40 billion, an interest rate of 1.75%, a term of one year, and two possible extensions. Seven large national banks and five provinces were piloted. (link)	Apr-22	Implemented
PBC set up a scientific and technological innovation relending facility, with a quota of RMB 200 billion, an interest rate of 1.75 percent, a term of one year, and two possible extensions. It was issued to 21 financial institutions and provided financial support up to 60 percent of the loan principal of scientific and technological enterprises. (link)	Apr-22	Implemented
PBC printed and distributed a notice on promoting the establishment of a long-term mechanism to increase the supply of inclusive small and micro loans. (link)	May-22	Implemented
PBC increased the amount of special relending by RMB 100 billion to support the development and use of coal and enhance coal reserve capacity. (link)	May-22	Implemented
PBC lowered the reserve ratio for foreign exchange deposits of financial institutions from 8 to 6 percent. (link)	Sep-22	Implemented
Managing Risks from the Property Sector		
PBC and CBIRC excluded the loans related to indemnificatory rental housing from the unified management of real estate loans (link); CBIRC and MOHURD guided banks and insurance institutions to support the development of affordable rental housing. (link)	Feb-22	Implemented
MOHURD enhanced the accuracy and coordination of real estate regulatory policies, and 2.4 million affordable rental housing units will be built nationwide. (link)	Feb-22	Implementation in progress
PBC and CBIRC issued the notice on adjusting differentiated housing credit policies, specifying that the lower limit of the interest rate of commercial individual housing loans for the first home should be	May-22	Implemented

Announced Reform Measures since November 2021	Date	Status
adjusted to not less than the market quoted interest rate of loans for the corresponding period minus 20 basis points. (link)		
The CSRC and NDRC standardized the work related to the pilot issuance of real estate investment trusts (REITs) in the field of infrastructure for affordable rental housing. (link)	May-22	Implemented
On July 28, the meeting of the Political Bureau of the CPC Central Committee pointed out that it is necessary to stabilize the real estate market, adhere to the positioning that houses are for living and not for speculation, make full use of the policy toolbox, support rigid and improving housing needs, compact local government responsibilities, ensure property delivery and stabilize people's livelihood. (link)	Jul-22	Implementation in progress
CBIRC proposed four specific measures, including: Coordinate with local governments to do everything possible to promote the "property delivery"; Take the initiative to participate in the study of reasonable solutions to the hard funding gap, and do a good job in providing qualified credit; Do a good job in customer service; Effectively meet the reasonable financing needs of real estate enterprises. (link)	Jul-22	Implementation in progress
On August 31, the executive meeting of the State Council pointed out that local governments should make good use of the policy toolbox of "one city, one policy" and flexibly use the phased credit policy and the special loan for property delivery to support rigid and improved housing demand. Since the beginning of this year, Zhejiang, Hubei, Shanxi, Henan, Guangxi and other provinces have set up relief funds, and financial asset companies have accelerated the rescue of real estate enterprises. (link) (link) (link)	Aug-22	Implementation in progress
MOHURD, MOF, PBC and other departments improved the policy toolbox to support the construction and delivery of sold residential projects that are difficult to be delivered beyond the time limit through special loans from policy banks. (link)	Aug-22	Implementation in progress
Responding to Materializing Downside Risks		
State Council issued the opinions on using cross-cycle policy tools to further stabilize foreign trade, and promote the integrated development of domestic and foreign trade. (link) (link)	Jan-22	Implemented
MOF and other agencies issued the notice on adjusting the provisions on the operation and bidding period of inbound and outbound duty-free shops at ports during the epidemic. (link)	Jan-22	Implemented
NDRC and other agencies printed and distributed the notice on several policies to promote the steady growth of the industrial economy and the notice on a number of policies to promote the recovery and	Feb-22	Implemented

Announced Reform Measures since November 2021	Date	Status
development of difficult industries in the service sector, clarifying the inclusive relief of the service sector. (link) (link)		
State Council printed and distributed the opinions on further releasing the consumption potential and promoting the sustained recovery of consumption and the notice on effectively ensuring the smooth transportation of freight logistics. (link) (link)	Apr-22	Implemented
PBC and SAFE issued 23 measures to do a good job in epidemic prevention and control and financial services for economic and social development. (link)	Apr-22	Implemented
CBIRC issued the notice on further strengthening financial support for the development of small and micro enterprises in 2022 and the notice on financial support for freight logistics. (link) (link)	Apr-22	Implementation in progress
State Council issued a package of policies and measures to stabilize the economy (link), opinions on promoting the stability and quality of foreign trade (link), opinions on further revitalizing stock assets and expanding effective investment. (link)	May-22	Implemented
MOF issued the notice on giving full play to the guiding role of fiscal policy to support financial sector in helping market entities to rescue and develop. (link)	May-22	Implemented
The CSRC issued the notice on further giving play to the functions of the capital market to support speedy recovery and development of regions and industries seriously affected by the pandemic. (link)	May-22	Implemented
MOHURD and other agencies implemented phased support policies for housing fund. (link)	May-22	Implemented
MOHRSS, NDRC, MOF, SAT issued the decision on expanding the scope of implementation of the phased deferred payment of social insurance premiums. (link)	May-22	Implemented
Announcement of MOF and SAT on reducing the purchase tax of some passenger vehicles. (link)	May-22	Implemented from June 1, 2022 to December 31, 2022
The CBIRC issued the notice on further improving financial services for distressed enterprises and industries affected by the epidemic. (link)	Jun-22	Implemented
The CSRC will further reduce the transaction costs in the bond market of the exchange, and the transaction costs for bond financing of private enterprises should be exempted. (link); MOHURD and other 8 agencies issued the notice on promoting the phased reduction and exemption of housing rents of market entities. (link)	Jun-22	Implemented
NDRC, MOF and CBIRC promoted epidemic prevention and control insurance. (link)	Jun-22	Implemented
SAT stepped up the processing of export tax rebates. (link)	Jun-22	Implemented

Announced Reform Measures since November 2021	Date	Status
SAMRS launched a special action on quality infrastructure to help relieve small, medium and micro enterprises and self-employed people. (link)	Jun-22	Implemented
PBC and MCT issued the notice on financial support for the recovery and development of the cultural and tourism industry. (link)	July-22	Implementation in progress
The CSRC launched a pilot of private equity venture capital funds distributing stocks to investors in kind to support private equity funds to serve the real economy. (link)	July-22	Implementation in progress
MOFCOM and other 18 agencies issued the notice on measures to invigorate automobile circulation and expand automobile consumption. (link)	July-22	Effective from August 1, 2022
Reaccelerating Structural Reforms		
SASAC issued a Notice on Investigating the Responsibilities of Central Government -Controlled Enterprises for Investment in Irregular Operations in 2022, strengthening the accountability of State-owned enterprises for this kind of actions, and fully implementing the division of tasks in the three-year reform of State-owned enterprises. (link)	Mar-22	Implemented until the end of 2022
MOF and SAT issued the Announcement on VAT Policies for Promoting Relief and Development of Distressed Industries in the Service Sector, extending the policy of adding VAT credits to production and consumer services. (link)	Mar-22	Implemented from June 1 to December 31, 2022
CPCCC and The State Council issued the Opinions on Accelerating the Construction of a Unified National Market, implementing a unified market access system and strictly implementing the management model of "one national list". (link)	Apr-22	Implementation in progress
NDRC and the NEA on the Implementation Plan for Promoting the High-quality Development of New Energy in the New Era, guiding the whole society to consume new energy and other green electricity, and improving fiscal and financial policies to support the development of new energy. (link)	May-22	Implementation in progress
The General Office of the State Council issued Opinions on Further Revitalizing Stock Assets and Expanding Effective Investment to actively explore market-oriented methods such as asset securitization to revitalize stock assets. (link)	May-22	Implementation in progress
The 25th meeting of the Commission for Deepening Overall Reform of the CPCCC pointed out that an audit system for outgoing leading officials' natural resources and assets will be established to form a strong institutional constraint on the strict implementation of the ecological civilization system. (link)	May-22	Piloted in 2015 and fully rolled out in 2017

Announced Reform Measures since November 2021	Date	Status
MOHRSS, MOCA, MOF, MOHURD, and the SAMR issued the Opinions on Strengthening the Construction of the Gig Market and Improving Job search and Recruitment Services to enhance the development of service businesses. (link)	Jun-22	Implementation in progress
The 26th meeting of the Commission for Deepening Overall Reform of the CPCCC pointed out that it is necessary to establish a data property rights system, improve the protection system of rights and interests of data elements, establish a compliant and efficient circulation and trading system of data elements, and improve the compliance and regulatory rules system of the whole data process. (link)	Jun-22	Implementation in progress
The General Office of the State Council issued a Letter on Agreeing to Establish an Inter-Ministerial Joint Conference System for the Development of the Digital Economy to coordinate the formulation of plans and policies in key areas of the digital economy, such as digital transformation, promotion of big data development, and the "Internet Plus" initiative. (link)	Jul-22	Implementation in progress
MOST and other 9 agencies released the Implementation Plan for Science and Technology to Support Carbon Peaks and Carbon Neutrality (2022-2030), covering related basic research, technology research and development, application demonstration, results promotion, talent training, international cooperation and many other aspects. (link)	Aug-22	Implementation in progress
Promoting the Transition to a Green Economy		
Overbalancing to Reduce the Energy Intensity of Growth		
NDRC and other ministries jointly issued the Implementation Plan to Promote Green Consumption, requiring the all-around implementation of green concept in the consumption sector and promotion of green, low-carbon transformation and upgrading of consumption. (link)	Jan-22	Implementation in progress
NDRC and NEA jointly issued the Opinions on Improving Institutional Mechanisms and Policy Measures for Green and Low-Carbon Energy Transition, requiring the acceleration of building a clean, low-carbon, secure and highly efficient energy system, helping timely realize the carbon peak and carbon neutrality goals. (link)	Feb-22	Implementation in progress
NDRC and NEA jointly issued the 14th Five-Year Plan on Modern Energy System, requiring a significant elevation of efficiency in the energy system and reduction of energy consumption per unit GDP by 13.5 percent in five years. (link)	Mar-22	Implementation in progress
The General Office of the State Council issued the Opinions on Further Unleashing the Potential of Consumer Spending and Promoting the	Apr-22	Implementation in progress

Announced Reform Measures since November 2021	Date	Status
Sustained Recovery of Consumption, requiring the promotion of innovative, high-quality development of green consumption. (link)		
The General Office of the State Council re-issued NDRC and NEA's Implementation Plan to Promote High Quality Development of New Energy in the New Era, proposing measures to address issues with the new energy development such as the lack of adaptivity and the constraint of land resources. (link)	May-22	Implementation in progress
MIIT and other ministries jointly issued the Action Plan to Improve Energy Efficiency of Industries, requiring the reduction of energy consumption per unit industrial value added by 13.5% from 2020 to 2025. (link)	Jun-22	Implementation in progress
MOFCOM and other ministries issued the Notice on Several Measures to Promote Consumption of Green, Smart Home Appliances, requiring the promotion of spending on smart refrigerators, smart washing machines, smart air-conditioners, ultra-HDTVs and smart phones. (link)	Jul-22	Implementation in progress
The Executive Meeting of the State Council decided to extend the implementation period of exemption of vehicle purchase tax for new energy vehicles to boost spending on big-ticket items. (link)	Aug-22	Implementation in progress
Making the Best Possible Use of Carbon Pricing Mechanisms Supplemented by Market-based Sectoral Policies, Where Needed, to Steer the Economy and Minimize Tradeoffs with GDP Growth		
NDRC and other ministries issued the Implementation Plan for Building a Unified and Standardized Carbon Emission Statistics and Accounts System, requiring the establishment of national and regional Carbon Emission Statistics and Accounts Systems and improvement of carbon emission accounts mechanism for industries and enterprises. (link)	Apr-22	Implementation in progress
MOF issued the Opinions on Financial Support for Carbon Peak and Carbon Neutrality, requiring the establishment of fiscal and tax policy system that promotes high-efficiency use of resources and green, low-carbon development, helping meet the carbon peak and carbon neutrality goals. (link)	May-22	Implementation in progress
MOST and other ministries issued the Implementation Plan for Scientific and Technological Support for Carbon Peak and Carbon Neutrality (2022-2030), requiring the strengthening of the key supporting role of science, technology and innovation in realizing the carbon peak and carbon neutrality goals. (link)	Aug-22	Implementation in progress
MIIT and other ministries issued the Action Plan of Green and Low-Carbon Development of the ICT Sectors (2022-2025), requiring the improvement of green, low-carbon development of the ICT sector to help realize the green transition of socio-economic development. (link)	Aug-22	Implementation in progress

Announced Reform Measures since November 2021	Date	Status
MIIT and other ministries issued the Action Plan of Green, Low-Carbon and Innovative Development of Electric Equipment, requiring the significant improvement of the supply structure of electric equipment, the increase of efficiency in safeguarding grid transmission and distribution, and the acceleration of high-end, smart, and green development and application. (link)	Aug-22	Implementation in progress
Leveraging Green Finance to Harness the Power of Private Capital Markets for the Financing of Climate Investment Needs		
PBC launched a carbon emission reduction support tool (providing financial support at 60 percent of the principal of qualified loans with an interest rate of 1.75 percent) and special refinancing for clean and efficient use of coal. (link)	Nov-21	Implemented
NDRC and other ministries issued the Opinions on Promotion of Green Development of the Belt and Road Initiative, including the strengthening of cooperation on green finance. (link)	Mar-22	Implementation in progress
The State Council issued the Circular on a Package of Policies to Stabilize the Economy, including the establishment of green channel for green financial bonds and micro- and small-enterprise bonds to support enterprises in key sectors. (link)	May-22	Implementation in progress
CBIRC issued the Guidance on Green Finance for Banking and Insurance Sectors, requiring that all state-owned and non-state-owned banks and insurance companies develop green finance from a strategic perspective and enhance the support for green, low-carbon and circular economy. (link)	Jun-22	Implementation in progress
Safeguarding Financial Stability		
Exceptional Financial Support Measures to be Phased out While Strengthening Micro and Macro-prudential Frameworks to Prevent Further Build-up of Financial Vulnerabilities		
PBC Issued the Macro Prudential Policy Guidelines (Trial) (link)	Dec-21	Implementation in progress
PBC and the CBIRC openly solicited opinions on the measures for the evaluation of systemically important insurance companies (Draft for comments). (link)	July-22	Implementation in progress
A Comprehensive Bank Restructuring Approach Urgently Needed to Strengthen the Banking System and Improve its Capacity to Support the Recovery		
MIIT together with 11 ministries, jointly issued the Notice on Carrying Out "Joint Action" to Promote Financing Innovation of Large, Medium and Small Enterprises (2022-2025) (link)	Dec-21	Implementation in progress

Announced Reform Measures since November 2021	**Date**	**Status**
Notice of PBC and the CBIRC on issues related to the issuance of non-capital bonds with total loss absorption capacity by global systemically important banks. (link)	Apr-22	Implementation in progress
Corporate Restructuring and Insolvency Frameworks to be Strengthened to Facilitate Market-based Exit of Nonviable Firms While Ensuring Financial Stability		
Circular of the General Office of the State Council on Further Strengthening the Relief and Assistance to Small and Medium-Sized Enterprises. (link)	Nov-21	Implementation in progress
SASAC accelerated the restructuring, integration, and reform of central enterprises. (link)	Jul-22	Implementation in progress
Continuing Efforts to Address Weakness in the Anti-money Laundering and Countering Financing of Terrorism (AML/CFT) Framework		
PBC, CBIRC, CSRC issued Administrative Measures for the Due Diligence of Financial Institutions and the Preservation of Customer Identity Data and Transaction Records. (link)	Jan-22	Implementation from March 1, 2022
PBC and other 11 departments launched a three-year campaign to crack down on money laundering crimes. (link)	Jan-22	Implementation in progress
China Anti Money Laundering Monitoring and analysis center and Senegal national financial intelligence and processing center signed a memorandum of understanding on financial intelligence exchange and cooperation in anti-money laundering and combating the financing of terrorism. (link)	Aug-22	Implementation in progress
Supporting Multilateral Efforts, Sharing the Benefits of High-quality Growth		
Making Important Contributions to International Cooperation in Vaccine Production and Distribution		
China provided more than 1.8 billion doses of COVID-19 vaccine to the world. (link)	Dec-21	Implementation in progress
China cooperated with multiple countries in Phase III vaccine trials. (link)	Dec-21	Implementation in progress
Supporting Low-income Countries in Their Efforts to Achieve Debt Sustainability		
China announced the cancellation of 23 interest-free loans to 17 African countries. (link)	Aug-22	Implementation in progress
Strengthening the Rules-based Multilateral Trading System		
China and 111 other WTO members signed a joint statement on investment facilitation, pushing for a final multilateral agreement. (link)	Dec-21	Implementation in progress

Announced Reform Measures since November 2021	**Date**	**Status**
MOFCOM and other ministries jointly issued a guideline to promote high-quality RCEP implementation. (link)	Jan-22	Implementation in progress
The 2022 Government Work Report reiterated that China would firmly uphold the multilateral trade regime and will participate actively in the reform of the WTO. (link)	Mar-22	Implementation in progress
China attended the WTO's Ministerial Conference 12th Session, facilitated negotiations, and contributed to agreements on related issues. (link)	Jun-22	Implemented
China made contributions to the WTO waiver of COVID-19 vaccine patents. (link)	Jun-22	Implemented
Tackling Global Climate Change and Advancing the Green Belt and Road Initiative		
NDRC issued the Opinions on Promoting Green Development of the Belt and Road Initiative. (link)	Apr-21	Implemented
China and ASEAN countries planned to build a geo-information big data platform to jointly promote the sustainable development of green mining. (link)	July-22	Implementation in progress
China signed the MOU with multiple countries to enhance cooperation on climate change. (link)	Ongoing	Implementation in progress
Enhancing data quality and transparency		
State Council issued the Opinions on More Effectively Giving Full Play to the Role of Statistical Supervision to strengthen statistics law enforcement and carry out routine statistics supervision. (link)	Dec-21	Implementation in progress
NBS issued the "Statistical Modernization Reform Plan in the period of the 14^{th} Five-Year Plan, requiring the prevention and punishment of statistical fraud, and continuous improvement of data quality. (link)	Dec-21	Implementation in progress
State Council issued the "Action Plan for Implementing the Outline of National Standardization Development" to strengthen the revision of statistical standards and promote the development of key standards. (link)	July-22	Implementation in progress

Appendix V. Implementation of Main Recommendations from China's 2017 FSAP[1]

(as of September 30, 2022)

Recommendations	Priority Level	Timing Requirement	Measures Taken
Macroeconomic recommendations			
Reduce the relatively high GDP growth forecasts in national plans; these high forecasts encourage local governments to set high growth targets.	Highest	Near-term measures	No new developments.
Systemic risk, macroprudential policies, and strengthening supervision			
Newly establish a financial stability sub-committee and entrust it with the sole function of maintaining financial stability.	Highest	Near-term measures	No new developments.
Establish vigorous mechanisms for cooperation, coordination, and information sharing with participants in domestic and foreign financial security networks, including the sharing of detailed financial data.	Highest	Near-term measures	Under the leadership of the State Council's Financial Stability and Development Committee, communication and coordination have improved among its member institutions (PBC, CBIRC, CSRC, MOF, SAFE), which work together to maintain the security and stability of the financial system. Working in their respective areas of competence, the various regulators have established regular channels for the sharing of detailed data about banking, insurance, and securities markets. This is helping them to monitor risk in market participants. Chinese regulators have built better communication channels with overseas financial safety net participants. **(1)** Delivering data and questionnaire responses to the International Monetary Fund (IMF), Financial Stability Board (FSB), Basel Committee on Banking

[1] Information as reported by the authorities, with IMF staff providing translation.

Recommendations	Priority Level	Timing Requirement	Measures Taken
			Supervision (BCBS), International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissions (IOSCO), etc., as part of our multilateral communication with international peers. In addition to conventional data, this includes new data topics such as climate risk. **(2)** Cooperation on cross-border supervision and law enforcement with overseas regulators. As of the end of September 2022, the CBIRC has signed 125 MoUs or agreements on bilateral regulatory cooperation with financial regulatory institutions in 85 countries and regions; the CSRC has signed MoUs on bilateral regulatory cooperation and established mechanisms for regulatory collaboration with securities/futures regulators in 67 countries and regions. The CBIRC also increased the use of virtual meetings and similar methods in its ongoing communications with overseas regulators such as the US Federal Reserve and the UK's Prudential Regulation Authority, to ensure that it can maintain regulatory coverage of the overseas branches of major banks during the pandemic period.
Trigger the countercyclical capital buffer, assess bank capital requirements, and implement targeted capital replenishment (in some cases, substantial replenishment).	Highest	Near-term measures	No new developments.
Amend major laws to strengthen the operational and budgeting autonomy of the PBC and regulatory agencies and increase their resources.	Highest	Medium-term measures	The PBC is working on the amendment of *the Law of the People's Republic of China on the People's Bank of China*, which will expand the PBC's range of monetary policy tools and develop an independent

Recommendations	Priority Level	Timing Requirement	Measures Taken
			financial accounting system, giving the PBC more comprehensive instruments for realizing its mandates. The CBIRC is working on the amendment of *the Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry* and is considering an article guaranteeing budget provisions to ensure that regulators have sufficient resources. The CSRC is actively increasing headcounts to ensure the execution of its key functions. In addition to the 420 permanent staff previously added to local offices, in November 2021 the CSRC increased the headcount for local offices by a further 350.
Resolve data gaps that place constraints on systemic risk monitoring and effective financial regulation and supervision.	Highest	Medium-term measures	PBC-led efforts on comprehensive financial sector statistics are progressing, with the National Basic Financial Database now operational and providing data to support the monitoring of systemic risks. The CBIRC makes annual revisions to the framework and data requirements in its off-site surveillance, updating reporting requirements to better reflect key types of financial business, key risks, and the latest regulations. These updates support the monitoring of systemic financial risk by addressing data gap issues, bringing various risks within the regulatory horizon in a timely manner. The CSRC has accelerated the development of its regulatory big data store, improving data connectivity and sharing for data on stock markets, bond markets, and fund markets. It worked to store the Commission's data in a single repository and to manage it in a

Recommendations	Priority Level	Timing Requirement	Measures Taken
			centralized manner, and improved the collection, centralization and storage of regulatory data.
Evaluate and simplify the objectives and structure of the PBC's macroprudential assessments, and only use them as a means of monitoring by the financial stability sub-committee and its subordinate agencies.	Medium		No new developments.
Bank regulation and supervision			
Strengthen risk supervision of financial holding groups, and upgrade supervision capabilities with respect to banks and their related financial groups and their ownership structure, including identification of ultimate beneficiary owners.	Highest	Medium-term measures	The PBC, in association with the CBIRC and CSRC, has actively encouraged the establishment of financial holding companies in accordance with the law by companies that meet the regulatory requirements. As of the end of October 2022, licenses have been granted for the establishment of China CITIC Financial Holding Co., Ltd., Beijing Financial Holding Group Co., Ltd., and China Merchants Financial Holding Co., Ltd. The PBC reviews the major shareholders and controlling shareholders of financial holding companies, and "looks through" to their ownership structure and actual controlling person. On the consolidated basis, using tools including reporting requirements, on-site inspection, regulatory interviews, risk assessment, and risk alerts, the PBC has improved its regulation of key areas such as capital adequacy, corporate governance, risk management, and related-party transactions. It is able to effectively monitor, assess, prevent, and mitigate the emergence of risk at the consolidated financial holding company level. At the same time, the PBC continues to improve regulatory systems for financial holding

Recommendations	Priority Level	Timing Requirement	Measures Taken
			companies. Implementation rules for financial holding company's related-party transactions have been drafted and published for public consultation; they are now being revised.
Stop considering the effects of collateral in loan classifications, restrict loan rollover to non-small and medium enterprise (SME) borrowers, and categorize all loans that are 90 days or more past due as non-performing loans.	Highest	Medium-term measures	No new developments.
Strengthen implementation of the "look-through" principle.	Medium		Regulators continue to patch regulatory weaknesses and strengthen the implementation of the "look-through" principle. (1) In December 2021, the CBIRC issued *Measures for Risk Control in Wealth Management Products Offered by Wealth Management Companies* (CBIRC Decree [2021] No. 14) (Decree No. 14). On the "look-through" principle: Decree No. 14 requires wealth management companies to improve their risk management, and to apply the look-through principle in their due diligence and access management related to any transaction partner. They must establish appropriate transaction limits and make dynamic adjustments as necessary. **(2)** In May 2022, the CBIRC amended *the Notice on the Investment of Insurance Funds in Relevant Financial Products*. In line with the "look-through" principle, it requires that when insurance funds are invested in a private wealth management product issued to a single investor; and are handled under a single asset management plan; then the underlying assets must be treated as part of the investment plan and subject to relevant

Recommendations	Priority Level	Timing Requirement	Measures Taken
			ratio requirements. Where the underlying assets are trust funds investing in non-public equity, following the "look-through" principle, insurers are required to have the capability to properly manage equity investments, fixed asset investments, or the capacity to manage equity investment planning product or bond investment planning products. **(3)** In August 2022, the CBIRC issued *Rules on Insurance Asset Management Companies*. These rules strictly implement the "look-through" principle in all steps of licensing process related to insurance asset management companies. They require look-through to the ultimate beneficial owner and actual controlling person of shareholders to strictly enforce the regulations on licensing in this market. In real practices, in 2022 the CBIRC continued its targeted enforcement actions in bank and insurance company equity holdings and related-party transactions, moving these targeted actions onto an ongoing basis, and strictly applying the look-through principle.
Tighten liquidity coverage ratio requirements for interbank products and off-balance-sheet financial products.	Medium		In December 2021, the CBIRC issued *Measures for Risk Control in Wealth Management Products Offered by Wealth Management Companies* (CBIRC Decree [2021] No. 14) (Decree No. 14). Decree No. 14 requires that liquidity risk management is implemented throughout the entire process of all wealth management services. It requires prudential confirmation of whether products are open-end or closed-end, reasonable subscription and redemption

Recommendations	Priority Level	Timing Requirement	Measures Taken
			processes, better matching between product operations and asset liquidity, and sustained monitoring of liquidity risk in wealth management products. It requires that wealth management companies improve their management of the sale and redemption processes of wealth management products, and apply liquidity management tools in their products to better uphold the legitimate interests of their investors, as required by the law and the terms of their contracts.
Increase supervision reporting requirements, and collect more detailed supervision data, including bank investment information and corresponding provisions.	Medium		In 2022, the CBIRC added to its systems for off-site reporting by commercial banks. Beforehand, it already required data on online lending, derivatives services, real estate financing, resolution of non-performing loans, and credit cards. Based on this, it further added requirements for statistics on local government bonds and wealth management business. Improvements have also been made in the accounting of on and off-balance sheet investments and provisions.
The CBRC should strengthen its forward-looking comprehensive risk analysis to identify vulnerabilities, question banks, and encourage intervention before the fact.	Medium		The CBIRC makes targeted, forward-looking risk analyses and projections, by type of institution. **(1)** The CBIRC is continuously updating its early warning system for risks in the banking sector and improving the indicators used to make the system more sensitive and more forward-looking. It conducts research into risk alerts, developing more comprehensive alert and response mechanisms for more effective early intervention. **(2)** The CBIRC encourages large banks to dynamically track and monitor economic and financial trends, to refine their analyses of the impact of

Recommendations	Priority Level	Timing Requirement	Measures Taken
			COVID-19, and to improve their overall capacity to control risk. It encourages large banks to focus on improving their credit risk controls, to address in a forward-looking way issues like how the exit of moratorium policy will affect the quality of the assets on their balance sheets, and to increase their efforts to dispose of bad debts. **(3)** The CBIRC has a five-pronged regulatory system comprising corporate governance, prudential issues, compliance, policy implementation, and digital transformation. This system provides for comprehensive monitoring, identification, and control of risk in joint-stock banks. In particular, it encourages joint-stock banks to develop systematic growth strategies; to strengthen the quality of their assets; to dispose of nonperforming assets; to improve their asset-liability structure; to reduce shadow banking operations; and to proactively recapitalize when necessary. **(4)** For local commercial banks, the CBIRC uses a multidimensional analysis covering their total size, organization structure, and revenue mix to determine their risk, and identify banks with significant weaknesses and potential risks. It then intervenes with risk alerts, reports, and meetings, applying early interventions such as improving regulations, requiring corrections, calling bank management in for interview, dynamic assessment, or compulsory regulatory actions. This helps to limit the risk exposure, improve balance sheets, improve compliance, and prevent the risk from worsening or spreading. **(5)** The CBIRC constantly

Recommendations	Priority Level	Timing Requirement	Measures Taken
			tracks the operations and risk levels in small and medium-sized rural banks, running monthly data analyses. Where necessary, it issues risk alerts at meetings, in published reports, or through window guidance. It may also carry out targeted risk elimination, focusing on major shareholders and actually controller, large transactions, and transactions carried out remotely or online; it may require the development of risk-specific risk response plans. These enable the timely mitigation of any emergent risks. (6) The CBIRC conducts quarterly risk examinations for trust companies, giving them regular "health checks" to ensure that the actual risks are well-understood. It carries out regular analyses of trust operations, producing monthly and quarterly reports that track changes and trends in risks across the industry. This enables it to issue risk notices and alerts. It also publishes a quarterly risk briefing on recent compliance and risk issues in the trust industry, and encourages the industry to fully implement policy requirements.
Stress testing			
To do a better job with stress testing and the assessment of systemic risk, data and information sharing among the PBC, CBIRC and CSRC must be substantially increased and systematized. Use more detailed supervision data in stress testing.	Highest	Medium-term measures	In the 2022 bank stress tests, the PBC used a new system for monitoring bank risks and stress testing. It directly collected regulatory data from 4,008 banks, enabling deeper, more detailed use of data. The accuracy and speed of data collection was significantly improved over past years, providing robust support for comprehensive "health checks" of the banking system, and improving the warning mechanisms for systemic risk.

Recommendations	Priority Level	Timing Requirement	Measures Taken
			The CBIRC carried out contagion risk stress tests on financial institutions, using highly granular "point-to-point" data on exposures between six different types of financial institution, including banks, insurance companies, and trust companies. It updated the statistical system to strengthen the statistical basis for stress tests, and improved the reporting of liquidity and interbank financing. These changes have provided a strong data foundation for stress tests.
In systemic risk assessments, it substantially expands the scope of coverage for non-banking institutions and their relationship with other financial institutions and develop and integrate stress testing for collective investment plans.	Medium		The CBIRC continues to improve stress tests for non-banking institutions and their connectedness. **(1)** It carries out stress tests of the contagion risk between financial institutions. The tests cover six categories of financial institution: banks, insurance companies, trust companies, financial asset management companies, finance companies, and financial leasing companies. Data on interbank transactions between banks and other financial institutions provide the basis for calculating the depth of relationships between institutions. **(2)** The CBIRC carried out annual stress tests on financial asset management companies in 2022; in addition to the stress tests at the group level, it specified that credit stress tests should be carried out individually on the group parent company and non-financial subsidiaries, so as to conduct stress tests in a more scientific way. **(3)** Since the end of 2017, the CBIRC has conducted stress tests on trust company liquidity risk and credit risk tests in the real estate sector. It has progressively improved the targeting, assumptions, and parameters of these

Recommendations	Priority Level	Timing Requirement	Measures Taken
			tests to determine the exposure of trust companies under various stress scenarios. This has helped it to identify weaknesses in risk management, and based on the stress test results, it has pressed trust companies to develop risk response plans, adjust their business development plans, and improve their capabilities in terms of early identification, early intervention, and early resolution of risks.
Strengthen inter-agency coordination and the analytical capabilities of the stress testing teams.	Medium		No new developments.
Shadow banking and implicit guarantees			
Amend laws or supervisory regulations, to ensure the bankruptcy remoteness of collective investment plans (including wealth management products) when a manager or custodian goes bankrupt.	Highest	Medium-term measures	No new developments.
Conditioned on the elimination of implicit guarantees, gradually eliminate credit restrictions on certain industries.	Medium		The PBC developed and introduced mechanisms to ensure compatibility of incentives, creating and deploying structural monetary policy instruments to guide financial institutions, within the bounds of controllable risk, towards increasing their support for key sectors and weak sectors links of the national economy, and for key industries impacted by the pandemic. The CBIRC guided banks to apply differentiated credit policies to different industries, on a principle of "differentiated treatments where some

Recommendations	Priority Level	Timing Requirement	Measures Taken
			are supported while others are restricted." Banks consider their own risk appetite, risk control capacity, and business strategy to meet the reasonable funding needs of companies with advanced technologies, competitive products, and strong market demand. In June 2022, the CBIRC issued *the Green Finance Guidelines for Banks and Insurers*, requiring banks and insurers to recognize China's green and low-carbon targets and plans, and related environmental laws, industrial policies, licensing policies, etc. to develop and maintain policies, systems, and processes for managing environmental, social, and governance risk. They must set credit guidance for industries that represent major risks or are key targets of national environmental restrictions, and apply dynamic, differentiated credit or investment policies.
Intervention measures in capital markets (including real estate and stock markets) should be limited to those in response to systemic risks.	Medium		The CSRC maintains its basic policy of "building systems, zero intervention, zero tolerance." It respects the markets, distinguishes normal market variation from abnormal changes, and does not intervene in the former case. In the events of market panic, liquidity shortages, or other extreme circumstances, the CSRC takes decisive action, using its full range of market-based and compulsory measures to maintain market stability and ensure that individual or local risk does not develop into systemic risk.
Regulation and supervision of securities markets			
Improve information disclosure for collective investment plans and prohibit the stating of anticipated	Highest	Near-term measures	No new developments.

Recommendations	Priority Level	Timing Requirement	Measures Taken
rate of return in the prospectuses of wealth management products.			
Introduced functional supervision, to ensure that similar products issued by different financial institutions are subject to similar supervision.	Highest	Medium-term measures	In the course of their day-to-day supervisory activities, financial regulators strictly implement t*he Guidance on the Regulation of Asset Management by Financial Institutions* and associated regulatory documents. They harmonize the standards applied to the same classes of asset management products in order to prevent regulatory arbitrage. Recent progresses include: **(1)** In December 2021 the CBIRC improved the consistency of regulation by issuing *Measures for Risk Control in Wealth Management Products Offered by Wealth Management Companies*, which draws on experience with liquidity risk regulations in asset-specific products such as publicly offered funds. **(2)** In 2022, the CBIRC amended *the Notice on the Investment of Insurance Funds in Relevant Financial Products*, imposing equivalent standards on the managers of the financial products in terms of corporate governance, market reputation, operations, investment track record, and compliance record. The investments of financial products must be compliant with national economic policy, industrial policy, and the rules of financial regulators. (3) The CBIRC applies the principle of harmonization of regulatory standards and encourages trust companies to improve their operations in line with the new rules for the asset management industry.
Strictly control repo collateral qualifications and improve the	Medium		No new developments.

Recommendations	Priority Level	Timing Requirement	Measures Taken
discount rate calculation methodology.			
Strengthen systemic risk monitoring mechanisms, to ensure that the connectedness among securities markets and between securities markets and other financial sectors is examined from a holistic perspective.	Medium		The CSRC continues to develop risk monitoring mechanisms for capital markets on an ongoing basis. **(1)** Develop comprehensive assessment and response mechanisms for risk in capital markets. It regularly holds meetings to assess conditions and operations in the domestic and international capital markets, to understand the major risks and dangers, and to specify arrangements for responding to and resolving major risks. In the event of crises such as major market volatility, the CSRC quickly convenes meetings to discuss and organize the response. **(2)** Continue to improve the monitoring and management of key risks. The CSRC has improved its regulatory information systems, improving risk monitoring, and the coordination of onsite inspections and offsite analyses to boost the effectiveness of regulation. It improves the mechanisms for the routine monitoring of leveraged funds, improving the regulation of scale of leveraged funds, leverage ratios, and concentration, to ensure that the leverage remains within a reasonable range. The CSRC also took a more comprehensive approach to pledged shares, debt security default, private equity, local exchanges, and other key risks. It improved its regulation and control of international market risks and exchange/OTC contagion risks, as part of its comprehensive assessment of capital market risks. It improved the monitoring and regulation of new transaction modes

Recommendations	Priority Level	Timing Requirement	Measures Taken
			such as program trading and private securities funds, so that it can quickly recognize emergent issues with potential risks.
Regulation and supervision of the insurance industry			
Formulate a risk-based supervision plan that incorporates all issues and conduct of each insurance company (including market conduct).	Medium		Improving prudential regulation: **(1)** The CBIRC promulgated *the China Risk Oriented Solvency System II* (C-ROSS II) in December 2021, and it has been officially implemented in 2022. C-ROSS II improves the sensitivity and validity of regulatory indicators, which helps to improve the quality of capital across the industry, and has improved our ability to identify and prevent risk in this industry. **(2)** The CBIRC carries out regulation of asset management. Applying *Interim Measures for the Administration of Insurance Asset Management Products* and *Rules on Insurance Asset Management Products (1-5)*, the CBIRC has created an initial regulatory system that is adapted to the features of China's market and emphasizes the relationship between asset and liabilities. The CBIRC also made overall assessments of companies capacity to manage their assets, and how well their capacity matched the level of assets under management. On the basis of this assessment, it classified insurers and applies differentiated regulatory policies. **(3)** In 2022, the CBIRC issued *Notice on Improving the Regulation of Related Party Transactions in the Use of Funds by Insurance Companies*, reaffirming the primary responsibility of insurance companies, and requiring companies to improve their management of their related parties, partner organizations,

Recommendations	Priority Level	Timing Requirement	Measures Taken
			approval decisions, and information disclosure. Insurers were required to create accountability and whistleblowing mechanisms for related-party transactions. This notice has improved the regulation of related-party transactions in the fund utilization of insurance companies, made the related-party transactions of insurance companies more orderly, and helped to prevent risks in their investments. Improving the regulation of conduct**: (1)** The CBIRC issued *Implementation Rules for the Administrative Measures for the Management of Reserves for Non-Life Insurance Business of Insurance Companies*, systematically amending and updating regulatory policy on the management of reserves in non-life insurance business. This represents an improvement of the management of reserves. **(2)** It also issued *Administrative Measures for Underwriting and Claim Settlement in Agricultural Insurance*, improving the regulation of agricultural insurance, and making the agricultural insurance market more orderly.
Formulate a plan to gradually use more market-oriented means of valuation.	Medium		In terms of institutional development, under the new rules for the asset management industry, applying the principle of consistent rules for products of the same category, the CBIRC instructed the Insurance Asset Management Association of China (IAMAC) to issue *Guidance on Self-Regulation of Currency Market Portfolio Products for the Management of Insurance Assets*. In practice, the CBIRC applies professional 3rd party valuations when it

Recommendations	Priority Level	Timing Requirement	Measures Taken
			oversees plans for investment in bonds. This improves the accuracy of its valuations and makes them more market-oriented.
Supervision of financial market infrastructure			
China Securities Depository and Clearing Corporation Ltd. should make full use of delivery-versus-payment (DVP)	Highest	Near-term measures	In May 2022, the CSRC issued the amended *Measures for the Administration of Registration and Settlement of Securities*. China's securities markets have now fully implemented delivery-versus-payment (DVP)
Fully implement the principles of the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Regulators (IOSCO) and strengthen the legal framework to increase the resilience of the financial market infrastructure.	Highest	Medium-term measures	*The Futures and Derivatives Law* was approved by the National People's Congress on April 20, 2022, and will officially go into effect on August 1. The Futures and Derivatives Law draws on the mature global operations and experience and specifies the use of close-out netting and trading reports as basic systems for derivatives trading. It specifies on the legal level the regulatory rules for financial market infrastructure such as trade repositories and futures clearing houses. *The Law on Commercial Banks* (amendment draft) is also in the public consultation phase, which includes a provision on settlement finality.
Extend the services of the central bank to all systemically-important central counterparties.	Medium		No new developments.
Anti-money laundering and combating the financing of terrorism			
Adopt stronger customer due diligence measures with respect to domestic political and public figures based on risk.	Medium		In practice, China has adopted a risk-based approach, and applies customer due diligence measures to domestic political and public figures.
Ensure that more effective investigations are conducted for acts	Medium		China amended the Criminal Law to criminalize self-laundering in 2020.

Recommendations	Priority Level	Timing Requirement	Measures Taken
of self-laundering, and prosecute them as independent convictions.			
Crisis management			
The conditions that trigger government-led crisis responses should be more clearly defined and limited to systemic events that require the use of public resources.	Highest	Near-term measures	Sequence of resolution funds: The PBC, with the support of other relevant authorities, drafted *the Law on Financial Stability of the People's Republic of China* (draft), which specifies the principle of market-based approaches to the resolution of financial risk. The legislative process to enact this draft as law will follow. First, the responsibility of financial institutions, their shareholders, and their actual controlling persons is reaffirmed as the responsible parties. Financial institutions must fulfill their obligations to resolve their own issues, and take the necessary measures to resolve assets and liabilities and recover their losses. Major shareholders and actual controlling persons shall inject additional capital in accordance with the recovery and resolution plan or their regulatory commitment. Any shareholder or actual controlling person that is responsible for the financial risk should fulfill their respective obligations to compensate. The capacity of the market to allocate resources should also be used to the full during the resolution of financial risk, to introduce strategic investors, dispose of nonperforming assets, and inject additional capital. Deposit insurance fund management institutions and industry insurance fund management institutions should act as market-based platforms for resolution working through legally-defined processes. In accordance with legal procedures, their function shall be

Recommendations	Priority Level	Timing Requirement	Measures Taken
			to encourage the completion of purchase agreements, capital injections, and other processes for the resolution of risk. For major financial risks with significant spillover effects, broad and deep impact, and the potential to severely impair financial stability, resolution plans shall be developed by the National Institutional Mechanism for Coordinating Comprehensive Financial Stability Operations. The Financial Stability Guarantee Fund may be used, in accordance with its rules, when such a plan has been approved. Conditions to trigger crisis response: the CBIRC drafted the *Financial Stability Law*, and launched amendments to *the Law on Commercial Banks* and *the Law on Regulation of and Supervision over the Banking Industry*. It also developed comprehensive risk resolution mechanisms. For each for each phase, including early intervention and administrative control, it researched and specified the objectives, triggering conditions, available measures, and role of industry insurance fund. This provides a firm institutional basis for the resolution of financial risks.
Formulate special resolution mechanisms for banks and systemically important insurance companies.	Highest	Medium-term measures	Special resolution mechanism for banks: **(1)** In December 2020, the PBC and CBIRC issued *Measures for Assessment of Systemically Important Banks* (SIBs), creating a framework for identifying SIBs. Lists of Chinese SIBs have been published twice, in October 2021 and September 2022. As of August 2022, the 19 SIBs have all submitted their recovery and resolution plans. **(2)** On October 29, 2021, the PBC, CBIRC, and MoF issued

Recommendations	Priority Level	Timing Requirement	Measures Taken
			Administrative Measures on the Total Loss-absorbing Capacity of Global Systemically Important Banks, to ensure that a G-SIB has sufficient loss-absorbing and recapitalization capacity available in resolution. Special resolution mechanism for insurance companies: In July 2022, the PBC and CBIRC issued *Measures for Assessment of Systemically Important Insurance Companies* (consultation draft) for public consultation. This was the first step in creating mechanisms for the assessment and identification of systemically important insurance companies.
The PBC should formulate a formal emergency liquidity bail-out framework.	Highest	Medium-term measures	No new developments.
Upgrade the institutional design of various types of protection funds to limit moral hazard.	Medium		Establishment of the Financial Stability Guarantee Fund. In 2022, the PBC continued with the establishment of the Financial Stability Guarantee Fund, in partnership with other relevant authorities. The Financial Stability Guarantee Fund is a centrally-controlled capital fund used to respond to major financial risks. The capital is sourced from financial institutions, financial infrastructure institutions and other market actors. It will coordinate with deposit insurance funds and industry insurance funds in a two-level structure to jointly provide security and stability for the financial system. In the event of a major financial risk event, financial institutions, their shareholders and actual controlling persons, local governments, deposit insurance funds, and industry insurance funds will contribute their

Recommendations	Priority Level	Timing Requirement	Measures Taken
			respective resources to the resolution the risk in accordance with the law. If a funding gap still persists, use of the Financial Stability Guarantee Fund may be approved. To date, the basic framework for the Financial Stability Guarantee Fund has been developed, and a certain amount of capital has been injected. Improved system design for the Insurance Security Fund. The CBIRC, supported by the MOF and PBC, amended *the Rules on the Insurance Security Fund*. The new rules were recently promulgated. The new amendments include the following: **(1)** Changes to the subscription rates for the Insurance Security Fund. The fixed subscription rate was changed for a risk-weighted subscription rate model, with a basic subscription rate plus a risk premium. This will encourage insurance companies to improve their own risk management. **(2)** Improvements to the rules for calling on the Insurance Security Fund. The new amendment specifies the bailout rules for short-term health insurance, short-term accident insurance, and property insurance, and defines the level of bailout available for each policy; specifies the bailout rules and bailout levels for long-term health insurance, long-term accident insurance, and other life insurance contracts; specifies that when an insurance company has been liquidated or gone into bankruptcy, no bailout funds will be available for policies held at that company by the actual controlling person, supervisors or managers. **(3)** Improvements to the use

Recommendations	Priority Level	Timing Requirement	Measures Taken
			and management of the Insurance Security Fund. The scenarios for the using the Insurance Security Fund were expanded. New language includes: "During the period when an insurance company is receiving the support of the Fund, the State Council insurance regulator shall take necessary regulatory measures including limiting the compensation of senior managers and limiting the payment of dividends to shareholders, in accordance with the law, as required by circumstances."
Inclusive finance			
Upgrade the legal, regulatory, and supervision framework for financial technology.	Medium		**(1)** Increasing use of innovative regulatory instruments for financial technology. The PBC has advised financial institutions and technology companies to persevere with innovation and to explore how modern information technology can resolve pain points and difficulties in financial services. In real market environments, where risk can be controlled, they should apply themselves to making finance better serve the real economy and helping finance be more inclusive for individuals and companies. To date, over 170 innovative regulatory instruments digital finance applications have been tested, and 40+ inclusive finance products have been released that are more convenient, safer, and more user-friendly. 90+ digital loan services have been created, in areas such as green transformation, rural regeneration, and inclusive microloans. These services have had positive effects in terms of improving fairness and accessibility, giving microenterprises the confidence and

Recommendations	Priority Level	Timing Requirement	Measures Taken
			ability to take loans, and encouraging green, low-carbon growth. **(2)** Providing a more comprehensive system of fundamental rules for fintech. In terms of basic, universal rules, the PBC developed rules and standards for financial metadata, specifying the fundamental, general, and universal regulatory standards for technology that new fintech applications must comply with. In terms of applications, the PBC has developed technologically-literate, targeted regulatory technology standards based on the specific features of new fintech, producing rules for areas such as information disclosure relating to intelligent algorithms, financial applications of machine learning, applied modeling of financial data, and process automation with robots. In terms of security and rick control, the PBC has developed rules and standards for issues like verification of transactions in digital finance, specifying security red lines for information protection and transaction security in fintech innovations. **(3)** Stronger technology ethics governance in finance. The PBC issued *Ethical Guidelines on Technology in the Finance Sector*, specifying ethical standards applicable to fintech innovations in seven areas: commitment to innovation, data security, inclusiveness, disclosure and transparency, fair competition, risk prevention, and low carbon. These rules will guide financial institutions in their responsibilities as participants in fintech ethics and governance. Through

Recommendations	Priority Level	Timing Requirement	Measures Taken
			responsible innovation, they will create humane digital finance services.

INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

December 19, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 16, 2022)

Membership Status: Joined 12/27/45; Article VIII (December 1, 1996)

General Resources Account:

	SDR Million	% Quota
Quota	30,482.90	100.00
Fund holdings of currency	22,490.65	73.78
Reserve position in Fund	7,992.29	26.22
Lending to the Fund		
New Arrangements to Borrow	151.81	

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	36,206.16	100.00
Holdings	38,417.43	106.11

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	11/12/86	11/11/87	597.73	597.73
Stand-by	03/02/81	12/31/81	450.00	450.00

Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal		0.00	0.00	0.00	0.00
Charges/interest		0.46	0.46	0.46	0.46
Total		0.46	0.46	0.46	0.46

Exchange Arrangements:

China's de facto exchange rate regime has been classified as "other managed" arrangement, effective March 3, 2022. The de jure exchange rate arrangement is managed floating with a view to keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese economy and financial markets. The floating band of the RMB's trading prices is 2 percent against the U.S. dollar in the interbank foreign exchange market: on each business day, the trading prices of the RMB against the U.S. dollar in the market may fluctuate within a band of ±2 percent around the midrate released that day by China's Foreign Exchange Trading System (CFETS). The People's Bank of China (PBC) indicated that the RMB's floating range would be changed in an orderly manner, based on the developments of the foreign exchange market and economic and financial situation. Within the trading band, banks may determine their RMB exchange rates to the U.S. dollar with their clients without any limit on the spread, based on market supply and demand (PBC No. 2014/188). On August 11, 2015, the PBC decided to further increase the flexibility of the RMB-to-USD exchange rate midrate quoting mechanism, thereby enhancing the market determination of RMB exchange rates, and giving market supply and demand an even greater role in exchange rate formation.

The CFETS publishes its exchange rate index (composed of 24 currencies since January 1, 2017, previously, 13 currencies), and other RMB indices based on the Bank for International Settlements (BIS) currency basket and the SDR currency basket.

China accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on December 1, 1996. China maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions. However, China has notified measures to the Fund, pursuant to procedures under the Executive Board Decision 144 (52/51), which apply to measures imposed solely for national or international security reasons.

While exchange controls continue to apply to most capital transactions, the use of renminbi in international transactions has expanded over time. Effective October 1, 2016, the RMB was determined to be a freely usable currency and was included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, Japanese yen, and the British pound.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/china

Asian Development Bank: https://www.adb.org/countries/prc/main

CAPACITY DEVELOPMENT

Table 1. China: Summary of Capacity Development Activities, 2011–22 1/

Department	Purpose	Date
Tax System Reform		
FAD	Mission on Tax Gap Analysis	September 2011
FAD	Micro-Simulation Models	December 2013
FAD	Analysis of the Macroeconomic Impact of Tax Policy	March 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	The Future Design of Value-added Tax	September 2016
FAD	Tax Policy for promoting entrepreneurship and employment	September 2017
FAD	Social security contributions	March 2018
FAD	VAT policy	September 2018
FAD	Workshop on Microsimulation on Income Tax	November 2020
FAD	Workshop on Value-added Tax	July 2021
FAD	Workshop on Capital and Labor Income Taxation	October-November 2021
Tax Administration Reform		
FAD	Tax Policy And Administration	September 2011
FAD	Tax Administration (Peripatetic Expert Visit 4 Of 5)	October 2011
FAD	Tax Administration (Peripatetic Expert Visit 5 Of 5)	October 2011
FAD	Large Taxpayer Compliance	October 2011
FAD	Workshop on Practical Tax Analysis For Tax Officials	December 2012
FAD	Large Taxpayer Administration	January 2013
FAD	Tax Administration Follow-Up	April 2014
FAD	Tax Collection Law Revision	May 2014
FAD	Tax Collection Law Revision	July 2015
LEG	Mission on Reforming Tax Collection Law	July 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	Improving Tax Compliance on ODI by Chinese Enterprises	October 2016
FAD	Tax administration—outbound investment and Taxpayer services	October 2017
FAD	Evaluate implementation of multi-year tax administration modernization	January 2018
FAD	Tax administration—performance measurement	March 2018
FAD	Tax administration--PIT	November 2018
FAD	Workshop and report on tax modeling and analysis	April 2019
FAD	Improving International and Domestic Taxpayer Compliance through Strengthened Services and Supervision	October 2020
FAD	Administering the Value-added Tax on Cross-border Transactions	November-December 2020
FAD	Improving Taxpayer Compliance through Strengthened Services and Supervision	October 2021
FAD	International Practices in Compliance Risk Management and Data Management	November 2021
FAD	Administering the Individual Income Tax on Offshore Transactions	December 2021

Table 1. China: Summary of Capacity Development Activities, 2011–22 (continued)

Public Financial Management		
FAD	High-level Dialogue on PFM Institutions	June 2011
FAD	Medium-Term Expenditure Framework Seminar	November 2011
FAD	Medium-Term Revenue Administration Program And Policies Discussion	June 2012
FAD	High-Level Dialogue on PFM Institutions	November 2012
FAD	Mission on Introducing Advanced Treasury Reforms	February 2013
FAD	High-level Seminar on Fiscal Reforms	January 2014
FAD	Mission on Modernization of Government Accounting	April 2014
FAD	Mission on Medium Term Expenditure Frameworks	July 2014
FAD	Expert visit on Treasury management (accounting)	September 2014
FAD	Expert visit on Chart of Accounts Improvements	March 2015
FAD	Expert visit on Treasury Management (cash management)	March 2015
FAD	Mission on Strengthening Local Government Borrowing Reform	April 2015
FAD	Mission on Accounting Modernization	November 2015
FAD	Workshop on Medium-Term Expenditure Frameworks	April 2016
FAD	Seminar and Case Study on Local Government Borrowing and Bond Market Development	April 2016
FAD	Expert visit on Treasury – Central Bank Coordination	June 2016
FAD	Workshop on Medium-term Expenditure Frameworks	April 2017
FAD	Government accounting and financial reporting	April 2018
FAD	Performance Budgeting	April 2019
Statistics		
STA	Workshop On Special Data Dissemination Standard	April 2011
STA	Government Finance Statistics	May 2011
STA	Data Work: SRFS Data Development for OFCs/ FSI Data Reporting	April 2012
STA	Quarterly National Accounts	November 2013
STA	Total Social Financing(TSF) Indicators/Monetary and Financial Statistics	March 2014
STA	SDDS Assessment	August 2014
STA	Data Work: Monetary Data Reported in SRF	September 2014
STA	SDDS Assessment	December 2014
STA	TSF/Monetary Data Reported in SRFs	March 2015
STA	Multi-sector Mission: SDDS Metadata Development and Topical TA	June 2015
STA	Quarterly National Accounts	March 2019
Monetary Policy, Bank and financial Supervision, and AML/CFT		
LEG	AML/CFT Legislative Drafting	March 2011
LEG	Bank Resolution	May 2012
MCM	Seminar on Article VIII of IMF's Articles of Agreement	July 2017
MCM	Securities Markets Supervision Workshop	September 2017
MCM	Mission on Securities Market Supervision	March 2018
MCM	Regulatory and Prudential Framework	August 2018
MCM	Financial Sector Technical Assistance	September 2018
MCM	Financial Sector Technical Assistance	November 2018

Table 1. China: Summary of Capacity Development Activities, 2011–22 (continued)

MCM	Monetary Policy Implementation and Operations	January 2019
MCM	Financial Sector Technical Assistance	January 2019
MCM	Financial Sector Technical Assistance	April 2019
MCM	Workshop on Sovereign Bond Futures Market	April 2019
MCM	Indicator-based Framework for Systemic Risks Monitoring	May 2019
Training		
LEG	AML/CFT Legislative Drafting Mission	March 2011
INS	Course on Macroeconomic Management and Financial Sector Issues	March 2011
INS	Course on Macroeconomic Forecasting	April 2011
INS	Government Finance Statistics Course at CTP	May 2011
STA	Course on Government Finance Statistics	May 2011
STA	Course on Government Finance Statistics	June 2011
INS	BOP and IIP Course at CTP	June 2011
STA	Course on Balance of Payments Statistics	October 2011
INS	Monetary and Financial Statistics Course at CTP	November 2011
STA	Participate in OECD-NBS Workshop on National Accounts	March 2012
INS	FSI Course at CTP	September 2012
MCM	Medium Term Debt Management Workshop	November 2012
INS	BOP/IIP Course at CTP	April 2013
MCM	Workshop on Capital Account Convertibility and Exchange Rate Policy	June 2013
STA	SDDS Seminar	July 2013
INS	Introductory Course on Monetary and Financial Statistics in CTP	September 2013
STA	Quarterly National Accounts Seminar organized by NBS	November 2013
ICD	Macroeconomic Management & Financial Sector Issues	January 2014
MCM	Financial Statistics	March 2014
MCM	Workshop on Financial Regulation and Supervision	March 2014
ICD	Macroeconomic Management & Financial Sector Issues	March 2014
MCM	Course on External and Systematic Financial Risks	July 2017
ICD	Macroeconomic Diagnostics	September 2014
INS	Financial Soundness Indications in CTP	September 2014
STA	Seminar at Fund HQ for SAFE Officials on Experiences and Challenges in the Implementation of BPM6	September 2014
ICD	Macroeconomic Forecasting	October 2014
STA	OECD/NBS Workshop on Sectoral Accounts (with STA participation)	December 2014
ICD	Macroeconomic Management and Financial Sector Issues	March 2015
MCM/STA	Total Social Financing Indicator	March 2015
STA	Meeting: ECB Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
STA	Meeting: BIS Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
MCM	SDR Review/Operational Issues	June 2015
ICD	Macroeconomic Forecasting	June/July 2015
INS	Advanced Course on Monetary and Financial Statistics in CTP	August 2015
STA	SAFE-Course on Compilation of Balance of Payments Statistics	September 2015
ICD	Macroeconomic Diagnostics	September 2015
STA	Balance of Payments Statistics	September 2015
ICD/FAD	Fiscal Analysis and Forecasting	November 2015
FAD/ICD	Course on Fiscal Analysis and Forecasting	December 2015

Table 1. China: Summary of Capacity Development Activities, 2011–22 (continued)

STA	OECD/NBS China Workshop on National Accounts (with STA participation)	March 2016
MCM	Sub-national Debt Market Development	April 2016
MCM	Workshop on Securities Supervision	April 2016
STA	Seminar on Cross-border Position Statistics and Challenges in the Implementation of New Data Initiatives	June 2016
ICD	Macroeconomic Forecasting	June/July 2016
ICD	Macroeconomic Forecasting – Advanced	July 2016
ICD	Financial Sector Surveillance	June/July 2016
MCM	Workshop on Enforcement and Market Surveillance	September 2016
ICD	Dynamic Stochastic General Equilibrium Modeling	November 2016
ICD	Dynamic Stochastic General Equilibrium Modeling - China	November 2016
ICD	Financial Sector Surveillance	June 2017
ICD	Macroeconomic Forecasting –advanced course	June 2017
ICD	Monetary and Fiscal Policy Analysis with DSGE Models	August - September 2017
ICD	Dynamic Stochastic General Equilibrium Modeling – China	September 2017
STA	Cross-border Position Statistics	September 2017
ICD	Managing capital flows	March 2018
ICD	Macro-Econometric Forecasting and Analysis	May-June 2018
ICD	Fiscal Policy Analysis	June 2018
ICD	Financial Sector Surveillance	June 2018
ICD	Financial Development and Financial Inclusion	June-July 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models	August 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models(advanced)	August 2018
MCM	Stress Testing and Systemic Risks I	October 2018
ICD	Financial Programming and Policies	October 2018
ICD	Inclusive Growth	December 2018
MCM/ICD	Adapting Financial Supervision to New Financial Technologies	January 2019
SPR	Debt Sustainability Framework in Low-Income Countries and Fund	February-March 2019
MCM	Policies	March 2019
ICD/MCM	Stress Testing and Systemic Risk II	April 2019
ICD	Financial Markets and Instruments	April 2019
ICD	Financial Sector Policies	May 2019
MCM/ICD/LE	Macroeconomic Diagnostics	May 2019
ICD	Managing Capital Flows	June 2019
STA	Financial Sector Surveillance	June 2019
	Debt Securities Statistics	
ICD	Monetary & Fiscal Policy Analysis with DSGE Models-Advanced Workshop	September 2019
ICD	Fiscal Sustainability	September 2019
LEG	Current International Issues in Tax Law Design	September 2019
MCM	Bank Restructuring and Resolution	September 2019
ICD	Macroeconomic Diagnostics	October-November 2019
STA	Cross-Border Position Training	November 2019
ICD	Financial Programming and Policies	December 2019
SPR	Virtual Workshop on Debt Sustainability Analysis and IMF Policies	July 2020
MCM	Virtual Course on Stress Testing and Systemic Risk	September 2020
ICD	Virtual Course on Macroeconomic Diagnostics	October 2020
ICD	Economic Issues in Regional Integration (ERIv)	November 2020
ICD	(Selected Issues in) Financial Sector Policies (FSSv)	November-December 2020
SPR/ICD/LEG	Debt Sustainability Analysis and IMF Policies	December 2020
ICD/MCM/LEG	Managing Capital Flows (MCFv)	December 2020

Table 1. China: Summary of Capacity Development Activities, 2011–22 (concluded)

ICD	Fiscal Policy Analysis (FPA)	December 2020
LEG	Corporate and Household Insolvency (CHI)	January 2021
ICD	Financial Markets and Instruments (FMI)	January 2021
LEG	International Issues in Tax Law Design (TLWD)	March 2021
MCM	Workshop on Regulation and Supervision of Issuers (RS)	April 2021
ICD	Fiscal Frameworks (FF)	July 2021
LEG	Implementing the International AML/CFT Standards (AMLS)	July 2021
ICD	Monetary and Fiscal Policy Analysis with DSGE Models(DSGE)	August 2021
SPR	Webinar on Implications of RCEP and CPTPP for China	September 2021
SPR/LEG	DSA AND IMF POLICIES WORKSHOP	September 2021
MCM	Course on Bank Restructuring and Resolution	November 2021
FAD	Financial Development and Financial Inclusion (FDFI)	November 2021
STA	Statistics on International Trade in Goods and Services	November-December 2021
MCM	Systemic Macro-financial Risk Analysis (MFRA)	November-December 2021
FAD	Applying the Tax Administration Diagnostic and Assessment Tool (TADAT)	December 2021
ICD	Managing Capital Flows	December 2021
ICD	Financial Sector Policies (FSP)	January 2022
ICD	Macroeconomic Diagnostics (MDS)	February 2022
ICD	Financial Development and Financial Inclusion (FDFI)	March 2022
ICD	Fiscal Sustainability (FS)	March 2022
ICD	Debt Dynamics and Fiscal Adjustment Paths (Part 2) (DDFAP)	March 2022
MCM	Selected Issues in the Regulation of Fintech (SIFR)	March 2022
ICD	Macroeconometric Forecasting & Analysis (MFA)	April 2022
ICD	Financial Markets and Instruments (FMI)	June 2022
LEG	Implementing the International AML/CFT Standards (AMLS)	June 2022
ICD	Nowcasting (NWC)	June-July 2022
ICD	Macroeconomic Diagnostics (MDS)	August-September 2022
SPR	Debt Sustainability Analysis and IMF Policies (DSA)	August-September 2022
STA	Statistics in International Trade in Goods and Services (ITGS)	September 2022

1/ The new Institute for Capacity Development (ICD) was formed from the merger of the former IMF Institute (INS) and Office of Technical Assistance Management (OTM) on May 1, 2012.

STATISTICAL ISSUES

(As of December 16, 2022)

I. Assessment of Data Adequacy for Surveillance
General: While data is broadly adequate for surveillance, it is only barely so. Efforts at strengthening the statistical system and enhancing data transparency led to China's subscription to the Special Data Dissemination Standard (SDDS) in October 2015. Nevertheless, China's statistics continue to have significant gaps. The areas of concern relate mainly to national accounts data and government finance statistics. China has endorsed and is in the process of implementing the recommendations of the Data Gaps Initiative of the G20.
National Accounts: The National Bureau of Statistics (NBS) compiles and disseminates annual GDP by activity and by expenditure in current prices, by activity at constant prices (2020), and quarterly estimates of GDP by activity at current and constant prices. The NBS is in a transition period from 1993 SNA to 2008 SNA. The 2008 SNA has been implemented in the calculation of financial intermediation services indirectly measured and in the capitalization of research and development. The techniques for deriving volume measures of some GDP components are not sound and need to be improved. Annual and quarterly GDP by expenditure is compiled at constant prices but is not published. Quarterly estimates of GDP are cumulative. Limited expenditure components' contributions to GDP are available on a quarterly basis. The NBS has made several improvements to the range and quality of national accounts data, the most important being improving the exhaustiveness of the GDP estimates by activity. Further improvements are intended for both the annual and quarterly accounts; however, no target dates have been set. As in other countries, rapid economic change, including the expansion of the private sector, presents new problems for data collection and compilation. The ability to change the data collection systems is restricted by the decentralized nature of the statistical system. Monthly index of services production, and fixed investment indices are disseminated as ratios with respect to the corresponding month of the previous year, but no chain-linked indices are produced. Data revisions tend to be made without publishing the entire revised series.
Price Statistics: The CPI covers approximately 500 areas throughout the country, including around 200 counties and around 300 cities. The national CPI is a composite of the CPIs calculated at the local and regional level, with approximately 2 million prices collected each month. The index is compiled using weights derived from the 2020 household expenditures. However, the weights are not published, which makes changes in the aggregate groups more difficult to interpret. The PPI is aggregated according to the 2020 production value weights for the industrial sector. Expansion of the coverage to include services activities should be considered. A purchaser price index reflecting input prices paid by Chinese producers is also disseminated with the PPI. The NBS publishes residential property price indices (RPPIs) for both new and second-hand properties in 70 large and medium cities. The indices are compiled following a basic mix-adjustment methodology (by size). These data are not aggregated to the national level.
Government Finance Statistics: Serious data shortcomings continue to make fiscal analysis difficult. Comprehensive data on the social security and extra budgetary funds are only provided annually and with a long lag. China currently reports GFS for general government with no breakdown of expenditure by economic type except interest, with no balance sheet data, but including data under

the Classification of Functions of Government for the GFS yearbook. Expenditure classification remains in need of improvement, mainly because expenditures by economic type are not published. The authorities have indicated an intention to begin collecting these data and to develop accrual based measures of fiscal performance over the medium term while also strengthening the compilation of cash based GFS. China has made a commitment under the G20 Data Gaps Initiative to develop quarterly general government data; however, little progress has been made. General Government coverage excludes the operations of the local government financing vehicles (LGFVs) which are substantial.
Monetary and Financial Statistics: In recent years, few improvements have been made in monetary and financial statistics. The monetary and banking surveys lack sufficient detail with regard to bank claims on the government, hampering the estimation of the fiscal deficit from the financing side. The reported net foreign assets position of PBC does not include exchange rate valuation effects and interest earnings on foreign reserves. The PBC has also ceased to report separate data on central government deposits in its balance sheet since April 2005 because the MOF no longer distinguishes between central and other government deposit accounts. The monetary and financial statistics missions in March 2015 made several recommendations for improvements in monetary data compilation with a view to accelerating PBC's implementation of the standardized report forms (SRFs). The PBC is currently technically capable of compiling and reporting monetary statistics in the IMF-recommended format of SRFs at least for the central bank and other depository corporations. Nonetheless, reporting of SRFs has not yet begun pending internal review and approval processes. China reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: China reports financial soundness indicators (FSIs) to the Fund for dissemination on the IMF's website. In addition to the 13 core FSIs, the authorities included in early 2015 one additional encouraged FSI for deposit takers in their regular reporting to the Fund. The periodicity of data was also improved in May 2015 from annual to semi-annual frequency, and from semi-annual to quarterly frequency from the first quarter of 2019.
External sector statistics: The historic data series (balance of payments starting with data for 2005:Q1 and international investment position (IIP) starting with data for 2011:Q1) are compiled (in U.S. dollars) largely in accordance with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) and are disseminated in the IFS. Similar information is also available on the website of the State Administration of Foreign Exchange (SAFE). The authorities continue their efforts to improve external sector statistics, including participation in the IMF's Coordinated Direct Investment Survey (CDIS) with data on inward and outward investment for both equity and debt instruments, Coordinated Portofilio Investment Survey (CPIS), and the Currency Composition of Foreign Exchange Reserves (COFER). China also compiles the International Reserves and Foreign Currency Liquidity Template (the Reserves Data Template). Remaining issues include (i) missing institutional sector breakdowns in balance of payments (BOP) and IIP and investment income breakdowns in the income account, (ii) persistent negative net errors and omissions in BOP, and (iii) a delay in reporting currency composition data in the Reserves Data Template.

II. Data Standards and Quality	
China subscribed to the SDDS in October 2015.	No data ROSC has been conducted.

Table 1. China: Common Indicators Required for Surveillance
(As of December 16, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[9]	Frequency of Reporting[9]	Frequency of Publication[9]
Exchange rates	Dec 2022	Dec 2022	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Nov 2022	Dec 2022	M	M	M
Reserve/base money	Nov 2022	Dec 2022	M	M	M
Broad money	Nov 2022	Dec 2022	M	M	M
Central bank balance sheet	Nov 2022	Dec 2022	M	M	M
Consolidated balance sheet of the banking system	Nov 2022	Dec 2022	M	M	M
Interest rates[2]	Dec 2022	Dec 2022	D	D	D
Consumer price index[3]	Nov 2022	Dec 2022	M	M	M
Revenue, expenditure, balance and composition of financing[4]—general government[5]	2021	Aug 2022	A	A	A
Revenue, expenditure, balance and composition of financing[4]—central government	Oct 2022	Nov 2022	M	M	M
Stocks of central government and central government-guaranteed debt[6]	2022Q2	Sep 2022	Q	Q	Q
External current account balance	2022Q3	Nov 2022	Q	A, Q	A, Q
Exports and imports of goods and services[7]	Nov 2022	Dec 2022	M	M	M
GDP/GNP[8]	2022Q3	Oct 2022	A, Q	A, Q	A, Q
Gross external debt	2022Q3	Nov 2022	A, Q	A, Q	A, Q
International investment position	2022Q3	Nov 2022	A, Q	A, Q	A, Q

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Only 12-month growth rates are reported (price indices are not available).
[4] Data on financing (foreign, domestic bank and domestic nonbank financing) and the economic classification of expenditures is not available.
[5] The general government consists of the central (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Goods and services trade data are both provided monthly, with services trade data release slightly lagging goods trade data release.
[8] For GNP, level data are available only on an annual basis.
[9] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

January 9, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By | Asia and Pacific Department

This supplement reports on developments and provides information that has become available since the staff report was issued to the Executive Board on December 21, 2022, notably about the widening spread of COVID and the economic policy announcements made at the Central Economic Work Conference (CEWC).

1. **Shift to living with COVID sooner than expected**. Since the staff report was issued to the Executive Board, there has been a rapid spread of COVID in China amid loosening of restrictions. The authorities have downgraded the COVID risk level and shifted their focus towards prevention of severe illness. A reimposition of COVID lockdowns that would severely restrict economic activity in major urban areas—while still possible—now seems unlikely. With growing natural immunity and the renewed elderly vaccination campaign underway, normalization of mobility across China is likely by 2023Q2, earlier than expected in the staff report baseline. While the earlier reopening implies a faster economic recovery and an upward revision to growth in 2023 relative to the staff report, the high degree of uncertainty, amid still-insufficient population-wide immunity in early 2023 and potential negative health consequences, presents large downside risks.

2. **Economic policy direction for 2023**. The Central Economic Work Conference (CEWC), the annual Party-led meeting that sets the economic policy agenda for the following year, concluded on December 16th with a pro-growth and pro-market agenda. A somewhat more supportive fiscal and monetary policy stance relative to the baseline in the staff report appears likely in 2023, and would be closer to staff's policy recommendations, though specific policy announcements have not yet been made. The CEWC also called for an expansion of domestic demand via greater consumption, and support for the property sector, as well as development of a modern industrial system with technological innovation, including in renewables, and equal treatment of state-owned and private enterprises.

3. Implications for the outlook. Real GDP growth for 2023 was revised to 4.2 percent, up from 3.8 percent in the staff report, on account of earlier-than-expected economic reopening. The quarterly growth profile was also adjusted, given the ongoing COVID wave in 2023Q1. The wave should result in continued lower mobility, subdued private consumption and temporary supply chain disruptions, resulting in a downward revision to growth in Q1. In 2023Q2, following the likely peak of the COVID wave in Q1, mobility is expected to normalize and private consumption is projected to rebound substantially, resulting in an upward revision to Q2 growth. Private investment, exports and imports were also revised up. The earlier normalization of economic activity is expected to result in a somewhat smaller the current account surplus in 2023. The strong projected recovery after reopening is evident in Q4/Q4 growth, which is forecast at 7.1 percent. A further rebound is expected in 2024, with annual growth projected at 5.1 percent, a downward revision relative to the staff report as the recovery is brought forward in 2023.

Staff Appraisal

4. While the rapid removal of COVID containment measures could lead to a quicker recovery, uncertainty amid still-insufficient population-wide immunity in early 2023 presents large downside risks. Insufficient preparation for reopening could come with significant health consequences and set back the recovery of private consumption and investment and impact supply chains, with spillovers to the rest of the world. The reopening may also lead to stronger-than-expected inflationary pressures. To protect health and prevent severe illness, continued efforts are needed to re-accelerate the pace of vaccination (and maintain it at a sufficiently high level to ensure that protection is preserved), rapidly scale up health care capacity, and provide necessary supplies of anti-viral treatments.

5. In other areas, the thrust of the staff appraisal remains unchanged. In particular, the fiscal and monetary policy advice for 2023 remain unchanged, given that the estimated output gap in 2023 remains large.

Table 1 summarizes the revisions in the forecast.

Table 1. China: Selected Economic Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
	(Annual percentage change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP (base=2015)	6.9	6.8	6.0	2.2	8.1	2.6	4.2	5.1	4.1	4.0	3.8
Total domestic demand	6.8	7.4	5.3	1.7	6.6	2.0	4.3	5.3	4.3	4.1	3.9
Consumption	7.2	7.9	6.3	-0.3	9.8	1.6	4.7	5.3	4.3	4.2	3.9
Fixed investment	6.2	7.3	5.3	3.4	3.5	2.4	4.0	5.3	4.3	4.0	4.0
Net exports (contribution)	0.3	-0.5	0.7	0.6	1.7	0.6	0.1	0.0	0.0	0.0	0.0
Total capital formation (percent of GDP)	43.2	44.0	43.1	42.9	42.8	43.5	43.4	43.2	42.9	42.6	42.3
Gross national saving (percent of GDP) 1/	44.7	44.1	43.8	44.5	44.6	45.6	44.7	44.4	43.8	43.3	42.8
Output gap estimate	-0.6	-0.5	-1.0	-3.6	-1.5	-2.8	-2.4	-1.3	-0.7	-0.3	0.0
LABOR MARKET											
Unemployment rate (annual average) 2/	5.1	4.9	5.2	5.6	5.1	5.5	...	...	...	...	...
PRICES											
Consumer prices (average)	1.6	2.1	2.9	2.4	0.9	1.9	1.5	1.7	2.0	2.0	2.0
Consumer prices (end of period)	1.8	1.9	4.5	0.2	1.5	1.9	1.9	1.7	2.0	2.0	2.0
GDP Deflator	3.9	3.5	2.1	1.3	2.7	3.0	-0.2	1.1	1.4	1.3	1.3
FINANCIAL											
7-day repo rate (percent)	5.4	3.1	3.1	2.6	2.5	...	...	...	...	...	...
10 year government bond rate (percent)	3.7	3.0	3.9	3.3	2.8	...	...	...	...	...	...
Real effective exchange rate (average)	-4.7	-2.9	1.4	-0.6	2.0	...	...	...	...	...	...
Nominal effective exchange rate (average)	9.7	-5.4	-2.5	1.5	5.4	...	...	...	...	...	...
MACRO-FINANCIAL											
Total social financing	14.1	10.3	10.7	13.3	10.3	10.3	8.9	7.6	6.6	6.3	6.1
In percent of GDP	248	248	254	278	276	288	302	305	308	311	314
Total nonfinancial sector debt 3/	14.4	10.8	10.8	13.2	10.4	10.4	9.2	7.8	6.8	6.4	6.2
In percent of GDP	248	248	254	278	277	284	295	301	305	308	311
Domestic credit to the private sector	10.9	8.6	8.7	10.9	8.5	8.3	6.2	4.7	3.5	3.3	3.3
In percent of GDP	164	161	162	173	170	174	177	175	171	168	165
Household debt (percent of GDP)	48.9	52.3	55.8	61.6	62.5	61.1	60.7	60.6	60.4	60.8	61.6
Non-financial corporate domestic debt (percent of GDP)	115	109	106	112	107	113	117	114	111	107	104
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-3.4	-4.3	-6.1	-9.7	-6.1	-9.5	-7.7	-7.6	-7.4	-7.3	-7.2
Revenue	29.2	29.0	28.1	25.7	26.8	25.1	26.0	26.1	26.2	26.4	26.5
Additional financing from land sales	2.5	2.8	2.9	2.5	2.3	1.4	1.4	1.3	1.2	1.2	1.1
Expenditure	35.1	36.1	37.1	37.9	35.2	36.0	35.1	35.0	34.9	34.8	34.8
Debt	36.2	36.5	38.5	45.4	47.2	51.0	55.1	57.9	60.9	63.8	66.7
Structural balance	-3.2	-4.1	-5.8	-8.8	-5.7	-8.7	-7.0	-7.2	-7.3	-7.2	-7.2
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	1.5	0.2	0.7	1.7	1.8	2.1	1.3	1.2	1.0	0.7	0.5
Trade balance	3.9	2.7	2.7	3.4	3.2	3.8	3.6	3.6	3.4	3.2	3.0
Services balance	-2.1	-2.1	-1.8	-1.0	-0.6	-0.8	-1.7	-1.8	-1.8	-1.8	-1.7
Net international investment position	16.8	15.2	16.0	15.4	11.2	12.1	12.9	13.1	13.1	12.9	12.5
Gross official reserves (billions of U.S. dollars)	3,236	3,168	3,223	3,357	3,427	3,277	3,339	3,410	3,472	3,511	3,526
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	82,898	91,577	99,071	102,563	113,818	120,215	125,018	132,933	140,340	147,811	155,411
Augmented debt (percent of GDP) 6/	77.9	80.8	86.3	98.8	101.4	109.6	120.5	127.4	134.4	140.9	146.9
Augmented net lending/borrowing (percent of GDP) 6/	-13.0	-11.4	-12.4	-18.4	-13.8	-16.8	-16.7	-15.6	-15.1	-14.6	-14.1

Sources: Bloomberg; CEIC Data Company Limited; IMF International Financial Statistics database; and IMF staff estimates and projections.

1/ 2021 GDP will be revised to match official revisions, once full official data are released.

2/ Surveyed unemployment rate.

3/ Includes government funds.

4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

5/ Production side nominal GDP.

6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

Statement by Zhengxin Zhang, Executive Director for People's Republic of China, and Xuefei Bai, Senior Advisor to Executive Director
January 12, 2023

Our authorities would like to thank staff and management for the constructive policy dialogue during the China 2022 Article IV Consultation. We appreciate staff's professionalism and hard work, and value staff's comprehensive and well-focused analyses. Against the backdrop of the ongoing COVID-19 worldwide and turbulent external environment, in 2022, China effectively coordinated its COVID-19 responses and socioeconomic development, and the economy stabilized and began to recover. Going forward, China will further optimize its coordination in COVID-19 responses and socioeconomic development, focus on stabilizing growth, employment, and prices, keep economy operations within a reasonable range, promote further economic recovery and stability, and ensure green and high-quality economic growth.

I. COVID-19 Containment in China

China has been refining its COVID-19 response measures in a safe, steady, and appropriate manner, largely in line with staff's advice. It adjusts its COVID-19 polices in a dynamic manner, rather than seeking abrupt and sudden changes. The adjustment has been broadly anticipated and expected. Since the outbreak of COVID-19, the government has put the people and their interests first, as nothing is more precious than people's lives. Based on China's actual conditions, we timely developed the dynamic zero-COVID policy that has well served the interests of the overwhelming majority of the Chinese people. During the time when the virus posed the greatest danger, our COVID-19 policy effectively protected people's lives and health. As correctly pointed out in the staff report, the dynamic zero-COVID policy allowed the economy to swiftly bounce back since early 2020, while maintaining the rates of severe cases and death at remarkably low levels. It has also allowed China to significantly expand the global supply of medical goods, which contributed to the global response to COVID-19, and to meet the increased demand for durable goods at a critical time for the global economy. In the past three years, China has developed effective therapeutics and medicines. China's capacity to test, treat and epidemiologically survey COVID-19 have continued to improve. Significant progress was achieved in vaccine development and vaccination, with the full vaccination rate of the whole population exceeding 90 percent. Globally speaking, China has had the lowest rates of severe cases and mortality. Over the past three years, average life expectancy in China went up from 77.3 to 78.2 years.

Currently, with Omicron being much less virulent and deadly, coupled with China's increasing capacity to test, treat and vaccinate, China has proactively refined its COVID response measures. Considering the features of the Omicron variant and people's need to travel during the Chinese New Year, the authorities has effectively balanced the need to contain COVID-19 and the social and economic considerations after a science-based assessment. We have refined the measures in an orderly fashion and issued steps to treat COVID-19 as a "Class-B" instead of "Class-A" infectious disease, shifting the focus of our responses from stemming infection to prevention and treatment of severe cases and caring for health. This shift of policy is science-based, timely, and necessary. The aim is to protect the lives and health of the people and minimize the impact of COVID-19 on economic and social development to the greatest extent possible.

Countries adjusting their COVID-19 policy invariably go through a period of adaptation, and China is no exception in shifting gear. The situation is improving and the pressures on the public health system are under control. Many provinces and cities have already gone through the first wave by now, where work and life are gradually returning to normal. The authorities have made scientific assessments of the potential peaks in other locations. They have made necessary preparations and are confident that this process of policy adjustment and shifting of focus will continue in a steady and orderly manner.

We will continue working with the international community to combat COVID-19 globally, better protect people's lives and health, revitalize world economic growth, and build a global community of health for all. Meanwhile, we call on the international community to refrain from politicalizing COVID-19 issue and avoid any discriminated measures against travelers from China.

II. Recent Economic Developments in China

In 2022, China made an effort to coordinate measures to contain COVID-19 and promote socioeconomic development, which has stabilized macroeconomic performance and allowed the economy to operate within an appropriate range. In the first three quarters of 2022, China's real GDP grew by 3.0 percent. In the fourth quarter, given the multi-faceted challenges including the increasingly complicated and challenging international environment, as well as frequent and widespread domestic outbreaks, China carried out effective policy measures to stabilize the economy, generally maintaining the momentum of recovery.

First, agriculture and industrial production grew steadily. The total grain output in 2022 reached a new high of 686.5 million ton, up by 0.5 percent year on year (YoY). Impacted by multiple factors including COVID-19, the growth of industrial production slowed slightly in November. That said, the accumulated industrial output of the first eleven months of the year grew steadily over the same period last year, with the value-added of industrial enterprises above the designated size increasing by 3.8 percent YoY. **Second, fixed asset investment scaled up.** Fixed assets investment (FAI) in the first eleven months of the year increased by 5.3 percent over the same period last year, and investment in large projects increased relatively fast. **Third, market prices remained stable.** Despite the significant increase in the global food and energy prices and relatively large imported inflationary pressures, the CPI only went up moderately. The headline and the core CPIs increased by 1.6 and 0.6 percent YoY respectively in November 2022**. Fourth, new growth momentums were further strengthened.** The high-tech sectors saw fast growth. In the first eleven months of 2022, the value-added of high-tech manufacturing sector went up by 8.0 percent YoY, which is 4.2 percentage points higher than that of the whole industrial enterprises. **Fifth, China continued to promote the high-level opening-up.** Against the backdrop of increasing downside risks in the world economy and weakening momentum of global trade, China proactively promotes free trade and investments. In the first eleven months of 2022, the value of trade in goods (in RMB terms) grew by 8.6 percent over the same period of 2021, with the value of exports and imports up by 11.9 and 4.6 percent respectively. The value of trade in services increased 15.6 percent, with the value of imports and exports up by 15.6 and 15.5 percent respectively. The actual utilized FDI increased by 9.9 percent YoY in the same period. The overall balance of payments in China remained broadly balanced. The strong performance of trade and FDI showed resilience and robustness of China's external sector, which further increased the resilience and reliability of the global supply chains. According to a recent survey with more than 160 foreign enterprises and chambers of commerce operating in China, as conducted by the China Council for the Promotion of International Trade (CCPIT), 99.4 percent of surveyed enterprises showed stronger confidence about China's economy in 2023. Moreover, 98.7 percent of them intended to maintain or expand their investments in China, 89.8 percent aimed at retaining their industrial chains in China, and 10.2 percent planned to transfer their overseas industry chains to China.

At present, the global economic growth is slowing down, inflation remains elevated, and geopolitical conflicts continue. The external environment is volatile and complicated, and the foundation for domestic economic recovery is not yet solid. The triple whammy of demand contraction, supply shocks, and weakening expectations are still weighing on the economy. We are confident, however, that China's economy has strong resilience, massive potential, and strong vitality. As policy measures to stabilize the economy continue to take effects, the overall economic performance is expected to pick up in 2023. The government will make an effort to better coordinate supply-side structural reforms and measures to expand domestic demand, create effective demand through high-quality supply, and support the expansion of domestic demand in various ways and channels. **Therefore, we suggest that staff fully consider a number of factors in making their growth projections, including China's COVID-19 situation which has been gradually stabilized, its sufficient policy space, and potential policy adjustments in the future.**

The 20th CPC National Congress has outlined China's overall development objectives for 2035, including significantly increasing its economic power, improving its scientific and technological capabilities, and enhancing its comprehensive national strength, so as to reach the per capita GDP of mid-level developed countries by 2035. **In this context, we think staff's projections of China's growth in 2023, 2024, and in the medium- to long-term are overly pessimistic.** We welcome the revision of China's growth for 2023 to 4.2 percent from 3.8 percent in staff's supplementary note (staff's projections as of time of the Board meeting), though we hold a more positive view about China's growth. There are many positive elements in China's outlook, including the large market size, complete industrial chains, resilient economy, and the well-educated labor force.

A number of structural changes also support higher and longer growth. For example, changing the "one-child policy" to "three-children policy" will change the demographic path in the medium- to long-term, which will bring more labor force, consumption and investment. To implement China's "30/60" decarbonization targets, hundreds of trillions of new investments will be needed in the new energy sector alone, meaning that the transformation and adaptation for climate change in China provide huge room for new investment down the road.

To this end, we have confidence that the economy will maintain the medium- to high-speed growth over a relatively long period. Comparing China's annual growth rate of 6 to 7 percent before COVID-19 with staff's projection of 5.1 percent in 2024 and around 4 percent afterward, we don't think the projected slowdown is reasonable.

III. Broader Policy Issues

Monetary Policy

In 2022, by pursuing a sound monetary policy that is flexible and appropriate and maintaining its continuity, stability, and sustainability, the People's Bank of China (PBOC) has properly managed market expectations, made practical efforts to support the real economy, and effectively prevented and controlled financial risks.

First, the PBOC kept liquidity adequate at a reasonable level. In 2022, the PBOC cut the reserve requirement ratio twice by a total of 0.5 percentage point, releasing more than RMB 1 trillion of long-term funds, and provided liquidity support through multiple channels such as central bank lending, rediscounts, the Medium-term Lending Facility (MLF), and Open Market Operations (OMO). In November 2022, the YoY growth of money supply (M2) and aggregate financing to the real economy (AFRE) was 12.4 percent and 10 percent respectively.

Second, the structural monetary policy toolkit was enriched and improved. The PBOC raised the incentive funding ratio for local financial institutions issuing inclusive micro and small business (MSB) loans, increased the special central bank lending for clean and efficient coal use, and introduced three new structural tools, namely central bank lending for sci-tech innovation, for inclusive elderly care services, and for transportation and logistics.

Third, the market-oriented interest rate reform was deepened. The lending prime rate (LPR) reform was further promoted, and the guiding role of the LPR was brought into play. The one-year LPR was guided down from 3.8 percent to 3.65 percent in 2022. In September 2022, the average interest rate on loans to enterprises averaged 4.0 percent, decreasing by 0.59 percentage point YoY and hitting the lowest level on record.

Forth, efforts were made to promote both the internal and external balance. While deepening the market-oriented reform of the exchange rate and maintaining the decisive role of the market in the RMB exchange rate formation, the PBOC enhanced the two-way flexibility of the RMB exchange rate, strengthened macroprudential measures and expectation management, and let the exchange rate play its role in macroeconomic management and as an auto stabilizer for the international balance of payments. In 2022, from the beginning of the year to November, the RMB was on the depreciating path against the U.S. dollar. From November 2022 to mid-January 2023, the RMB is on the appreciating path against the U.S. dollar. The RMB exchange rate clearly fluctuated in both directions. We concur with staff's preliminary assessment that China's external position in 2022 is broadly in line with the level implied by medium-term fundamentals and desirable policies. To further deepen the development of foreign exchange market to facilitate high-level opening-up, the PBOC and the State Administration of Foreign Exchange (SAFE) decided to extend the trading hours of the interbank foreign exchange market to 3:00 a.m. from January 3, 2023, in an attempt to cover more trading hours in Asian, European, and North American markets. The adjustment will expand the depth and width of the domestic foreign exchange market, promote the coordinated development of onshore and offshore foreign exchange markets, provide more convenience to global investors, and enhance the attraction of RMB assets.

Moreover, the PBOC included the e-CNY in circulation in calculating currency in circulation (M0). As of end-December 2022, the e-CNY in circulation stood at RMB13.61 billion.

In 2023, China will continue the sound monetary policy and make it more targeted and effective. The PBOC will keep liquidity adequate at a reasonable level, maintain the growth of money supply and AFRE broadly in line with nominal economic growth, and guide financial institutions to provide stronger support to MSBs, technology innovation, and green development. China will also keep the RMB exchange rate basically stable at an adaptive and equilibrium level as well as strengthen arrangements to safeguard financial stability.

Fiscal Policy

Proactive fiscal policy became more effective and efficient. The authorities made the policy more targeted and sustainable. In 2022, China's fiscal policy rightly focused on supporting market entities through tax cut, fee reduction, tax rebates, and tax/fee deferrals, the total amount of which exceeded RMB 4 trillion (USD 580 billion). China also expanded its financing guarantees and provided more support to SMEs via government procurement. The logic is that if the market entities can weather COVID-19 smoothly with fiscal support, then stability can be achieved in terms of employment, people's livelihood, supply chains and overall prices. In December 2022, China issued RMB 750 billion (USD 108 billion) worth of special treasury bonds to raise funds to support economic and social development. China expedited the pace to issue local-government special-purpose bonds. As of end-November 2022, the accumulated issuance of newly approved special bonds reached RMB 4 trillion (USD 580 billion). Fiscal support was also provided to facilitate policy-based developmental financial tools, guarantee the delivery of pre-sold real estate projects, and support equipment upgrade in certain sectors. The overall planning of financial resources was enhanced. The authorities also kept a relatively high level of expenditure and sped up its implementation, improved the system for the regular transfer of direct fiscal funds, ensuring the expenditure need in key areas, and provided direct support to vulnerable households and communities by ensuring the "Three Guarantees" at the grassroots level, i.e. guaranteeing people's basic livelihood, their wages, and the operation of local governments. Many provincial and municipal governments have also provided vouchers to residents to stimulate consumption.

In 2023, the proactive fiscal policy will be stepped up and made more effective. The expenditure intensity will be maintained, with a better mix of tools including fiscal deficits, special-purpose bonds, and interest subsidies. While high-quality development will be effectively supported, fiscal sustainability will be ensured and local government debt risks well controlled. China will also enhance transfers from central to local governments and continue the "Three Guarantees". Meanwhile, the authorities will prevent and address local government debt risks, contain emerging risks decisively, and resolve existing risks properly.

We still have different views with staff's concept of "augmented deficit/debt" and assessments. They are inconsistent with China's practices and official data, and in many cases would lead to misjudgment of China's fiscal policy stance. A major reason for the disagreement lies in the treatment of local government financing vehicles (LGFVs) debts issued after 2014. It is important to note that such debt is squarely borne by the issuing entities themselves, not the government. China's *Budget Law*, *Company Law*, and other relevant laws have clearly defined the boundaries and differences between local government debt and LGFV debt. Local governments do not bear the responsibility to repay the debt of LGFVs and other state-owned enterprises (SOEs) since the implementation of the amended *Budget Law* in 2014, including the implicit debt illegally borrowed by LGFVs. **The augmented fiscal concept misinterprets China's fiscal position.** For example, in 2021, China implemented a supportive fiscal policy, but staff used the augmented fiscal concept and identified China's fiscal policy stance as significantly contractionary. We hope staff can continue their constructive communication with China's fiscal authorities on this issue, focusing on specific policy issues rather than conceptual issues.

Preventing and Defusing Financial Risks

In 2022, China's financial system remained broadly stable and resilient. The financial regulators took firm measures to prevent systemic risks and upheld market principles and the rule of law in risk resolution, in a bid to continuously mitigate financial risks. In the area of legislation and institutional development, the draft *Financial Stability Law* has been reviewed by the Standing Committee of the National People's Congress and is now in public consultation. For the banking sector, China's financial regulators took proactive measures to help market players mitigate liquidity pressures and default risk, and stabilize the quality of the banking sector's credit assets. By the end of 2022Q3, the banking sector's non-performing loan (NPL) ratio registered 1.66 percent, decreasing by 0.07 percentage point from end-2021. The NPL ratio of inclusive loans to MSBs reached 1.96 percent, decreasing by 0.23 percentage point YoY, and the credit quality was kept broadly stable. The banking sector's provision coverage ratio stood at 205.54 percent, and the capital adequacy ratio was 15.09 percent, both remaining at a relatively high level, indicating adequate risk buffers.

The Staff Report noted that "the property crisis has intensified during 2022." But in our view, China's property market has been operating smoothly in general, and is not in a "crisis" situation. The authorities are aware of the risks and are working to address them. It is inappropriate to overstate the difficulties in the market and potential impacts to the financial sector.

In 2022, the triple pressures of demand contraction, supply shocks, and weakening market expectations, coupled with certain unexpected factors such as the widespread COVID-19, brought China's property market into a new environment. Certain developers over-relied on the business model of "high debt, high leverage, and high turnover" for a long time. Impacted by COVID-19 and increasing market pressures, they faced liquidity challenges due to depressed sales revenue, difficulty in finding new financing, and capital chains problems, leading to pauses or delayed delivery of some pre-sold projects. However, according to the semi-annual financial statements of listed developers, in the first half of 2022, their liabilities to assets ratio decreased by 0.24 percentage point YoY, the leverage ratio declined slightly, and their financing structure continued to improve. The current development of the real estate market is a natural evolution of "deleveraging and destocking" in the past few years. The related risks are local and only concern individual firms, and their impact on the rest of the world has been relatively small.

The authorities have actively taken actions to support reasonable market financing, as well as to ensure the construction and delivery of pre-sold projects. The total exposures of financial institutions to distressed individual developers are limited and manageable. The Ministry of Housing and Urban-Rural Development, MOF, PBOC, and other authorities have made concrete work plans to actively ensure project delivery and to safeguard the legitimate interests of home buyers, using policy tools such as special loans from policy and development banks.

Since November 2022, the regulatory authorities have introduced "three arrows" to support developers, namely bank lending, bond market, and equity financing. All these measures are taking effect. For example, it is reported that around 105 banks have signed heads of loan agreements with 188 developers since last November, with their loans totaling RMB 5.46 trillion. Three private developers have received credit enhancement for bond issuance of RMB 4.7 billion. There are no policy obstacles to restructure the developers. In fact, there were 48 mergers and acquisitions (M&A) for major developers in December 2022, and the transactions totaled over RMB 53 billion.

Staff think there are housing price floors, though this is only partially true and does not reflect the whole picture. The price floors only existed in a few small cities as reported. Recently, the PBOC and the Banking and Insurance Regulatory Committee (CBIRC) issued a guideline allowing banks to lower their mortgage rates without a floor and to reduce the down payment ratio if a city's housing price decreases for three consecutive months.

In 2023, China will continue to ensure the steady development of the property market. Concrete efforts will be taken to ensure the delivery of pre-sold projects, safeguard people's livelihood, and maintain steady market development. City-specific differentiated credit policies will be implemented, reasonable financing demand of the sector will be met, and the restructuring and M&A of developers will be pursued. Meanwhile, continued efforts will be made to effectively prevent and defuse the risks of high-quality and leading developers, as well as to improve their balance sheet. People's basic housing needs and the need for improved housing conditions will be further met based on city-specific policies. China will appropriately address the housing needs of new residents and the young. The establishment of a long-term rental market will be explored. In general, China will stick to the principle that "housing is for living in, not for speculation", and continue to promote a smooth transition of the property sector to new development models.

State-Owned Enterprises (SOEs) Reform

The uncertainties in the domestic and external environment, combined with the impact of COVID-19, made it more difficult for the authorities to implement some structural reforms. **This said, the authorities achieved substantial progress in structural reforms. SOE is one of the inseparable elements of socialism with Chinese characteristics.** While fighting COVID-19, the authorities completed the Three-year Action Plan for SOEs Reforms (2020-2022), with its goals successfully achieved by the end of 2022. The modern corporate governance system has also been continuously refined. China's SOEs maintained stable and orderly production and operation, with their income and profits steadily growing. In the first ten months of 2022, the operating income, total profit, and net profit of central SOEs amounted to RMB 32.3 trillion, 2.2

trillion, and 1.7 trillion respectively, representing YoY growth of 9.9 percent, 4.7 percent, and 3.9 percent. The number of China's SOEs on the Fortune Global 500 List has increased from 65 in 2012 to 99 in 2022. China's SOEs operating in the communications, power, and construction sectors are among the most efficient around the globe.

On promoting the development of private enterprises and competitive neutrality, China has reiterated its commitment to "working unswervingly both to consolidate and develop the public sector and to encourage, support, and guide the development of the non-public sector". In recent years, China's private enterprises have developed rapidly. The total number of private enterprises in China has increased from 10.86 million in 2012 to 47.01 million in August 2022, accounting for 93.3 percent of all enterprises, up from 79.4 percent in 2012. Specifically, the net increase in the number of private enterprises since 2020 is 11.85 million, accounting for one third of the total net increase in the past decade. Private enterprises have played an important role in stabilizing growth, promoting innovation, increasing employment, and improving people's livelihood. They have become an important driver of economic and social development.

As most of the enterprises in China are private-owned and many of them are micro and small business (MSB), fiscal and monetary policies have focused on supporting the MSB in the past few years, with a number of measures introduced. For example, for the monetary policy, China encourages commercial banks to extend inclusive loans to MSB. The MSB loans have seen an average YoY growth of 25 percent in the past 5 years, significantly faster than China's total loans (around 11 percent) and MSB loans in the rest of the world.

In light of the above developments, we have different views on staff's assessments that "productivity growth is weak, in large part because of the role of low-productivity SOEs," and "reforms securing competitive neutrality between SOEs and privately owned firms have been lacking." Going forward, China will continue to deepen the reform of state-owned assets and enterprises and enhance their core competitiveness. China will maintain the principle of "reforming SOEs in line with their categories", and strike a proper balance between the economic and social responsibilities of SOEs. China will continue improving SOEs' modern corporate governance with Chinese characteristics and keep SOEs operating in accordance with the market-oriented mechanism. The Chinese authorities will establish legal and institutional arrangements to ensure the equal treatment of private enterprises and SOEs, and encourage the development of the private sector via policy supports and public opinions. Property rights of private enterprises and the interests of entrepreneurs will be protected according to law.

Moreover, China's companies, either state-owned or private, are victims of unfair competition policies of other countries, including technology and supply restrictions under the name of "national security", industrial subsidies to create competitive advantages, and market access restrictions targeting Chinese companies. A healthy exchange of views between China and its trade partners will be helpful and constructive. China has articulated its commitment to providing maximum convenience to foreign entrepreneurs as they carry out trade and investment activities and do business in China. We should build and trust a well-functioning multilateral trading system. We encourage staff to make more comprehensive analyses on the business environment of Chinese SOEs, private enterprises, and foreign enterprises.

The Staff Report mentions that "SOEs are being tasked to make advances in strategically important sectors and technologies affected by growing geo-economic pressures, further burdening them with responsibilities." In fact, with geopolitical tensions and fragmentation risks on the rise, not only SOEs but also private enterprises in China have been forced to seek "plan B" and alternatives to prevent and mitigate risks of sudden input cuts from trading partners. For a company, whether or not to have a plan B is a matter of life and death.

Social Protection and Poverty Reduction

In recent years, China has introduced a series of measures to promote employment, increase households' income, strengthen the social protection system, and enhance support to vulnerable communities. Support from public pension funds, public medical insurance, and the social assistance system have been strengthened, and "common prosperity" has been strongly promoted. Thanks to various policies to combat poverty and to the rural revitalization strategy, per capita disposable income of rural residents continues to grow faster than that of urban residents. In 2021, the ratio of urban/rural income was 2.50, down by 0.06 compared to 2020, further narrowing the relative gap between urban and rural income levels.

Staff note that "it will take the systematic strengthening of the social protection system to sustain high quality growth", and that indeed is a key task China is currently working on. In January 2022, China began to strengthen the nationwide coordination of social pension for enterprise employees, aiming at adjusting the surplus and deficit of inter-regional pension funds for enterprise employees at the national level. The authorizes are now quickening the pace in this endeavor. The above measures have addressed the structural problems of regional pension funds at the system level, which secures pension payments in regions with hardships. In November 2022, commercial endowment insurance, the third pillar of China's pension system, was introduced. This is a vivid example of China's response to its aging population and its effort to improve the multi-layer pension system.

Staff point out that "China's social protection system still provides significantly less coverage and lacks in adequacy compared to other countries at similar or higher per capita income levels" . This statement does not accurately describe the reality. China has established the largest social protection system in the world. In terms of pension system, China continues to promote the gradual increase of social pension benefits for both urban and rural residents, so that covered residents could share China's economic and social development. As of 2022, the public pension system covered 1.04 billion residents. In terms of medical insurance, the public medical insurance system covers 95 percent of Chinese residents. China has included more outpatient expenses for common and chronic diseases into the medical care reimbursement list. In terms of unemployment insurance, its coverage was temporarily expanded in 2022, so that the system can provide temporary allowances to unemployed migrant workers who have been covered for less than one year.

Opening-Up and International Cooperation

In the wake of the COVID-19, China has adopted a range of pro-business policies that apply equally to all companies registered in China. China has been resolutely pushing forward with the opening-up of the financial sector, The measures include enhancing the management of funds invested by overseas institutional investors in China's bond market, improving management of proceeds from RMB-denominated bond issuance of overseas institutions, and steadily improving institutional arrangements for opening-up with regards to rules, regulations, management, and standards, in order to create a market-oriented, law-based international business environment. China has strengthened the protection of physical and intellectual property, the legal rights, and the interests of foreign investors. These measures have provided them with higher-quality services and have improved business environment for them. China will continue its efforts along this line.

China is willing to carry out constructive cooperation with the IMF and other countries to support developing countries, especially the low-income countries, to promote their economic recovery. The Belt and Road Initiative (BRI) has become a highly welcomed international public good and a platform for practical cooperation. Broad international consensus has been achieved on the Global Development Initiative (GDI) and the Global Security Initiative (GSI) to seek common development and shared security. Chinese vaccines have played a key role in the global fight against COVID-19. In implementing the G20 Debt Service Suspension Initiative (DSSI), China has provided the largest amount of debt service suspension among G20 countries. China has also been actively participating in the G20 Common Framework, for which it has served as cochair in two of the three cases. Through these tangible actions, China has made its active contribution in supporting low-income countries to combat COVID-19 and address the debt issue.

As risks in the world economy are accumulating and protectionist measures are on the rise, China will only continue to open up and deepen international cooperation. We believe openness is the only way to achieve social prosperity and progress, whereas protectionism will only boomerang. China would work with other countries to uphold the multilateral trading system with the World Trade Organization at its core, build an open world economy, and in particular take forceful measures to maintain the stability and resilience of the global industry and supply chains. The best way to address emerging global challenges is to make concerted efforts. Countries may have different views, but it is important that we enhance mutual understanding on the basis of equality and respect.

Climate Change

China has made a solemn commitment to carbon neutrality and has included climate efforts into the new 14th Five-Year Plan. The path toward carbon neutrality is not a linear one. The authorities have established the policy framework to achieve carbon peaking and carbon neutrality goals, formulated the strategy to control medium- and long-term greenhouse gas emissions, and prepared and implemented the national strategy for climate adaptation. The national carbon emission trading schemes (ETS) made its debut in July 2021 and has been operating in a smooth and orderly manner, with its trading scope gradually expanded.

China has made great efforts in developing non-fossil energy and has accelerated the transition to green and low-carbon energy. As coal remains a major source of energy in China, the authorities continue to promote the clean and efficient utilization of coal. According to preliminary statistics, in 2021, the CO_2 emissions per unit of GDP in China was 3.8 percent lower than that in 2020, and 50.8 percent lower from 2005. Meanwhile, non-fossil energy accounted for 16.6 percent of total primary energy consumption, and the coal consumption per unit of GDP has decreased significantly.

In recent years, China has actively practiced the philosophy of green development and keenly promoted green finance. At the end of 2022Q3, China has the world's largest outstanding green loans of around RMB 20.9 trillion, up by 41.4 percent YoY. The outstanding green bonds in China exceeded RMB 1.26 trillion. The PBOC has introduced supportive tools to reduce emissions, provided financial incentives to qualified financial institutions, and guided financial institutions to extend loans to key sectors with strong reductions in emission. When implementing these measures, the authorities have ensured equal and national treatment for foreign financial institutions.

As a next step, China will continue to build a low-carbon, safe, and efficient energy system, further develop green finance, and promote international cooperation on global climate governance. **Staff estimate that China is set to overachieve its own carbon-peaking target, and we welcome this assessment.** We commend staff for their in-depth analyses of climate change issues and encourage them to continue making policy recommendations in accordance with the multilateral consensus under the United Nations Framework Convention on Climate Change and the Paris Agreement, as well as WTO rules. China is willing to play an active and constructive role and contribute its wisdom and strength in building a global climate governance framework that is fair, reasonable, and mutually beneficial.

In addition, our authorities have been fully complying with our obligations and commitments with regard to data provision and disclosure. Nevertheless, we will continue to make efforts to expand data collection, improve data quality, and enhance data transparency to better support policymaking.

Lastly, I would like to once again thank Ms. Gita Gopinath for her leadership, as well as Mr. Krishna Srinivasan, Mr. Thomas Helbling, Ms. Sonali Jain-Chandra, and the entire China team for their arduous and professional work.