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Chart

Table

Table C2-1 Correspondence between Producer and Consumer Service Industries and International Balance of Payments Transactions

Table C5-1 Changes in theExchange Rates of 78 Economies against the USD

Abstract

In 2020, the COVID-19 epidemic spread throughout the world. The global economy faced a serious recession and intensified turmoil in international financial markets. Under the firm leadership of the CPC Central Committee with Comrade Xi Jinping as the core, China made great strategic achievements in coordinating the efforts to promote epidemic control and economic and social development. The domestic economy recovered steadily and the high-level two-way opening was steadily promoted. The flexibility of the RMB exchange rate was enhanced and overall operationof the foreign-exchange market was stable.

China's balance of payments maintained a basic equilibrium in 2020, and foreign-exchange reserves remained stable at about USD 3.2 trillion. The current account surplus increased, accounting for 1.9 percent of GDP. Thebalance remained within a reasonable equilibrium range. In particular, the surplus of trade in goods increasedby 31 percent compared with that in 2019, showing a trend of “decreasing first and then increasing.”The deficit in trade in services narrowed by 44 percent, mainly due tothe decrease in travel expenditures. Cross-border two-way investments and financing were active.On the one hand, confidence in foreign investments in the domestic market remained strong, with various types of investments totaling USD 520.6 billion, an increase of 81 percent over 2019.On the other hand, residents' demand for diversified allocations of overseas assets increased, with China's outward foreign investments of USD 598.3 billion, an increase of 1.1 times.By the end of 2020, China's external financial assets and liabilities had increased by 11percent and 18percent, respectively, compared with the end of 2019, and net external assets

reached USD 2.2 trillion.

In 2021, it is expected that the current account surplus will continue to be within a reasonable range, and cross-border capital flows will continue their overall balanced situation in two directions. With respect to theinternational environment,the COVID-19 epidemic is still ongoing, and unstable factors in economic and financial operations still exist. However, the positive long-term fundamentals in the domestic economy have not changed. China will consolidate and expand the achievements of epidemic control and economic and social development, accelerate the construction of a new development pattern in which the domestic economic cycle plays a leading role and the domestic and international cycles promote each other, continue to implement a high level of opening-up, and maintain the basic stability of the RMB exchange rate at a reasonable and equilibrium level. The foreignexchange administration departments will be based on the new development stage, adhere to the new development concept, continue to advance reform of trade and investment facilitation, promote the opening of the financial market, improve the management framework of "macro prudence + micro supervision" of the foreign-exchange market, prevent cross-border capital flow risks, serve development of the real economy, and maintain a basic equilibrium in thebalance of payments.

I. Overview of the Balance of Payments

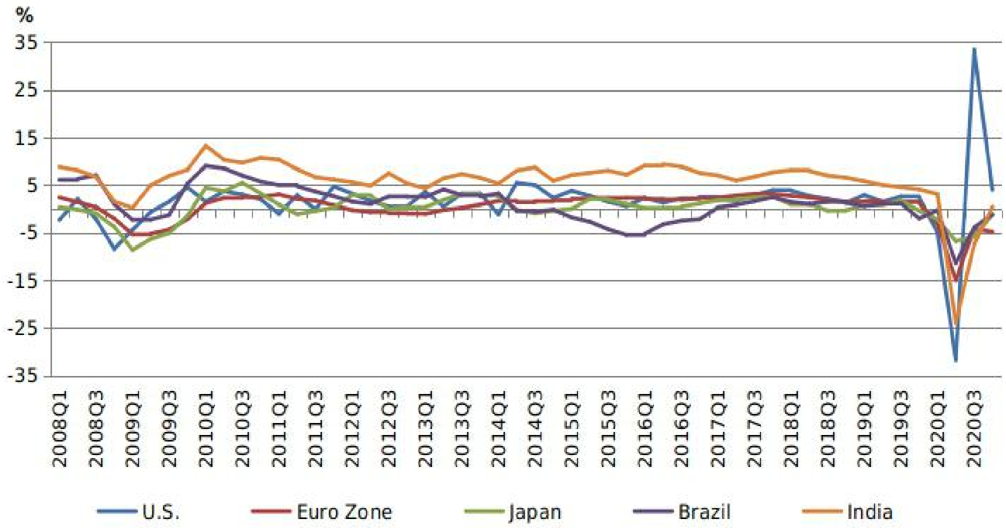
（I）The Balance of Payments Environment

In 2020, Covid-19 spread throughout the world, the world economy suffered a severe recession, andinternational financial markets fluctuated significantly. In face of the complex and severe domestic and international environments, China's economy recovered steadily and became the world’s only major economy to achieve positive economic growth in 2020.

The global economy recovered slowly after a severe recession. In the first half of 2020, the global economy shrank greatly, and economic growth in some of the developed economies showed an accelerated decline. Among them, GDP in the United States during the second quarter declined by 31.7 percent from the first quarter, and GDP in Brazil, India, Russia, South Africa, and other emerging economies showed negative growth in the second quarter. In the second half of the year, the global economy gradually recovered. In the third quarter, GDP in the United States, the euro zone, Japan, and the United Kingdom decreased by 2.9 percent, 4.3 percent, 5.7 percent, and 8.7 percent, respectively, which was significantly narrower than the decrease in the second quarter (see Chart 1-1). In the fourth quarter, due to repeated outbreaks of Covid-19, many countries tightened epidemic prevention and control measures and the speed of the economic recovery slowed down. The International Monetary Fund (IMF) estimates that the global economy will have declined by

3.5 percent in 2020.

Chart 1-1 Growth Rate of the Main Economies



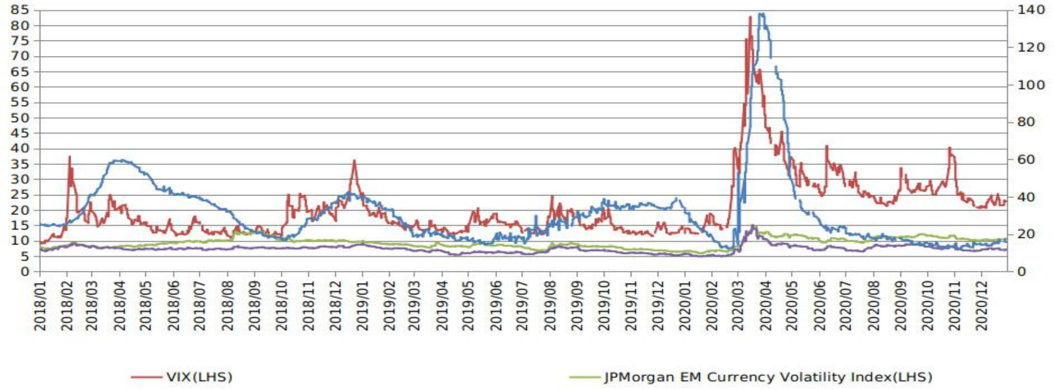
Note: The U.S. growth rate is the annualized quarterly growth, whereas the rates of the other economies are the quarterly growth rates year on year.

Source: Huanya economic database.

The major developed economies implemented an ultra-loose monetary policy. In order to cope with the economic recession caused by the epidemic, the central banks of the major developed economies cut interest rates substantially. Some economies reduced policy interest rates to zero or to negative interest rates and they expanded the scale of monetary-policy operations. The Federal Reserve, the Bank of Canada, and the Bank of Japan increased the scale and extended the term of repurchase agreements. In addition, in 2020 the central banks of some developed economies carried out monetary-policy framework assessments. After completion of the assessment in August, the Federal Reserve announced a revision of the monetary-policy framework and implementation of an average inflation target of 2 percent.

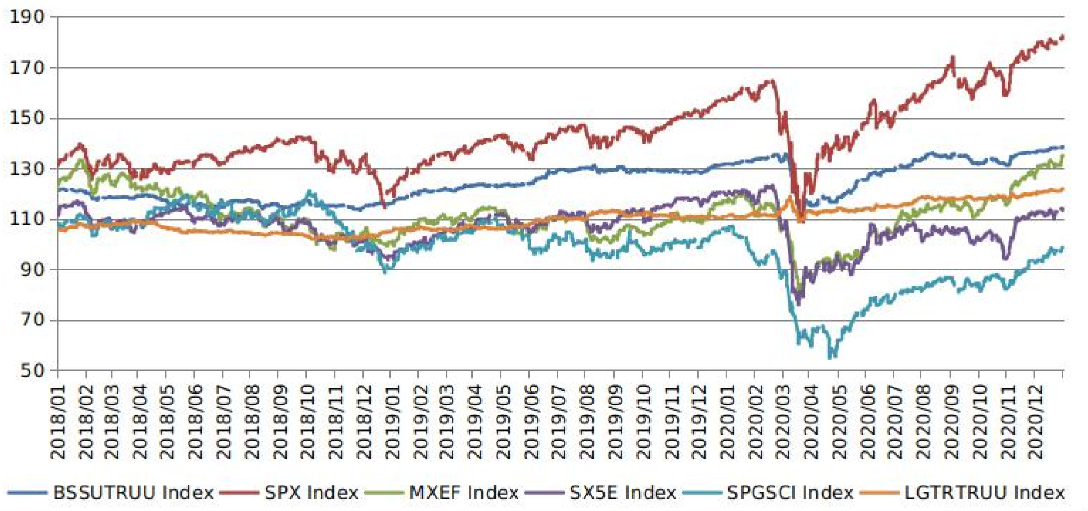
International financial markets fluctuated significantly. In the first quarter of 2020, the impact of the epidemic led to panic in international financial markets. Risk assets and traditional risk-averse assets such as gold were sold off, leading to a decline in price. The stock markets in many countries melted down on several occasions, and currency in the emerging economies was devalued. After the second quarter, with the introduction of large-scale stimulus policies by the governments of the major economies, market sentiment tended to ease, and the financial markets recovered significantly. In 2020, the U.S. dollar index first rose and then declined, with the highest value close to 103 in the first half of the year, but it fell by 7.1 percent to below 90 for the entire year; the emerging market currency index (EMCI) fell 5.8 percent, while the S&P GSCI commodity price index fell 6.1 percent (see Charts 1-2 and 1-3). The US Standard & Poor's 500 Index, the Euro zone Stoxx, and the MSCI Emerging Market Stock Index rose 16.3 percent, 5.1 percent, and 15.8 percent, respectively. The strong rebound of global financial markets driven by the continuous loose monetary environment was out of touch with the fundamentals of the fragile recovery of the real economy and the potential risks increased.

Chart 1-2 Interest Rates in International Financial Markets and Volatility Ratios of International Currencies



Source: Bloomberg.

Chart 1-3 Global Stocks, Bonds, and Commodity Market Prices

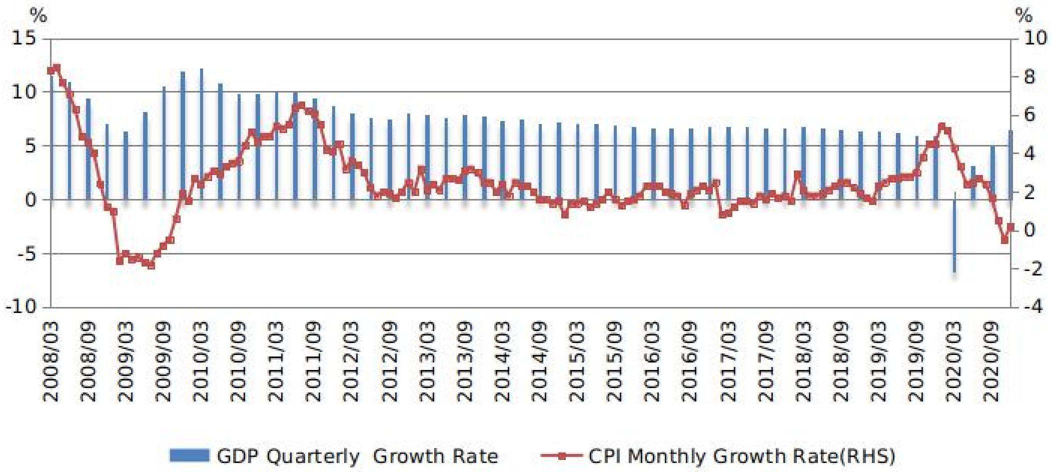


Note: BSSUTRUU and LGTRTRUU are the Bloomberg Barclays Emerging Market Index and the Developed Country Sovereign Bond Index, MXEF is the MSCI Emerging Market Index, SPX is the S&P 500 Index, SX5E is the Euro STOXX 50 Index, and SPGSCI is the S&P GSCI Commodity Price Index, all of which were 100 at the beginning of 2015.

Source: Bloomberg.

The domestic economy recovered steadily. In the face of the novel Covid-19 pneumonia and the complex external environment, under the firm leadership of the CPC Central Committee with President Xi Jinping as the core, China made great strategic achievements in coordinating epidemic prevention and control and economic and social development. China's economy improved gradually from season to season, and the level of opening up to the outside world improved further, achieving a comprehensive victory in the battle against poverty. The main objectives and tasks of the 13th Five-year Plan were successfully completed. According to preliminary data of the National Bureau of Statistics, annual GDP in 2020 was 101.6 trillion yuan, or 2.3 percent higher than that in 2019 at comparable prices. GDP from the second quarter to the fourth quarter increased by 3.2 percent, 4.9 percent, and 6.5 percent year on year, respectively. The consumer price index (CPI) was 0.2 percent higher than that in 2019 (see Chart 1-4).

Chart 1-4 Growth Rate of China's Quarterly GDP and Monthly CPI



Source: NBS.

（II）The Main Characteristics of the Balance of Payments

The current account posted a surplus, while the non-reserve financial account recorded a deficit. In 2020, the currentaccount recorded a surplus of USD 274 billion, and the non-reserve financial account posted a deficit of USD 77.8 billion (see Table 1-1).

Table 1-1 Structure of the BOP Surplus

USD 100 Million

Item	2014	2015	2016	2017	2018	2019	2020
Current account balance	2360	2930	1913	1887	241	1029	2740
As a % of GDP	2.3%	2.6%	1.7%	1.5%	0.2%	0.7%	1.9%
Financial account excluding reserve assets	-514	-4345	-4161	1095	1727	73	-778
As a % of GDP	-0.5%	-3.9%	-3.7%	0.9%	1.2%	0.1%	-0.5%

Sources: SAFE, NBS.

The surplus intrade in goods increased. Based on balance-of-payments statistics,[1]in 2020 exports of trade in goods totaled USD 2497.2 billion, up 5 percent, and imports of trade in goods totaled USD 1982.2 billion, down 0.6 percent,thus achieving a surplus of USD 515 billion or up 31percent (see Chart 1-5).

The deficit in trade in services narrowed. In 2020, revenue from trade in services totaled USD 235.2 billion, down 4 percent, and expenditures totaled USD 380.5 billion, down 25 percent. Trade in services thus recorded a deficit of USD 145.3 billion, down 44 percent (see Chart 1-5). In particular, the transportation deficit totaled USD 38.1 billion, down 35 percent, and the travel deficit totaled USD 116.3 billion, down 47 percent, reflecting the decline in cross-border travel expendituresdue tothe COVID-19 epidemic.

Primary income[2]showed a deficit. In 2020, revenue from primary income totaled USD 241.7 billion, down 12 percent, and expenditures totaled USD 346.9 billion, up 11 percent. Primary income thus recorded a deficit of USD

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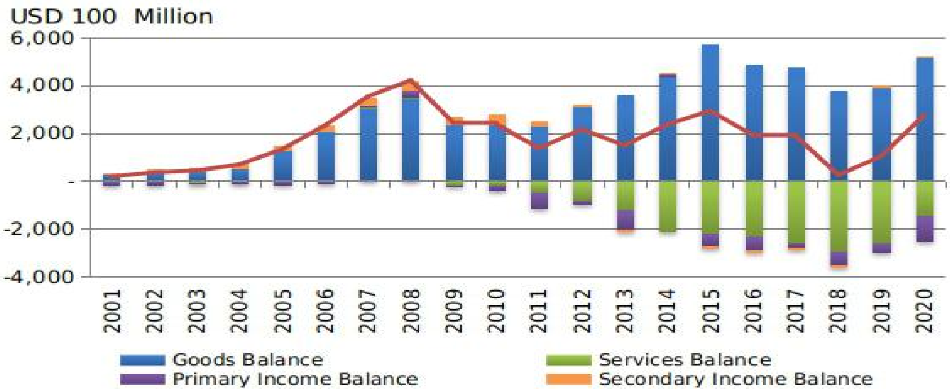
[1] BOP statistics and statistics of the General Administration of Customs with respect to trade in goods can be reconciled by the following: First, the data of trade in goods in BOP only record the goods whose ownership has been transferred (such as goods in general trade, incoming processing trade and other trade modes), and the goods whose ownership has not been transferred (such as inward and outward processing) are not included in the goods statistics, but included in the statistics of trade in services. Second, in terms of valuation, imports and exports are recorded on FOB in BOP, while customs statistics uses FOB price for exports and CIF price for imports. Therefore in BOP statistics, freight and insurance fees are substracted from custom's import data, and are added to trade in services statistics. Third, returned goods in imports and exports are supplmeted in BOP statistics. Fourth, the net export data of goods under resale sales that have not been counted by the customs are counted in BOP statistcs. Fifth, the caliber differences caused by the difference of special OEM mode and pricing method has been adjusted.

[2] The IMF's *Balance of Payments* and *International Investment Manual* (Sixth Edition) renamed the income item under the current account as primary income and renamed current transfers as secondary income.

105.2 billion (see Chart 1-5). In particular, revenuefrom outward investments totaled USD 224.4 billion, and expenditures for inward investments, including profits and dividends of foreign-funded enterprises, totaled USD 331.5 billion. Investment income recorded a deficit of USD 107.1 billion.

Secondary income posted a small surplus. In 2020, revenue and expenditures of secondary income totaled USD 37.6 billion and USD 28.1 billion, respectively, up 45 percent and 80 percent. Secondary income thus recorded a surplus of USD 9.5billion, down 8 percent (see Chart 1-5).

Chart 1-5 Major Items under the Current Account



Source: SAFE.

The surplusin direct investments increased. Based on the balance-of-payments statistics,[3] in 2020 direct investments posted a surplus of USD 102.6 billion, double compared to that in with 2019 (see Chart 1-6). In particular, net outflows of outward direct investments(the net increase in direct-investment assets)totaled USD 109.9 billion, down20 percent. Net inflows

[3]The BOP compiles and reports direct investments following balance-sheet rules, whereas the Ministry of Commerce compiles and reports direct investments by direction, with differences between the principles for reverse investments and investments among affiliates. In addition, direct investments based on BOP statistics also include unpaid and unremitted profits, retained earnings, shareholders' loans, foreign capital utilized by financial institutions, and real-estate purchases by non-residents.

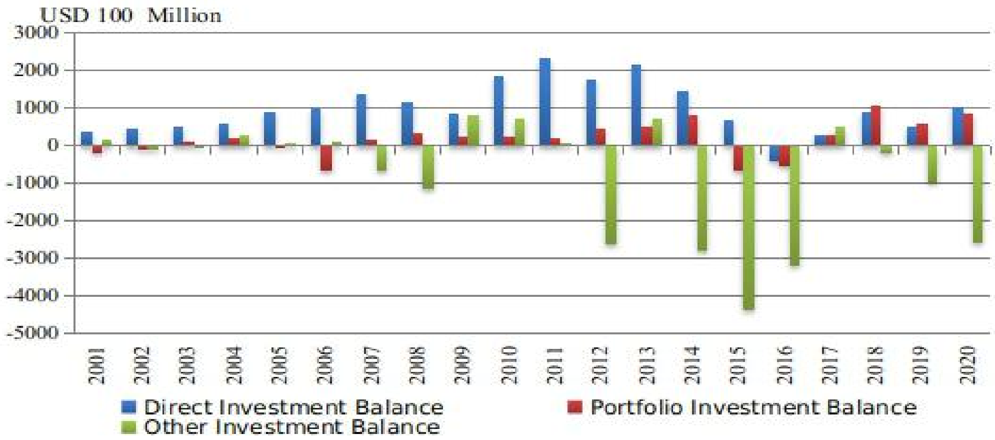
of foreign direct investments(the net increase in direct-investment liabilities) totaled USD 212.5 billion, up 14 percent, indicating that foreign capital highly recognizes the effectiveness of epidemic control in China and it is optimistic about the prospects for domestic economic development.

Portfolio investments retained a surplus. In 2020, portfolio investments recorded a surplus of USD 87.3 billion (see Chart 1-6).There was a small deficit in the first quarter,butthen portfolio investments turned to a surplus after the second quarter.In particular, net outflows of outward portfolio investments (the net increase in assets) totaled USD 167.3 billion, up 87 percent, and net inflows of inward portfolio investments (the net increase in liabilities) totaled USD 254.7 billion, up 73 percent, showing that two-way portfolio investments were becoming more active.

Other investments recorded a deficit. In 2020, other investments, including loans, trade credits, and deposits, posted a deficit of USD 256.2 billion (see Chart 1-6),which played a role in balancing cross-border capital flows. In particular, net outflows of outward other investments (the net increase in assets) totaled USD 314.2 billion, mainly due to the relatively abundant domestic foreign-exchange liquidity and the risingdemand for diversified asset allocations of domestic entities.Net inflows of inward other investments (the net increase in liabilities) totaled USD 57.9 billion, whereas in 2019 therewere net outflows (the net decrease in liabilities) of USD 43.7 billion.

Reserve assets remained relatively stable. In 2020, reserve assets involving transactions (excluding the effects of non-transactional values, such as exchange rates and prices)increased by USD 28 billion. In particular, foreign-currency reserves involving transactions increased by USD 26.2 billion (see Chart 1-7) and remained basically stable. By the end of 2020, China's foreign-currency reserves totaled USD 3216.5 billion, up USD 108.6 billion since the end of 2019. This was mainly due to changes in the non-transactional values, such as the exchange rates and the prices.

Chart 1-6 Major Items Under the Capital and Financial Account



Source: SAFE.

Table 1-2 Balance of Payments in 2020

100 million USD

Item	Line No.	2020
1. Current account	1	**2,740**
Credit	2	30,117
Debit	3	-27,377
1.A Goods and services	4	**3,697**
Credit	5	27,324
Debit	6	-23,627
1.A.a Goods	7	**5,150**
Credit	8	24,972
Debit	9	-19,822
1.A.b Services	10	**-1,453**
Credit	11	2,352
Debit	12	-3,805

1.A.b.1 Manufacturing services on physical inputs owned by others	13	**127**
Credit	14	132
Debit	15	-5
1.A.b.2 Maintenance and repair services n.i.e	16	**43**
Credit	17	77
Debit	18	-34
1.A.b.3 Transport	19	**-381**
Credit	20	566
Debit	21	-947
1.A.b.4 Travel	22	**-1,163**
Credit	23	142
Debit	24	-1,305
1.A.b.5 Construction	25	**46**
Credit	26	126
Debit	27	-81
1.A.b.6 Insurance and pension services	28	**-70**
Credit	29	54
Debit	30	-123
1.A.b.7 Financial services	31	**10**
Credit	32	43
Debit	33	-33
1.A.b.8 Charges for the use of intellectual property	34	**-292**
Credit	35	86
Debit	36	-378
1.A.b.9 Telecommunications, computer, and information services	37	**59**
Credit	38	389
Debit	39	-330
1.A.b.10 Other business services	40	**198**
Credit	41	702
Debit	42	-504
1.A.b.11 Personal, cultural, and recreational services	43	**-20**
Credit	44	10
Debit	45	-30
1.A.b.12 Government goods and services n.i.e	46	**-11**
Credit	47	25
Debit	48	-36
1.B Primary income	49	**-1,052**
Credit	50	2,417
Debit	51	-3,469
1.B.1 Compensation of employees	52	**4**

Credit	53	147
Debit	54	-144
1.B.2 Investment income	55	**-1,071**
Credit	56	2,244
Debit	57	-3,315
1.B.3 Other primary income	58	**16**
Credit	59	26
Debit	60	-10
1.C Secondary income	61	**95**
Credit	62	376
Debit	63	-281
1.C.1 Personal transfers	64	4
Credit	65	42
Debit	66	-38
1.C.2 Other secondary income	67	91
Credit	68	334
Debit	69	-244
2. Capital and financial account	70	**-1,058**
2.1 Capital account	71	**-1**
Credit	72	2
Debit	73	-2
2.2 Financial account	74	**-1,058**
Assets	75	-6,263
Liabilities	76	5,206
2.2.1 Financial account excluding reserve assets	77	**-778**
Financial assets excluding reserve assets	78	-5,983
Liabilities	79	5,206
2.2.1.1 Direct investment	80	**1,026**
2.2.1.1.1 Assets	81	**-1,099**
2.2.1.1.1.1 Equity and investment fund shares	82	-836
2.2.1.1.1.2 Debt instruments	83	-263
2.2.1.1.1.a Financial sector	84	-200
2.2.1.1.1.1.a Equity and investment fund shares	85	-215
2.2.1.1.1.2.a Debt instruments	86	14
2.2.1.1.1.b Non-financial sector	87	-899
2.2.1.1.1.1.b Equity and investment fund shares	88	-622
2.2.1.1.1.2.b Debt instruments	89	-277
2.2.1.1.2 Liabilities	90	**2,125**
2.2.1.1.2.1 Equity and investment fund shares	91	1,700
2.2.1.1.2.2 Debt instruments	92	425

2.2.1.1.2.a Financial sector	93	200
2.2.1.1.2.1.a Equity and investment fund shares	94	123
2.2.1.1.2.2.a Debt instruments	95	76
2.2.1.1.2.b Non-financial sector	96	1,925
2.2.1.1.2.1.b Equity and investment fund shares	97	1,577
2.2.1.1.2.2.b Debt instruments	98	348
2.2.1.2 Portfolio investment	99	**873**
2.2.1.2.1 Assets	100	**-1,673**
2.2.1.2.1.1 Equity and investment fund shares	101	-1,310
2.2.1.2.1.2 Debt securities	102	-363
2.2.1.2.2 Liabilities	103	**2,547**
2.2.1.2.2.1 Equity and investment fund shares	104	641
2.2.1.2.2.2 Debt securities	105	1,905
2.2.1.3 Financial derivatives (other than reserves) and employee stock options	106	**-114**
2.2.1.3.1 Assets	107	-69
2.2.1.3.2 Liabilities	108	-45
2.2.1.4 Other investment	109	**-2,562**
2.2.1.4.1 Assets	110	**-3,142**
2.2.1.4.1.1 Other equity	111	-5
2.2.1.4.1.2 Currency and deposits	112	-1,304
2.2.1.4.1.3 Loans	113	-1,282
2.2.1.4.1.4 Insurance, pension, and standardized guarantee schemes	114	-33
2.2.1.4.1.5 Trade credit and advances	115	-369
2.2.1.4.1.6 Other accounts receivable	116	-149
2.2.1.4.2 Liabilities	117	**579**
2.2.1.4.2.1 Other equity	118	0
2.2.1.4.2.2 Currency and deposits	119	774
2.2.1.4.2.3 Loans	120	-354
2.2.1.4.2.4 Insurance, pension, and standardized guarantee schemes	121	33
2.2.1.4.2.5 Trade credit and advances	122	76
2.2.1.4.2.6 Other accounts payable	123	51
2.2.1.4.2.7 Special drawing rights	124	0
2.2.2 Reserve assets	125	**-280**
2.2.2.1 Monetary gold	126	0
2.2.2.2 Special drawing rights	127	1
2.2.2.3 Reserve position in the IMF	128	-19
2.2.2.4 Foreign exchange reserves	129	-262
2.2.2.5 Other reserve assets	130	0
3.Net errors and omissions	131	**-1,681**

Notes:

1. This chart was compiled according to the Balance of Payments Manual (Sixth Edition) , statistics all economic transactions between Chinese residents and non residents. Chinese residents follow the principle of economic entity, excluding institutions and individuals in Hong Kong, Macao and Taiwan. Therefore, the trade and investment exchanges between the above three regions and China belong to overseas transactions with China.

2. In the financial account, a positive value for assets indicates a net decrease, whereas a negative value indicates a net increase. A positive value for liabilities indicates a net increase, whereas a negative value indicates a net decrease.

3. This chart is based on rounding principles.

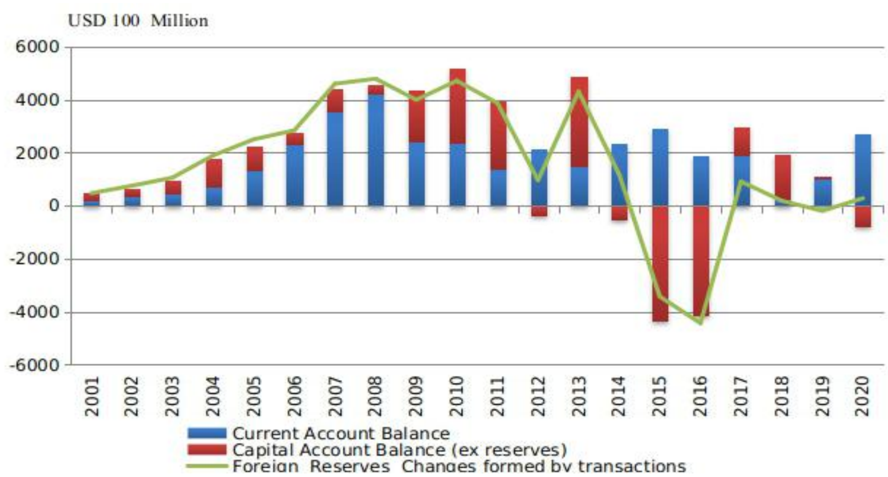
Source: SAFE.

(III) Evaluation of the Balance of Payments

Supported by the stable recovery of the domestic economy, the balance of payments remained in a basic equilibrium. In 2020, the COVID-19 epidemic spread throughout the world, seriously impacting the global economy and international trade.The epidemic was brought under control effectively in China, the policies and measures for ensuring stability in international trade and foreign investmentswere actively promoted, andeconomic development recovered steadily, which effectively promoted a basic equilibrium in the balance of payments. China's current account surplus increased and continued to be within a reasonable equilibrium range. Non-reserve financial accounts recorded a deficit, and there were both inflows and outflows of cross-border capital. The scale of foreign-exchange reserves was stable at about USD 3.2 trillion, and fluctuations weremainly affected by changes innon-transactional values, such as the exchange rates and the prices (see Chart1-7).

The current account surplus increased, butit continued to be within a reasonable range. In 2020, the current account recorded a surplus of USD 274 billion, accounting for 1.9 percent of GDP, up 1.1 percentage points. The balance remained within a reasonable equilibrium range.There was a small deficit in the first quarter,but itthenturned into a surplus after the second quarterand showed rapid growth. In particular, the surplus of trade in goods increased by 31 percent compared with that in 2019, showing a trend of “decreasing first and then increasing.” In the first quarter, the domestic outbreak of the epidemicaffected the production and supply of goods for export, and the surplus of trade in goods dropped significantly. From the second quarter to the fourth quarter, China took the lead in restoringproduction capacity and it filled the gap between global supply and demand. The export of epidemic prevention materials and "stay-at-home economy" products increased against the main trend, import costs were reduced due tofalling prices of international commodities, thus the surplus of trade in goods rebounded rapidly. The deficit in trade in services decreased by 44 percent mainly becausecross-border travel by residents was restricted and travel expenditures decreased significantly by 49 percent.

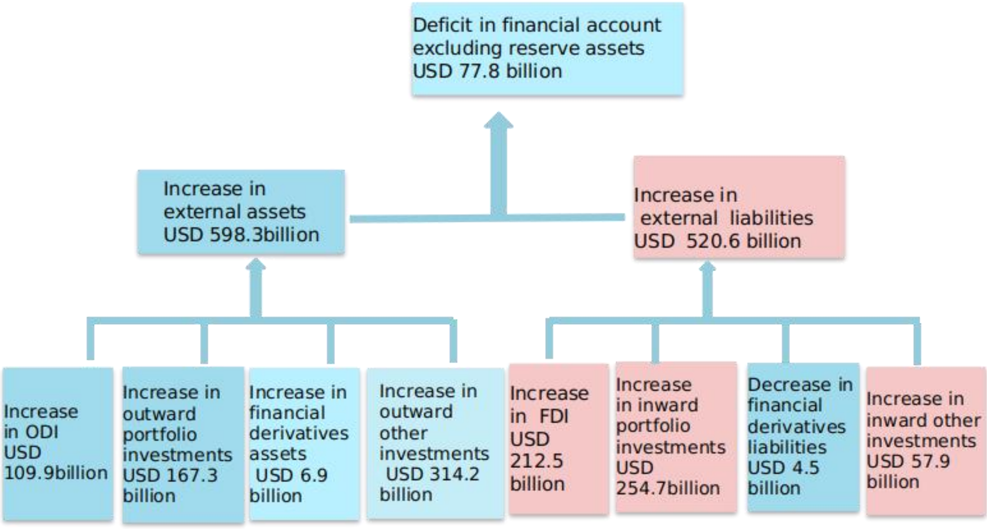
Chart 1-7 Structure of the BOP



Source: SAFE.

Cross-border two-way investments and financing were active. On the one hand, various types of foreign investments(mainly including direct investments, portfolio investments, and other investments) totaled USD 520.6 billion, an increase of 81percent over 2019.In particular,foreign direct investmentsincreased by 14 percent, reflectingthe steady recovery of the Chinese economy, the continuous improvementin the business environment, and the long-term attraction of the Chinese market to foreign investmentsdespite the impact of the epidemic. With steady progress in the opening of the financial market, Chinese bonds were gradually included in the major global bond indexes, RMB assets were more popular, and domestic bonds held by foreign investors grew rapidly. Due to the influence of the above factors, foreign portfolio investments increased by 73 percent in 2020.On the other hand, China's outward foreign investments were USD 598.3 billion, an increase of 1.1 times.In particular, outward direct investments decreased by 20 percent but they steadied during the second half of 2020. Outward portfolio investments increased by 87 percent, showing that the demand for diversified allocations of overseas assets by domestic entities was effectively satisfied with the constant expansion of overseas investment channels. Outward other investments, including loans, trade credits, and deposits, totaled USD 314.2 billion, thus playing a role in balancing cross-border capital inflows (see Chart1-8).

Chart 1-8   Structure of China's Cross-Border Capital Flows in 2020



Source: SAFE.

Box 1

China's current account remained stable despite the impact of the global spread of the epidemic

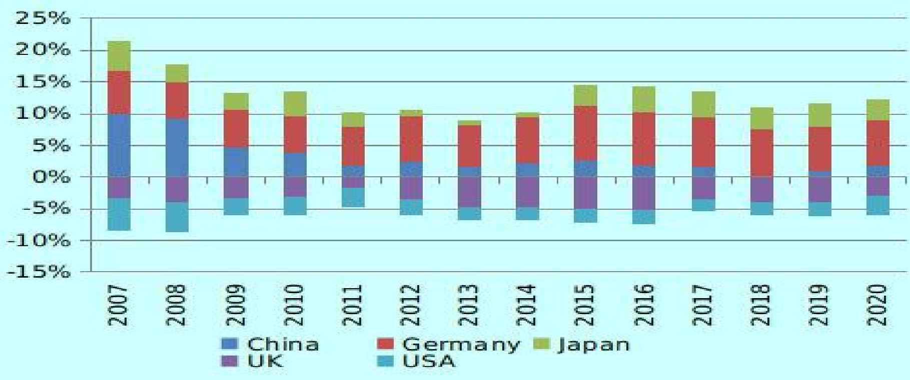
In 2020, the COVID-19 epidemic spread throughout the world, affecting manufacturing activities in the developed countries . China took the lead in restoring capacityand its surplus in the current account increased against the main trend and showed strong stability, reflecting the effect of optimization of the trade structure and diversification of the export market.In terms of relative scale, the ratio of China's current account surplus to GDP was 1.9 percent, which continued to be within a reasonable equilibrium range. In the future, with the gradual recovery of global economic and trade activities and the continuous optimization of the domestic economic structure, the basis for maintaining the current account balance will be further consolidated.

1.The epidemic had different effects on the surplus in the current account in the major countries

In 2020, China's current account surplus increased against the main trend, and it was relatively stable. In recent years, the current account surpluse sanddeficits have been concentrated in several countries. The United States, Britain, Canada, France, and other developed countries are the main current account deficit countries, while Germany, Japan, and China are the main surplus countries.In 2020, China's current account surplus posted USD 274 billion, 1.7 times higher than that in 2019, with the surplus in trade in goods increasing by 31 percent.The surplus in Germany's current account was USD 267.4 billion, 8 percent lower than that in 2019, with the surplus in trade in goods decreasing by 13 percent. Japan's current account surplus recorded USD 166.7 billion, narrowing by 11percent (see Chart C1-1).

The ratio of China's current account surplus to GDP was still within a reasonable range and lower than that in the other major countries with a current account surplus. In recent years,China’s current account surplus has gradually moved from a relatively high scale to a basic balance, withits ratio to GDP decreasing from 9.9 percent in 2007 to about 1 percent in 2019 andreflectinga reasonable optimization of the domestic economic structure and making a positive contribution to a rebalancing of the global economy.In 2020, the ratio of China's current account surplus to GDP rose slightly to 1.9percent, which was still lower than that of Germany (7.0 percent), South Korea (4.6 percent), Italy (3.6 percent), Japan (3.3 percent), Russia (2.2 percent), and the other major surplus countries, indicating that the internal foundation for an equilibrium in China's current account is still solid.

Chart C1-1 Annual change in the ratio of the current account balance to GDP in the major countries



Note: Data for the United States and the United Kingdom in 2020 arefrom the first three quarters.

Sources: IMF, CEIC.

2.Differences in the trade structure and the export markets determined the major

countries’ different current account surpluses.

China took the lead in resuming work and productionand effectively filled the gap between global supply and demand. In February 2020, the purchasing manager index (PMI) of China's manufacturing industry dropped briefly, but since March it was running above the midpoint of 50. At the same time, the spread of the global epidemic affected foreign production and economic activities. The PMI in Japan and Germany declined in March but gradually recovered in August and September.China had the advantage of time for leading the recovery of production and supply capacity, thus some foreign trade orders were transferred to China. In 2020, the export of goods from Germany and Japan fell by 9 percent and 11percent, respectively, while China's exportsgrew against the trend by 4percent.

China has a complete range of export commodities and a complete industrial chain, and there is strong resistance to shocks. From the perspective of the structure of export commodities, basic necessities such as computers, mobile phones, textiles and clothing, furniture and household appliances account for nearly 40 percent of China's total exports. This structure is consistent with the rising demand for global epidemic prevention materials and “stay-at-home economy" products against the background of the epidemic. The export of related commodities increased by 9 percent in 2020, which was the main factor driving the increase in exports.At the same time, in recent years, China’s exports of electromechanical, electronic, and high-tech products have also increased steadily, which fully demonstrates the complete range of domestic industries and strong resilience and stability. In contrast, global demand for major export commodities, such as automobiles and machinery from Germany and Japan,has been shrinking, and production dependent on global industrial support has been greatly affected by the epidemic.

China's export market is more diversified, which can better disperse the impact of changes in the external environment. China's top three export markets are the United States, the European Union, and ASEAN. In 2020, the proportions of related exports in China's total exports were 17 percent, 15percent, and 15percent, respectively. Nearly 70 percent of Germany's exports are concentrated in France, the Netherlands, Italy, and other European countries, with the United States as its second largest export market accounting for about 10 percent.Affected by the global spread of the epidemic, in 2009 Germany's exports to the United States and Europe decreased by 14 percent and 9 percent, respectively. China's exports to the United States, the European Union, and ASEAN increased by 8 percent, 7 percent, and 7 percent, respectively.

In addition, restrictions on cross-border travel have had a more prominent impact on the narrowing of the deficit in China's trade in services. Travel is the most important deficit item in China’s trade in services. The travel deficitdropped from nearly USD 220 billion in 2019 to more than USD 110 billion in 2020, which had a significant impact on the increase in the current account surplus.Germany's travel deficit was relatively small, so the impact of relevant changes on its surplus in the current account was limited. Japan is a country with net travel income, and its cross-border travel restrictions reduced its travel income and lowered its current account surplus.

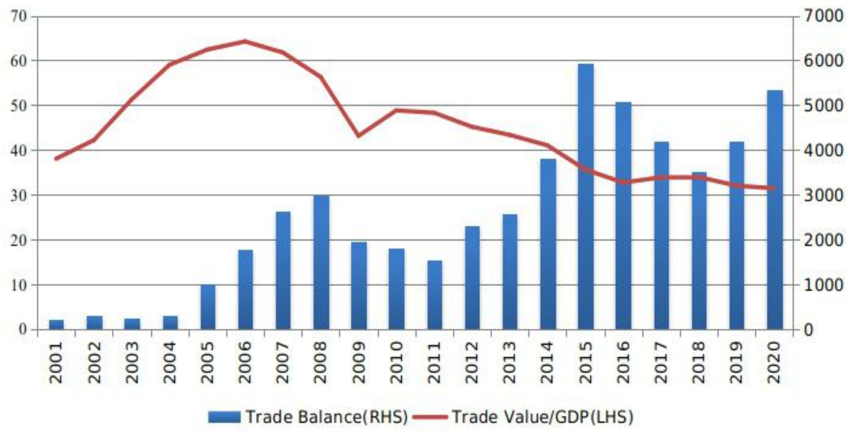
In the future, if the scope of overseas vaccinations is expanded and the effects areapparent, global production activities are gradually restored, and the world economy recovers smoothly, the international trade environment will be improved further. At the same time, China will continue to advance its economic restructuringand accelerate the construction of a new development pattern. Therefore,the foundation for the reasonable operation of China's current account will be consolidated.

II. Analysis of the Major Items in the Balance of Payments

(I) Trade in Goods

Exports and imports of trade in goods showed strong resilience, and the surplus increased. In 2020, affected by the spread of the Covid-19 epidemic, global trade entered a downturn. According to the latest statistics of the World Trade Organization (WTO), exports and importsof global trade in goods in the first three quarters fell by 11 percent yearonyear. China’s total foreign trade and China’s surplus have both increased, showing strong resilience. According to customs statistics, in 2020 China’sexports and importstotaled USD 4.6 trillion, an increase of 2 percent year on year. The trade surplus reached USD 533.7 billion, an increase of 27 percent year on year. On a quarterly basis,the trade surplus declined in the first quarter, when the outbreak of the Covid-19 epidemicaffected production by China enterprises; from the second to fourth quarters, when work and production resumed in China, the trade surplus began to grow again, filling the gap between global supply and demand. In 2020, China’s dependence on foreign trade (the ratio of foreign trade to GDP) was 31 percent, a slight decrease of 0.6 percentage point from 2019 (see Chart 2-1).

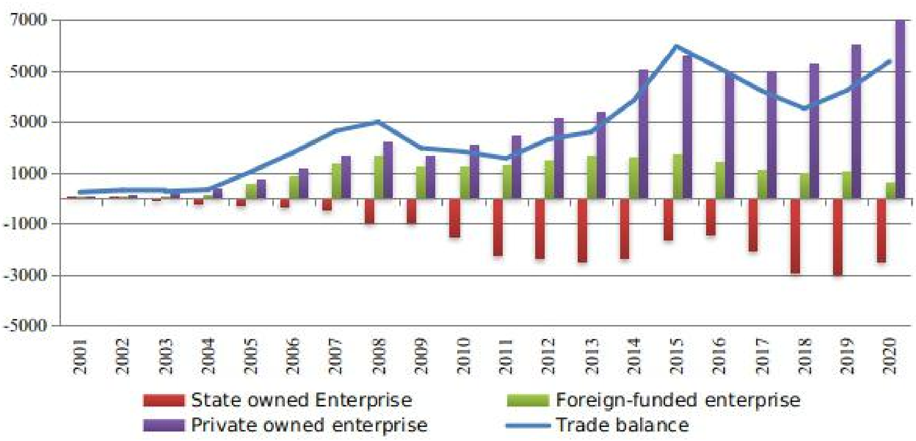
Chart 2-1 The Balance of Trade in Goods and Dependence onForeign Trade



Sources: General Administration of Customs, National Bureau of Statistics.

The share of foreign trade by private enterprises increased, and the position of private enterprisesas the largest foreign trade contributor was strengthened. In 2020, exports and imports of goods by private enterprises totaled USD 2.0992 trillion, up 12 percentyear on year, accounting for 45 percent of total foreign trade, up 4 percentage points compared with 2019. Exports and importsby foreign-invested enterprises totaled USD 1.7976 trillion, accounting for 39 percent of total foreign trade. Exports and imports of goodsby state-owned enterprises totaled USD 665.7 billion, accounting for 14 percent of total foreign trade. In terms of the balance, the trade deficit of state-owned enterprises was USD 250.8 billion, a decrease of 17 percent; the trade surplus of foreign-invested enterprises and private enterprises amounted to USD 67 billion and USD 702.6 billion, respectively (see Chart 2-2).

Chart 2-2 The Balance of Trade in Goods in Terms of Contributors

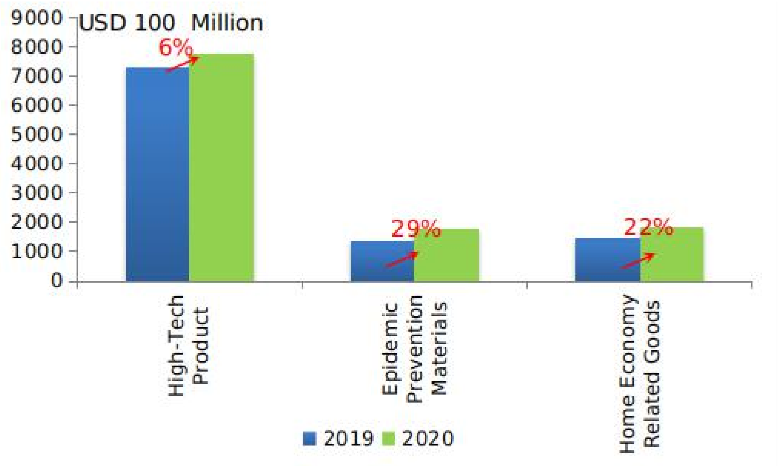


Source: General Administration of Customs.

The export structure was improved, with rapid growth in high-tech products and epidemic-prevention products. In 2020, China showed strong competitiveness in high-value-added products.Export of high-tech products reached USD 776.7 billion, an increase of 6 percentyear on year, 2.6 percentage points higher than the growth rate of total exports and accounting for 30 percent of total exports (see Chart 2-3). Exports of epidemic-prevention products increased rapidly, among which the export of textiles, including face masks, was up 29 percent year on year.Exports of pharmaceuticalitems and medicines increased by 27 percent, reflecting China's success in curbing the epidemic domestically as well as China's contribution to maintaining security in global public health. In addition, exports of household appliances and laptop computers increased by 24 percent and 20 percent, respectively, reflecting the increase in overseas demand for commodities related to a "home-bound economy."

China's foreign trademarket continued to be more diversified. Trade with ASEAN and Africa increased. In terms of exports and imports, in the fourth quarter of 2019ASEAN surpassed the European Union and the United States, becoming China's largest trade partner. In 2020, China's exports and imports of goods to ASEAN totaled USD 686.5 billion, accounting for 15 percent of China's total foreign trade, up 0.8 percentage point from 2019 (see Chart 2-4). From the perspective of net exports, China maintained a surplus with its top three trade partners in 2020. The surpluses with the United States, the European Union, and ASEAN reached USD 317.1 billion, USD 133.3 billion, and USD 83.8 billion,respectively, accounting for 59 percent, 25 percent, and 16 percent, respectively, of China's total trade surplus. At the same time, China's trade surplus with Africa grew rapidly. In 2020, the surplus with Africa reached USD 41.5 billion, an increase of 1.3 times year on year; China'strade surplus with the "Belt and Road" economies reached approximately USD 220.6 billion, an increase of 17 percent.

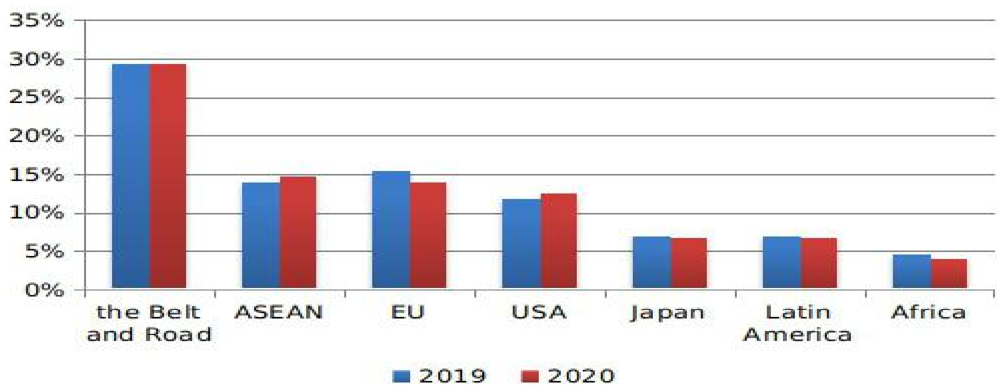
Chart 2-3 Growth in Exports of High-tech and Anti-epidemic Products



Note: 1. "High-tech commodities" in the chart are specific classifications in the customs major commodity export database, including nine categories of commodities such as biotechnology, bioscience technology, and optoelectronic technology. Related anti-epidemic materials products are the total of the two categories of "textile yarn products" and "medical materials and medicines" in the major commodity export warehouse; related "home-bound economy" products arecommodities under "household appliances," "laptops," and "tablet computers." 2. The figure marked by a red arrow on the chart is the year-on-year growth rate.

Source: General Administration of Customs.

Chart 2-4 The Ratio of Exports and Imports between China and its Major Trade Partners



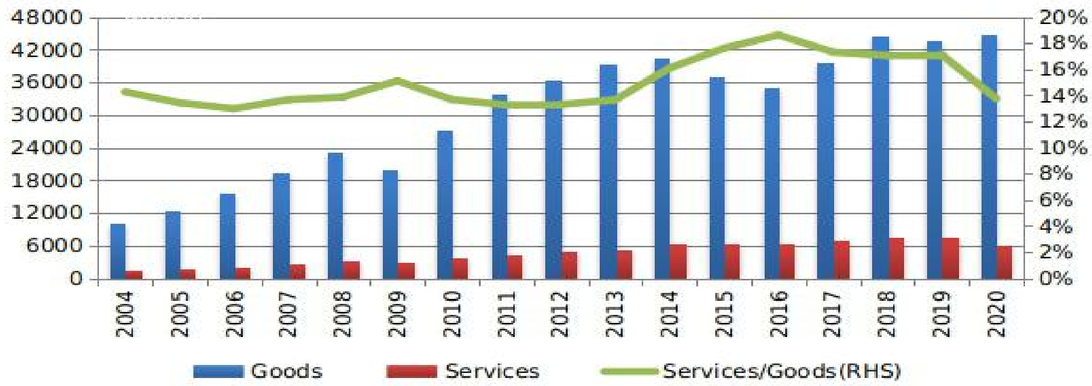
Note: 1. The ratio in the chart is calculated in USD. 2. The countries along the “Belt and Road” cover 64 countries, including India, Russia, and Malaysia, overlapping with ASEAN and other regional countries.

Source: General Administration of Customs.

(II) Trade in Services

Affected by the Covid-19 epidemic, the total volume of trade in services decreased. In 2020, China's trade in services totaled USD 615.7 billion, a decrease of 18 percent year on year, and the ratio of trade in services to trade in goods was 14 percent (see Chart 2-5). In the context of the global combat against the epidemic and the border controls among the various economies, China’s revenue and expenditures from travel fell by 50 percent year on year. Revenue and expenditures from transportation and other commercial services were basically the same as those in 2019. Revenue and expenditures from computer-related services and the use of intellectual property increased 16 percent and 13 percent year on year, respectively.

Chart 2-5 Comparison of theTotal Volume of Trade in Goods and Trade in Services

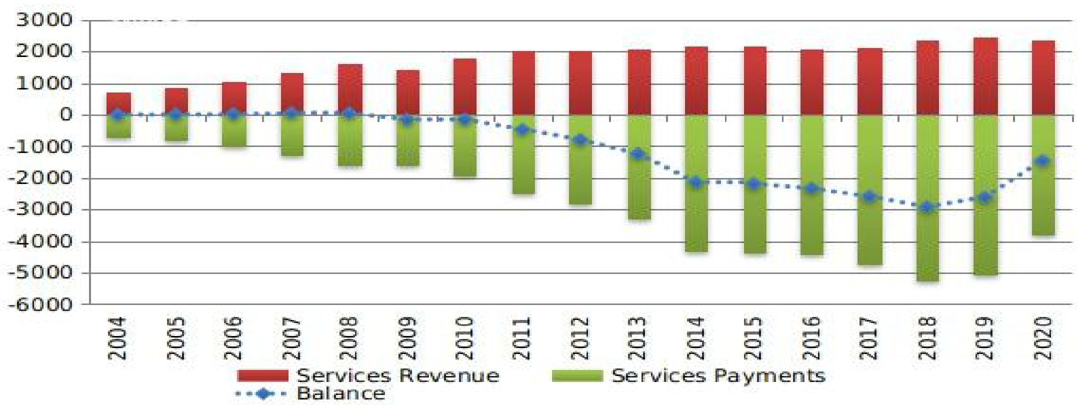


Source: State Administration of Foreign Exchange.

Revenue from trade in services declined slightly. In 2020, revenue from trade in services was USD 235.2 billion, down 4 percent from 2019 (see Chart 2-6). Among the major items, revenue from other business services, such as consultancies and technical-related services, amounted to USD 70.2 billion, up 1 percent year on year and accounting for 30 percent of total revenue.Affected by price factors, revenue from transportation amounted to USD 56.6 billion, up 23 percent year on year and accounting for 24 percent of total revenue.Revenue from telecommunications and computer and information services amounted to USD 38.9 billion, up 11 percent year on year and accounting for 17 percent of total revenue.

Expenditures for trade in services declined sharply. In 2020, expenditures for trade in services were USD 380.5 billion, down 25 percent year on year. Among the major items, travel recorded expenditures of USD 130.5 billion, down 49 percent year on year and accounting for 34 percent of total expenditures. Transportation recorded expenditures of USD 94.7 billion, down 10 percent year on year and accounting for 25 percent of total expenditures. Other businesses, such as consultancies and technical-related services, recorded expenditures of USD 50.4 billion, approximately the same amount as that in 2019 and accounting for 13 percent of total expenditures.

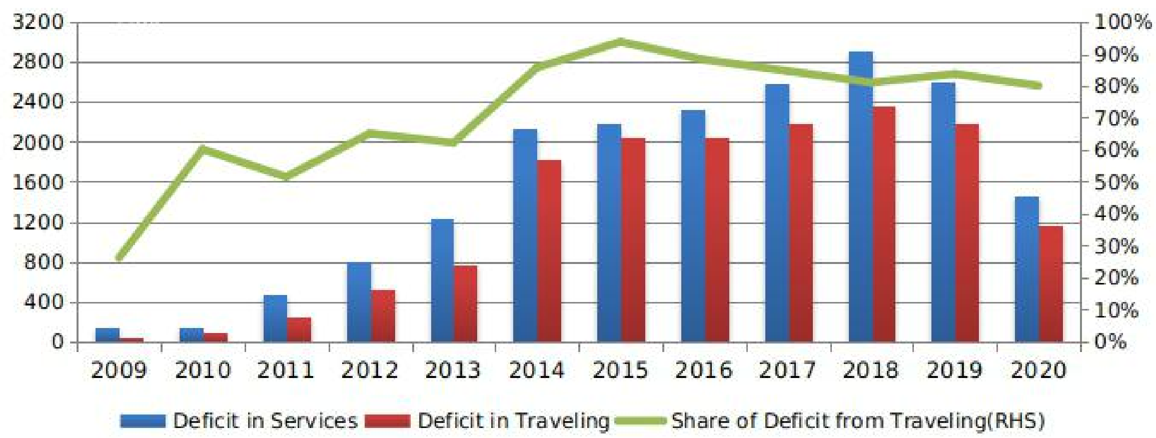
Chart 2-6 Revenue and Expenditures of Trade in Services



Source: State Administration of Foreign Exchange.

The trade-in-service deficit narrowed. In 2020, the deficit in trade in services was USD 145.3 billion, down 44 percent year on year. Travel continued to be the main source of the deficit (see Chart 2-7). The travel deficit amounted to USD 116.3 billion, down 47 percent year on year. Transportation and the use of intellectual property were the second and third largest deficit items under trade in services, respectively. The transportation deficit amounted to USD 38.1 billion, down 35 percent year on year, due to the decrease in transportation expendituresas imports of goods declined as well as due to the increase in transportation revenue when exports improved and container freight increased. Use of intellectual property recorded a deficit of USD 29.2 billion, up 5 percent, mainly due to the increase in expenditures.

Chart 2-7 The Contribution of Travel to the Deficit inTrade in Services

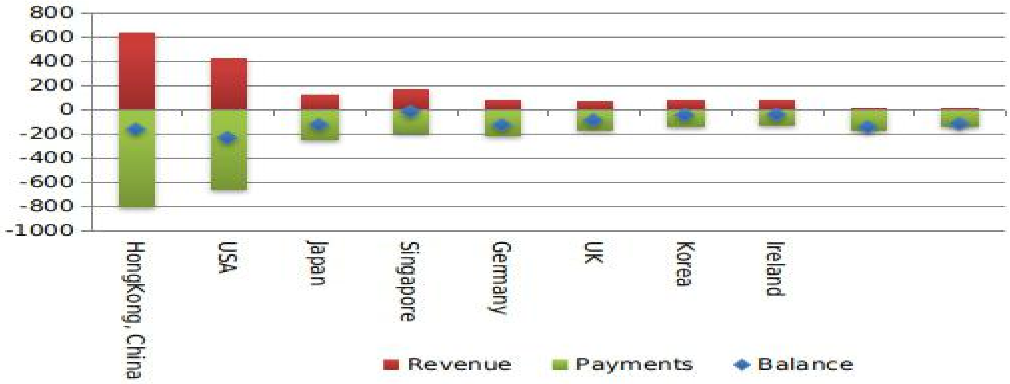


Source: State Administration of Foreign Exchange.

China's trade partners continued to be highly concentrated and stable. In 2020, China's top ten partners in terms of trade in services were Hong Kong SAR, the United States, Japan, Singapore, Germany, the United Kingdom, South Korea, Ireland, Canada, and Australia, which were basically the same as those in

2019. Trade with these partners totaled USD 460.7 billion, accounting for 75 percent of China’s trade in services. China posted deficits with these top ten trade partners. With the exception of Ireland, China’s deficits with the nine other trade partners were generally narrowing (see Chart 2-8).

Chart 2-8 China’ sTrade in Services in Terms of Trade Partners in 2020



Source: State Administration of Foreign Exchange.

Box 2

International Comparative Analysis of Producer and Consumer Services

The "14th Five-year Plan" points out that the development of modern service industries will be accelerated, the producer service industry will be promoted in the direction of specialization and the high-end value chain, and the consumer service industry will be upgraded in the direction of high quality and diversification. In recent years, China’s service industry has developed rapidly.Revenue and expenditures of trade in services rank among the top in the world, and development of producer services has accelerated. In the future, with the upgrading of information technology and the development of digital trade, China’s producer services, especially emerging producer services, will have great potential for development.

According to the classification of the National Bureau of Statistics, combined with the actual development of China’s service industry, services closely related to the manufacturing industry can be included in producer services, and services closely related to residents' consumption can be included in consumer services. In addition, according to capital, technological content, and added value, producer services are divided into traditional producer services and emerging producer services (see Table C2-1).

Table C2-1 Correspondence between Producer and ConsumerService Industries and International Balance of Payments Transactions

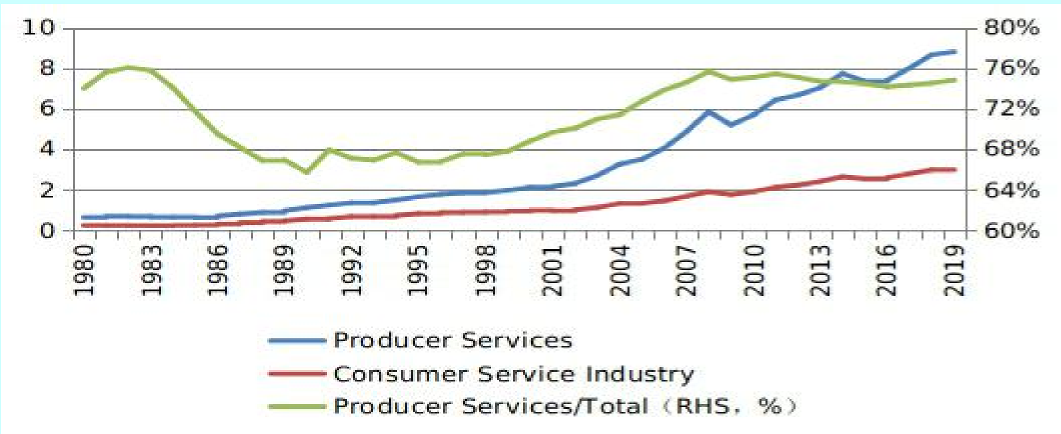
Producer Services	Processing services; transportation services; construction; insurance services; financial services;telecommunications, computer and information services; other business services; maintenance services n.i.e.;use of Intellectual property; government services n.i.e.
Traditional producer services	Processing services; transportation services; construction; maintenance services, n.i.e.; government services n.i.e.
Emerging Producer Service Industry	Insurance services; financial services; telecommunications, computer and information services;other business services; use of intellectual property
Consumer Service Industry	Travel; cultural and entertainment services

1. Development of global trade in producer and consumer services

Global trade in servicesisdominated by producer services, with the proportion of trade ofemerging producer services continuing to increase. In recent years, driven by the rapid development of high-tech and globalization policies, the proportion of trade in producer services has steadily increased, gradually stabilizing at around 75 percent (see Chart C2-1). With the transformation and upgrading of information technology, producer services have shifted from being resource-andlabor-intensive to being knowledge-and technology-intensive. From 1980 to 2019, the proportion of global revenue and expendituresfor emerging producer services in the total trade in services increased from 27 percent to 50 percent, and the proportion of total trade in traditional producer servicesin the total trade in services decreased from 47 percent to 25 percent.

Chart C2-1 The Total Volume of Global Trade in Producer and ConsumerServices

(unit: USD trillion)



Source: World Trade Organization (WTO).

Trade in producer services in the developed countries accounts for a relatively high proportion of the total trade in services, with an average above 70 percent. On the whole, the evolution of the service trade structure in the United States, Germany, and Japan has been basically the same. Economic development and technological change have promoted an increase in the proportion of the revenue and expenditures of the producer services trade, gradually stabilizing at more than 70 percent over the past decade.In the United States, trade in producer services has dominated with relatively small fluctuations. Since 2002, this proportion has remained stable at around 75 percent. With the rapid development of a modern information technology industry, emerging trade in producer services has accounted for a larger proportion of the total trade in services, reaching 55 percent in 2019. The balance of trade in producer services in Germany has steadily increased, gradually becoming the engine for development. From 1980 to 2019, the proportion of the balance in producer services increased from 66 percent to 80 percent, among which the proportion of trade in emerging producer services increased from 25 percent to 53 percent. The proportion of revenue and expenditures of Japan's producer services trade first declinedbut thenrose, it remained above 80 percent: the proportion of consumer services trade continued to increase in the 1980s. In the 21st century, with the decline in population and the development of industrialization and information technology, the proportion of producer services trade in Japan has continued to increase, accounting for approximately 85 percent of total services trade in recent years.

2. The evolution of China's trade in producer and consumer services

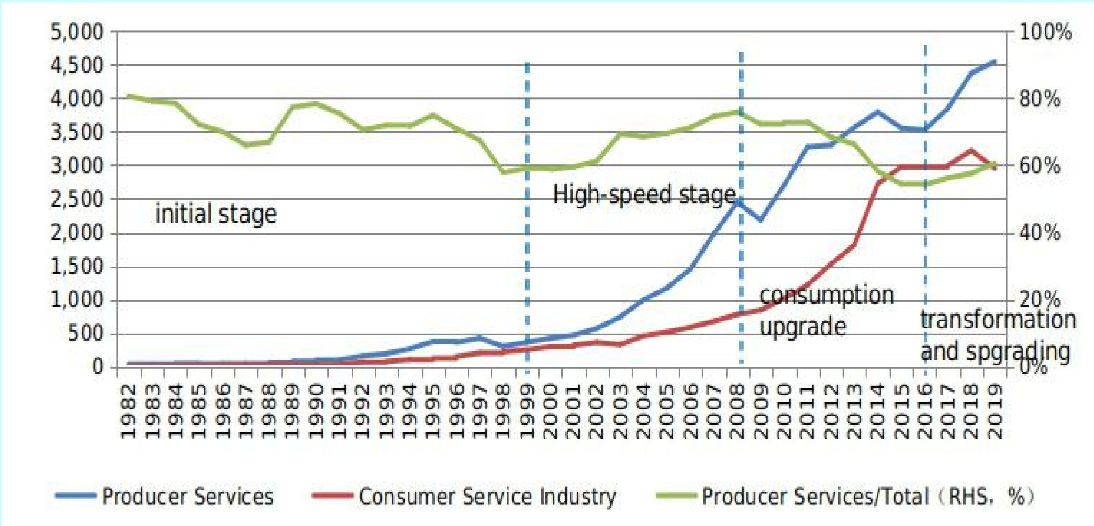
Before 2016, the proportion of China's trade in producer services showed a fluctuating downward trend. In the 1980s and 1990s, due to China's relatively weak economic and social industrial foundation, trade in services was constrained, small in scale, and fluctuatingstructurally. From 1982 to 1999, the revenue and expendituresof China'strade in services increased from USD 4.7 billion to USD 61 billion. Since 2000, China's openness to the outside world has increased, and development of trade in producer services has accelerated. In 2008, the revenue and expenditures of trade in producer services accounted for 76 percent, of its peak in recent years. Since then, the proportion of revenue and expenditures in China's trade in producer services has declined, down to 54 percent of total services trade in 2016. Trade in consumer services, especially expenditures, increased rapidly, mainly due to the increase in income and consumption levels of Chinese residents and the increase in expenditures related to the rapid increase in outbound travel and overseas study (see Chart C2-2).

In recent years, the proportion of China’s producer services in its total services tradehas steadily increased. Since 2016, with the changesin information technology and industrial transformation and upgrading, China’s trade in producer services continued to develop, and its proportion gradually increased. The proportion was 61 percent in 2019, an increase of 7 percentage points from 2016. The revenue and expenditures of trade in consumer servicestended to be stable (see Chart C2-2). Currently, although the proportion of China’s producer servicesin total services is still below global levels, the increase in the proportion in recent years is similar to the trend in Japan in the 1980s and Germany in the 1990s, an inevitable result of economic development.

China’s emerging producer services havedeveloped rapidly and have great potential. In 2019, revenue and expendituresof China’s emerging producer services accounted for 33 percent of total trade in services, while the proportion in the United States, Germany, and Japan accounted for 55 percent, 53 percent, and 60 percent, respectively. With the upgrading of information technology and the development of digital trade, China's emerging producer services have a bright future. In the past ten years, the average annual growth rate of revenue and expenditures of China’s emerging producer servicesreached 8 percent. Among this, the average annual growth rates of revenue and expenditures of computer services and the use of intellectual property were 17 percent and 13 percent, respectively, while the rates in the United States, Germany, and Japan were 4.6 percent, 5.5 percent, and 6.6 percent.

Chart C2-2 The Evolution of China’ sTrade in Producer and ConsumerServices

(unit: USD 100 million)



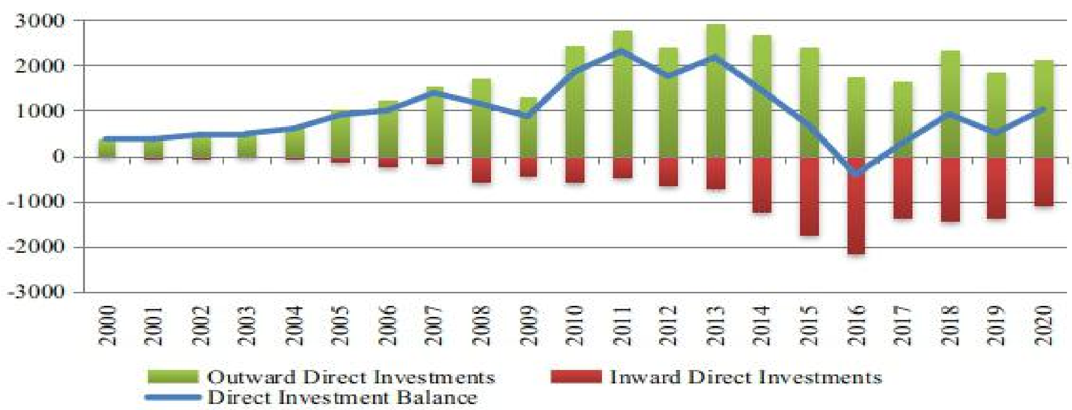
Source: World Trade Organization (WTO).

With the acceleration in the construction of a new development pattern, China will optimize and upgradeits entire industrial chain, use technological innovation to enhance the international competitiveness of its producer services industry, and support the high-quality development of its modern services industries during the "14th Five-year Plan" period.

(III) Direct Investments

Net inflows of direct investments continued.[4] In 2020, net inflows of direct investments in China's balance of payments totaled USD 102.6 billion (see Chart 2-9), double that in 2019.

Chart 2-9 China's Direct Investments



Source: State Administration of Foreign Exchange.

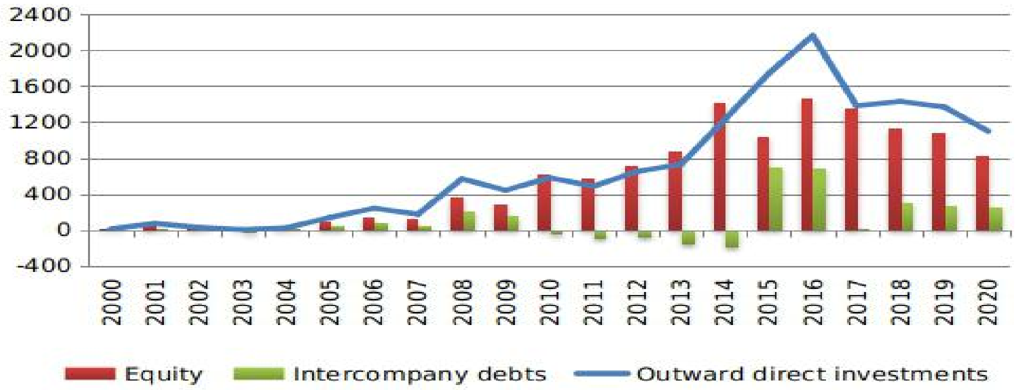
Outward direct investments (ODI) declined. In 2020, China's ODI (net increase in direct-investment assets[5]) reached USD 109.9 billion, a decrease of 20 percent year on year (see Chart 2-10). The main reason is that in the first half of the year, due to the rapid spread of the epidemic from overseas, China's ODI

[4] The net flow of direct investments refers to the gap between the net increase in direct-investment assets (net outflow of funds)and the net increase in direct-investment liabilities (net inflow of funds). When the net increase in direct-investment assets is more than the net increase in direct-investment liabilities, a net outflow is recorded, and vice versa.

[5] A major component of direct-investment assets is outward direct investments. In addition, reverse investments by domestic foreign-funded enterprises to their parent companies are included. The net increase in direct-investment asset transactions, which is negative in the balance-of-payments statement, represents a net outflow.

was hindered,but it gradually recovered in the second half of the year.

Chart 2-10 China’s Direct-Investment Assets



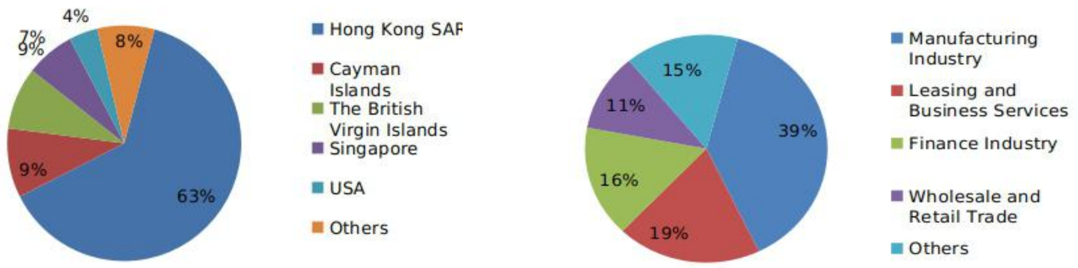
Source: State Administration of Foreign Exchange.

In terms of the composition of direct investments, equity investments constituted the major part, supplemented by loan assets. First, equity investmentsamounted to USD 83.6 billion, a decrease of 23 percent compared with equity investments in 2019. There was a year-on-year decrease of 35 percent in equity investments in the first half of the year and a narrowing of 10 percent in the second half of the year. Second, net outflows of loans to affiliates amounted to USD 26.3 billion, down 6 percent year on year. In the first half and second half of 2020, net outflows were USD 9 billion and US $17.3 billion, respectively, with cross-border lending and investments of domestic entities remaininggenerally stable.

In terms of sectors, outward direct investments by China's non-financial sector and financial sector "first dropped and then rose." First, direct-investment assets by the non-financial sector amounted to USD 89.9 billion, with a 25 percent decrease yearonyear, mainly due to a decrease in profit reinvestments. The first destination of "going out" by domestic enterprises was concentrated in

Hong Kong, China. Among the "going out" industries, manufacturing accounted for 39 percent, ranking first (see Chart 2-11). Direct investments by the financial sector reached USD 20 billion, an increase of 14 percent year on year, with nearly 60 percent coming from the banking sector.

Chart 2-11 Distribution of China's ODI by Non-Financial Sectors in 2020 (by Investment Destination and Domestic Industry)



Source: State Administration of Foreign Exchange.

Inward foreign direct investments in China increased. In 2020, net inflows of inward direct investments (net increase in liabilities[6]) in China reached USD 212.5 billion, with a year-on-year increase of 14 percent. According to a report by the United Nations Conference on Trade and Development, in 2020 China became the world's largest recipient of foreign investment. The domestic economy took the lead in recovering, and policy measures for "stabilizing foreign investments" were actively promoted, which played a role in stabilizing expectations and confidence in foreign investments.

In terms of the composition of inward foreign direct investments, both

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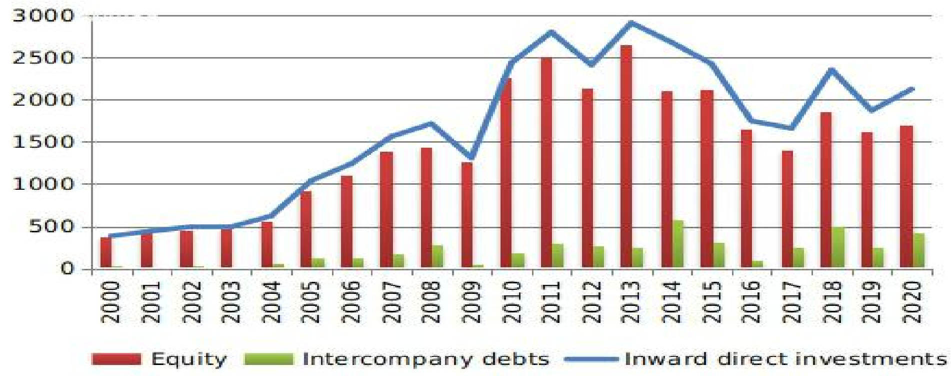
6 Direct-investment liabilities are mainly composed of foreign direct investments. This includes reverse investments to domestic parent companies by overseas subsidiaries. The net increase in direct-investment liability transactions, which is positive in the balance-of-payments statement, represents a net inflow.

equity investments and loans from foreign affiliates increased. First, net inflows of equity investments in China were USD 170 billion (see Chart 2-12), an increase of 5 percent year on year. Equity investments and earnings reinvestments in the form of capital increased. Against the background of first resuming work and production in China, the profitability of foreign-invested enterpriseswas generally good. Second, China received loans from foreign affiliates in the amount of USD 42.5 billion, an increase of 70 percent, mainly due to the net inflow of USD 28.7 billion in the second half of the year, a year-on-year increase of 1.2 times.

In terms of sectors, China's non-financial sectors absorbed USD 192.5 billion of direct investments in China, accounting for 90 percent of the net inflows of inward direct investments. Among these, leasing and commercial services absorbed the most foreign direct investments, accounting for 18 percent. The information technology services industry and the manufacturing industry were the second and the third non-financial sectors absorbing direct investments in China, accounting for 17 percent and 16 percent of inward direct investments in China, respectively. At the same time, the non-financial sectors in China mainly absorbed direct investments from Hong Kong, accounting for 80 percent, followed by Singapore and the Cayman Islands, which together accounted for 10 percent of direct investments in the non-financial sectors. The financial sectorabsorbed USD 20 billion of direct investments in China,an increase of 9 percent.

Chart 2-12 Direct-Investment Liabilities



Source: State Administration of Foreign Exchange.

(IV) PortfolioInvestments

Both inward and outward portfolio investments recorded historichighs. In 2020, net inflows of portfolio investments in Chinawere USD 87.3 billion.[7] Among these, net outflows of outward portfolio investments were USD 167.3 billion and net inflows of inward portfolio investments were USD 254.7 billion. Both recorded historichighs since balance-of-payments statistics first became available in 1982 (see Chart 2-13). Two-way cross-border flowsunder portfolio investments were active.

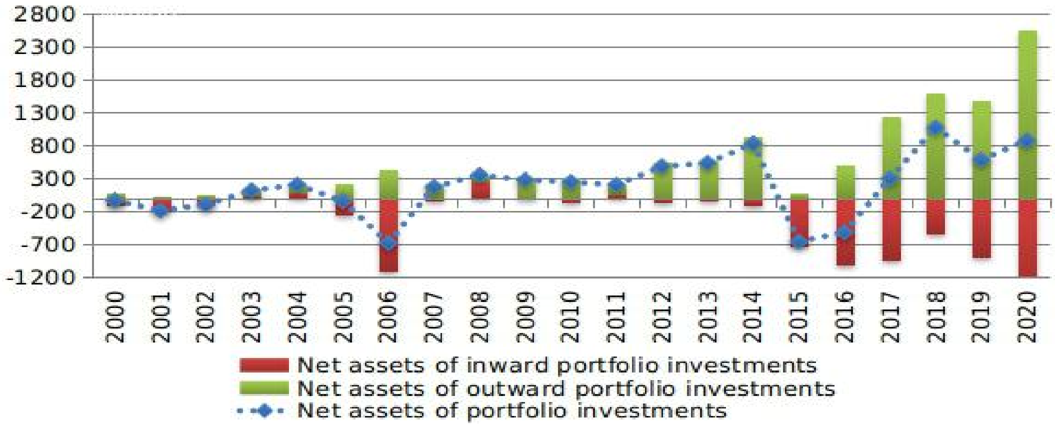
China's outward portfolio investments were mainly equity investments. In 2020, China's net outward portfolio investments (net increase in assets) were USD 167.3 billion, an increase of 87 percent year on year. Among these, equity investments were USD 131 billion, an increase of 3.5 times year on year. On a quarterly basis, although net outflows of outward portfolio investments fluctuated, the amount remained relatively highin each quarter, at USD 51.5

[7]Portfolio investments in China's balance of payments in 2020 were positive (net inflows), demonstrating that net inflows of inward portfolio investments in China were greater than net outflows of China'soutward portfolio investments.

billion, USD 23.6 billion, USD 35.7 billion, and USD 56.6 billion, respectively.

In terms of major channels for outward portfolio investments, first, China invested USD 86.6 billion in overseas equities via the Shanghai–Hong Kong Connectand the Mutual Recognition of Funds, an increase of 1.7 times yearonyear; second, domestic financial institutions invested USD 82.6 billion in overseas securities, an increase of 45 percent; third, outstanding acceptances of letters of credit by foreign banks increased by USD 200 million, a decrease of 22 percent. In addition, China reduced its holdings of domestically-issued panda bonds by USD 2.4 billion. China’s outward portfolio investments were mainly invested in the Hong Kong SAR. In 2020, the Hang Seng AH Premium Index remained at its highest level in the past ten years.Judging from indicators such as the price-earnings ratio and the price-to-book ratio,the Hong Kong stock market showsgreat value and attracts global investors to invest inits security markets.

Chart 2-13 Net Flows under Portfolio Investments



Note: Positive outward portfolio investments indicate a decrease in equity or bond outward investments, and vice versa. Positive inward portfolio investments indicate an increase in equity or bond inward investments, and vice versa.

Source: State Administration of Foreign Exchange.

Inward portfolio investments were dominated by bond investments. In 2020, China's inward portfolio investments (net increase in liabilities) recorded net inflows of USD 254.7 billion, up 73 percent year on year. Among these, net inflows in China's bonds were USD 190.5 billion, up 86 percent; net inflows in China's equities were USD 64.1 billion, up 43 percent. On a quarterly basis, in the first quarter inward portfolio investments recorded a net outflow of USD 1.7 billion due to the impact of the epidemic; from the second to the fourth quarter, inward portfolio investments recorded inflows at an increasing scale, with net inflows of USD 66 billion, USD 79.6 billion, and USD 110.8 billion, respectively.

In terms of the major channels for inward portfolio investments, first, foreign investors invested USD 179.2 billion in the domestic securities market, mainly via the Bond Connect, and made direct investments in the inter-bank bond markets, 1.2 times more than the direct investment in the inter-bank bond markets in 2019. The main investors wereforeign central banks, banks, etc. Second, non-residents purchased USD 38.9 billion in domestic-resident-issued overseas stocks and bonds, an increase of 74 percent. Third, investments via the Stock Connect were USD 30.6 billion, down 39 percent. Fourth, QFII and RQFII srecorded a total net inflow of USD 11.1 billion, while therehad been a net outflow of USD 2.9 billion in 2019. In addition, banks' acceptances under letters of credit recorded a net outflow of USD 5.1 billion, an increase of 50 percent.

Inward portfolio investments in the domestic market increased significantly, mainly because: first, China’s economic fundamentals were the first to recover. In 2020, China became the only major economy in the world to achieve positive economic growth. There were good expectations for foreign investments during China's medium- and long-term economic development. Second, China implemented a prudent monetary policy, and bond yields were relatively attractive among the major economies. Third, Chinapromoted a high-level two-way opening of the financial market, creating a good environment and conditions for domestic and foreign investors to invest across borders. As of the end of 2020, China’s bonds were officially included, or were announced to be included, in the indexes of the world’s three major bond index providers.

Box3

Acceleration of the Two-way Opening-up of China's Securities Market During the 13th Five-year Plan period

2020 was the closing year of the 13th Five-year Plan and the 30th year of the establishment and operation of China's capital market.During the 13th Five-year Plan period, as the SAFE conscientiously implemented the requirements of the Party Central Committee and the State Council for promoting the formation of a new pattern of comprehensive opening-up, the two-way opening-up of the securities market was significantly accelerated. In 2016, the “Shenzhen– Hong Kong stock connect” was officially opened. In 2017, a "bond connect" was officially launched. In 2018, the domestic futures market represented by crude oil futures began to open to the outside world, and A shares were included in the MSCI index. In 2019, the restrictions on QFII /RQFII investment quotas were cancelled, and the "Shanghai-London stock connect" was officially launched; In 2020, the QFII / RQFII investment scope was further expanded, the access requirements were relaxed, and the capital management requirements were clarified. At the same time, important progress was made in the inclusion of China's treasury bonds into the FTSE Russell WGBI index, and overseas red chip enterprises began to return to the mainland to be listed on the Science and Technology Innovation Board.

As **foreign capital continued flowing into the domestic securities market, the market value of domestic securities held by foreign investors increased steadily.** During the 13th Five-year Plan period, with further conveniences for foreign investors to participate in domestic securities investments, net inflows of foreign capital and the market value of domestic securities increased significantly. From 2016 to 2020, net purchases by foreign capital of domestic stocks and bonds reached USD 615 billion. Among these purchases, net purchases of A shares totaled USD 150.7 billion, mainly through the "Shanghai (Shenzhen)–Hong Kong stock connect" channel; Net purchases of domestic bonds amounted to USD 464.3 billion, mainly through the "bond connect" and inter-bank bond market channels. By the end of 2020, the market value of domestic bonds and stocks held by foreign investors registered at USD 1054.2 billion, 4.7 times the amount held by foreign investors at the end of 2015. Among thedomestic bonds and stocks held by foreign investors, the market value of domestic stocks was USD 542 billion, 5.3 times that in 2015, accounting for 5.3 percent of the total market value of A-shares, 3.8 percentage points higher than that at the end of 2015. The market value of domestic bonds was USD 512.2 billion, 4.2 times of that in 2015, accounting for 3 percent of the total market value of bonds in custody, 1.4 percentage points higher than that at the end of 2015.

As domestic investors entered the overseas markets, demand for overseas investments wasmet. Toactively support domestic investors to "go out" as well as to bring in foreign investors, during the 13th Five-year Plan period,a total of USD 26.8 billion of the QDII quota was issued by the SAFE, and the investment target shares of the "Shanghai–Hong Kong stock connect" was further expanded. As a result, investments in foreign securities by domestic investors increased steadily. From 2016 to 2020, domestic investors' net purchases in foreign securities reached USD 218.2billion. Among these purchases, net purchases of Hong Kong stocks through the "stock connect" were USD 203.9 billion, and net purchases of foreign securities through the QDII channelwere USD 14.3 billion. By the end of 2020, the market value of overseas securities held by domestic investors was USD 403.9 billion, 5.4 times that in 2015. Among the overseas securities, the market value of overseas securities held by the "stock connect" channel was USD 321.3 billion, 25.2 times that in 2015. The market value of overseas securities held by the QDII channel was USD 82.6 billion, 1.3 times that in 2015.

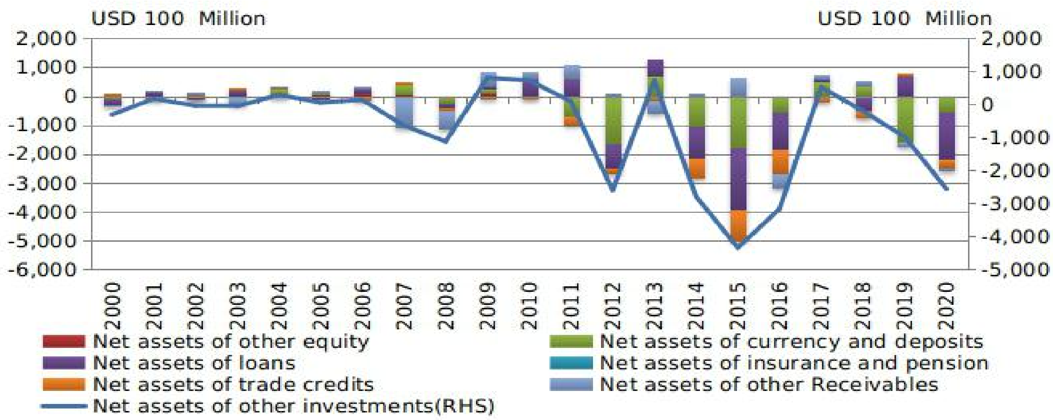
On the whole, during the 13th Five-year Plan period the two-way opening-up pattern of China's securities investments was further formed. On the one hand, "bringing in"was more convenient as the continuously improved level of liberalization and facilitation of investment and financing created a better institutional environment for foreign investments in China's financial market, On the other hand, "going out" was given more consideration, as the channels and supplies for domestic investors to carry out cross-border securities investments were broadened and the global asset allocation needs of domestic investors were effectively met. The current two-way opening-up pattern of securities investments is conducive to accelerating the construction of a new development pattern, with domestic circulation as the main body and domestic and international dual circulation promoting one another during the "14th Five-year Plan" period. It will also provide policy guarantees and an open environment for the two-way balanced flow of cross-border capital.

(V). Other Investments

Other investments showed a deficit. In 2020, net outflows (increase in net assets) of other investmentswere USD 256.2 billion (see Chart 2-14). In particular, net outflows of currency and deposits were USD 53 billion, net outflows of loans registered USD 163.6 billion, net outflows of trade credits were USD 29.4 billion, and net outflows of other receivables and payables were USD 9.8 billion.

External assets under other investments increased. In 2020, China's net outflows (net increase in assets) of other investments were USD 314.2 billion. In particular, net outflows of currencies and deposits were USD 130.4 billion, an increase of 28 percent year on year, mainly due to the increase in bank borrowing from abroad and the increase in enterprise deposits abroad against the background of loose liquidity. Loan assets increased by USD 128.2 billion, whereas they had decreased by USD 26 billion in 2019. The increase in exports led to a net outflow of trade credit assets, such as export receivables of USD 36.9 billion, compared with the net inflow of USD 36.8 billion in 2019. Net outflows of other receivables were USD 14.9 billion, an increase of 12 percent year on year.

Chart 2-14 Net Flows of Other Investments



Source: State Administration of Foreign Exchange.

Liabilities under other investments registered a net inflow. In 2020, China's net inflows of other investments (net increase in liabilities) were USD 57.9 billion, whereas in 2019 there were net outflows (net decrease in liabilities) of USD 43.7 billion. In particular,currency and deposit liabilities registered net inflows of USD 77.4 billion, compared with the net outflows of USD 55.7

billion in 2019. This was mainly due to the increase in deposits from non-resident enterprises and individuals.Liabilities under loans recorded net outflows of USD 35.4 billion, compared with net inflowsof USD 42.5 billionin 2019.Net inflows of trade credit liabilities, such as enterprise import payables, were USD 7.6 billion, compared with net outflows of USD 28.8 billion in 2019.Net inflows of other liabilities payable were USD 5.1 billion whereas they had registered net outflows of USD 3.5 billion in 2019.

Box 4

How To Treat the Balance of Payments Financial Account Deficit

In 2020, China's international balance of payments continued its new balance model, which contains a surplus in the current account and a deficit in the non-reserve financial account, and the scale of foreign-exchange reserves remained basically stable. To understand this change, we need a new understanding of the financial account, especially the non-reserve financial account.

In recent years, China's international balance of payments has formed an independent self-balanced pattern and reserve assets have been basically stable, allowingthe current account and the non-reserve financial account to present a mirror-image relationship. In this situation, the current account registers a surplus, while the non-reserve financial account records a deficit, or vice versa. In recent years, with the two-way fluctuation and enhanced elasticity of the RMB exchange rate, cross-border transactions of market entities have supported the small surplus in the current balance as well as the small deficit in the non-reserve financial account.

The deficit in the non-reserve financial account is mainly due to the accumulation of foreign assets by the private sector. In the financial account of China's balance of payments, the increase in external net assets (changes in assets minus changes in liabilities) is represented by a negative value, and the decrease in external net assets is represented by a positive value. When the increase in external assets is greater than the increase in external liabilities, the external net assets are shown as negative. This can be understood as China's external payment outflowsbeing greater than the inflows from abroad, so China can accumulate external net assets. In 2020, the deficit in China's non-reserve financial account reached USD 77.8 billion, mainly due to the large number of foreign investments by the private sector. In particular, this was because, first, portfolio investmentsby residents increased, reflecting the strong demand fora diversified allocation of assets; second, FDI was rational and orderly; third, the continuous surplus in the current account renderedthe liquidity of foreign currency relatively abundant, driving an increase in bank deposits and loans overseas. Also, all external liabilities in China, such as direct investments, portfolio investments, and other investments,recorded net inflows, with no external debt deleveraging. It can be seen that there were surpluses and deficits in each item in the balance of payments. The final result is that China's private sector increased its net external assets.

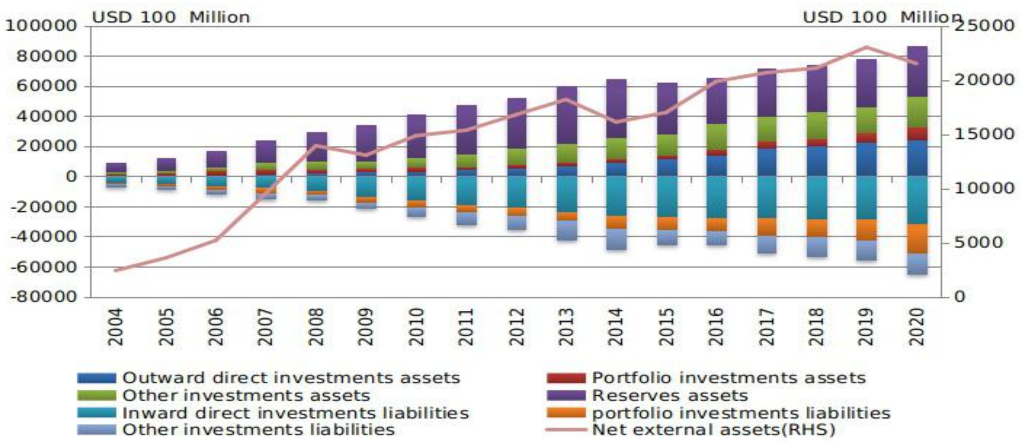
The increase in foreign investment brings income and expandsChina's foreign assetsfurther. Similar to the distribution of foreign investment and the sharing of China's economic development achievements, with the improvements in comprehensive national strength, outward direct investments will not only "go out"but also will bring profits, interest, and dividends. From 2000 to 2020, the income of outward direct investments increased from USD 12.3 billion to USD 224.4 billion. This income not only became an important part of the current account income but also increased China's foreign assets.

At present, the internal structure of China's balance of payments is reasonable. In recent years, after China's balance of payments entered the period of an independent balance, the current account has been basically balanced, with a slight surplus, which determines the , robustness of the overall structure of the balance of payments.There are no continuous, high-frequency, and large-scale net outflows of funds under the financial account, and the opening of financial market attracts inflows of foreign capital. Overseas assets held by domestic entities have increased simultaneously. Cross-border capital flowshave been relatively balanced, and reserve assets have been generally stable. In the future, the optimization of the economic structure, the transformation and upgrading of the manufacturing industry, and the steady progress in opening up to the outside world will remain unchanged and will continue to provide fundamental support for the independent balance of international payments.

III. International Investment Position

China's external financial assets and liabilities[8] were both on the rise. At end-2020, China's external financial assets reached USD 8703.9 billion, up 11 percent from end-2019; external liabilities reached USD 6553.6 billion, up 18 percent; and net assets reached USD 215.03 billion, remaining on a high scale (see Chart 3- 1).

Chart 3-1 External Financial Assets, Liabilities, and Net Assets



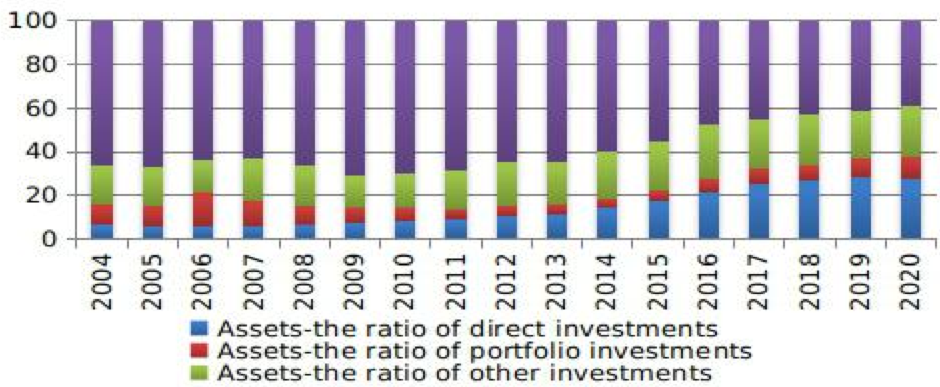
Source: State Administration of Foreign Exchange.

Reserve assets remained the largest component of total external assets, and private-sector holdings continued to rise. Among the external financial assets, at end-2020 reserve assets amounted to USD 3356.5 billion, up 4 percent

[8]External financial assets and liabilities include direct investments, portfolio investments, and other investments, such as deposits and loans. Outward direct investments are included as financial assets because the equity issued by non-resident direct-investment enterprises and held as domestic external financial assets and liabilities include direct investments, portfolio investments, and other investments, such as deposits and loans. Outward direct investments are included as financial assets because the equity issued by non-resident direct-investment enterprises and held by domestic investors is the same type of financial instrument as the equity investments in portfolio investments. The difference is that direct investments require a higher threshold of equity holdings to reflect a significant influence or control over the production and operations of the enterprises. Inward direct investments belong to external financial liabilities because foreign investors hold equity in foreign-owned companies.

from end-2019. As the largest component of external financial assets, reserve assets accounted for 39 percent of China's total external financial assets, down 2.5 percentage points from end-2019. Direct-investment assets amounted to USD 2413.4 billion, accounting for 28 percent of total assets, down 0.8 percentage point from end-2019.Portfolio-investment assets amounted to USD 899.9 billion, accounting for 10 percent, up 2 percentage points. Financial-derivative assets amounted to USD 19.1 billion, accounting for 0.2percent. Other investments, such as loans and deposits, amounted to USD2014.9 billion, accounting for 23 percent, up1.2 percentage points from end-2019(see Chart 3-2).

Chart 3-2 Changes in the Structure ofChina'sExternal FinancialAssets



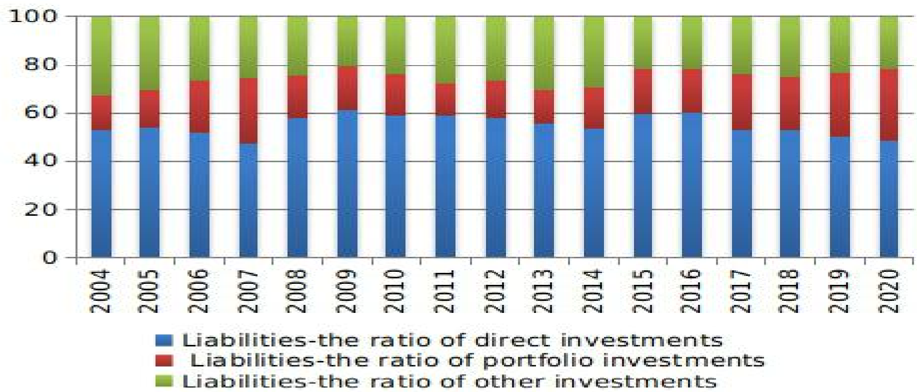
Source: State Administration of Foreign Exchange.

Foreign direct investments remained the major item in external liabilities, and the proportion of portfolio investments in the domestic market grew steadily. Among the external liabilities, FDI[9] totaled USD 3179.3 billion at end-2020, up 14 percent from end-2019, accounting for 49 percent of

[9]The inward FDI positionincludes FDI stocks of both the non-financial sector and the financial sector. The position also reflects the impact of revaluation factors.

total external liabilities,down 2 percentage points rom end-2019and remaining the largest component of external liabilities. Foreign portfolio-investment liabilities amounted to USD 1954.5 billion, accounting for 30 percent, and foreign investments in China's domestic securities market continued to increase. At end-2020, foreign investors' holdings of China's domestic securities were approximately USD 1054.2 billion. Among these, foreign holdings of stocks accounted for 5.3 percent of the total market value of A-shares, up 1 percentage point from end-2019; holdings of bonds accounted for 3 percent of total domestic bonds under custody, up 0.7 percentage point from end-2019. Other investment liabilities,such as loans and deposits, amounted to USD 1407.6 billion, accounting for 21 percent, down 1.8 percentage points from end-2019 (see Chart 3-3).

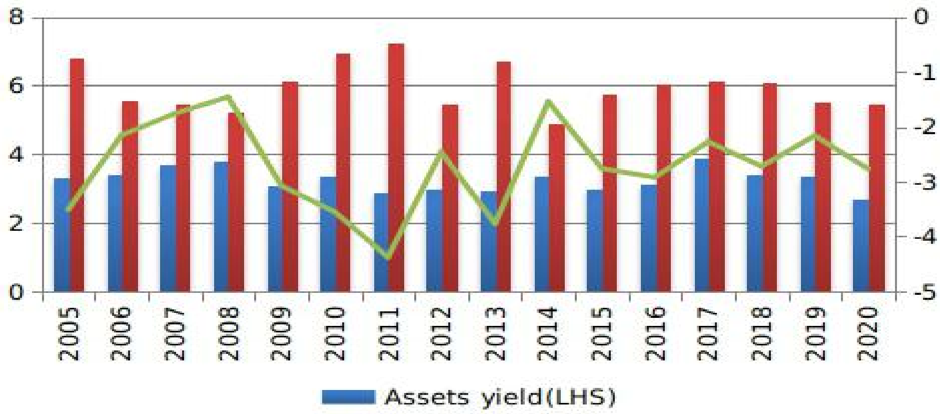
Chart3-3 The Structure of External Liabilities



Source: State Administration of Foreign Exchange.

Two-way investment income in China and abroad was generally stable. On the income payment side, in 2020 income payments for absorbing foreign investments recorded USD 331.5 billion, with a stable rate of return at about 5.5 percent(see Chart 3-4).China became the world's only major economy with positive growth, and the overall profit situation for foreign-invested enterprises was good. At the same time, domestic monetary policy remained normal, returns on RMB assets were relatively stable, and equity and debt assets were favored by foreign investors. On the income revenue side, in the face of the severe recession in the world economy and the negative interest rates in the major economies, domestic entities adhered to the principle of diversification to disperse risks; income from outward investments recorded USD 224.4 billion, maintaining a stable scale.

Chart 3-4 Changes in the Rate of Return on China's External Assets and Liabilities



Notes: 1. Yields of assets (liabilities)

$$=\frac{\text{annualized revenue(payments) of investment income}}{\text{(positions at the reference year−end + positions at the previous year−end)/2}}.$$

2. The difference between the yields of assets and liabilities = the yield of assets – the yield of liabilities.

Source: State Administration of Foreign Exchange.

Table 3-1 China's International Investment Position at the End of 2020

Unit: US $100 million

	Line No.	2020
Net International Investment Position[10]	**1**	**21,503**
Assets	**2**	**87,039**
1 Direct investments	**3**	**24,134**
1.1 Equity and investment fund shares	**4**	20,844
1.2 Debt instruments	**5**	3,290
1.a Financial sector	**6**	3,077
1.1.a Equity and investment fund shares	**7**	2,990
1.2.a Debt instruments	**8**	87
1.b Non-financial sector	**9**	21,057
1.1.b Equity and investment fund shares	**10**	17,854
1.2.b Debt instruments	**11**	3,203
2 Portfolio investments	**12**	**8,999**
2.1 Equity and investment fund shares	**13**	6,043
2.2 Debt securities	**14**	2,955
3 Financial derivatives (other than reserves) and employee stock options	**15**	**191**
4 Other investments	**16**	**20,149**
4.1 Other equity	**17**	89
4.2 Currency and deposits	**18**	4,865
4.3 Loans	**19**	8,389
4.4 Insurance, pensions, and standardized guarantee schemes	**20**	166
4.5 Trade credits and advances	**21**	5,972
4.6 Other accounts receivable	**22**	668
5 Reserve assets	**23**	**33,565**
5.1 Monetary gold	**24**	1,182
5.2 Special drawing rights	**25**	115
5.3 Reserve position in the IMF	**26**	108
5.4 Foreign currency reserves	**27**	32,165
5.5 Other reserve assets	**28**	-5
Liabilities	**29**	**65,536**
1 Direct investments	**30**	**31,793**
1.1 Equity and investment fund shares	**31**	28,814
1.2 Debt instruments	**32**	2,979
1.a Financial sector	**33**	1,826
1.1.a Equity and investment fund shares	**34**	1,627
1.2.a Debt instruments	**35**	199
1.b Non-financial sector	**36**	29,967

[10] Net position refers to assets minus liabilities; "+" refers to net assets; "-" refers to net liabilities. The notations in this table are based on the principle of rounding.

1.1.b Equity and investment fund shares	**37**	27,187
1.2.b Debt instruments	**38**	2,780
2 Portfolio investments	**39**	**19,545**
2.1 Equity and investment fund shares	**40**	12,543
2.2 Debt securities	**41**	7,002
3 Financial derivatives (other than reserves) and employee stock options	**42**	**122**
4 Other investments	**43**	**14,076**
4.1 Other equity	**44**	0
4.2 Currency and deposits	**45**	5,266
4.3 Loans	**46**	4,555
4.4 Insurance, pensions, and standardized guarantee schemes	**47**	167
4.5 Trade credits and advances	**48**	3,719
4.6 Other accounts payable	**49**	267
4.7 Special drawing rights	**50**	101

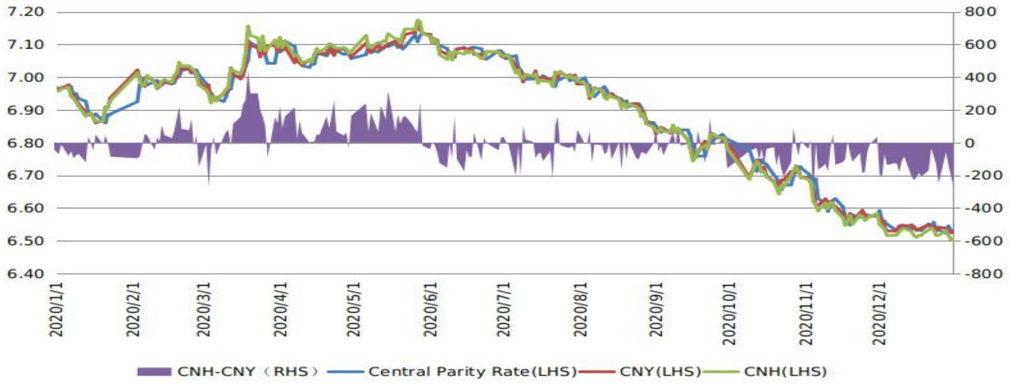
Source: State Administration of Foreign Exchange.

IV. Operation of the Foreign-Exchange Market and t he RMB Exchange Rate

(I) Trends in the RMB Exchange Rate

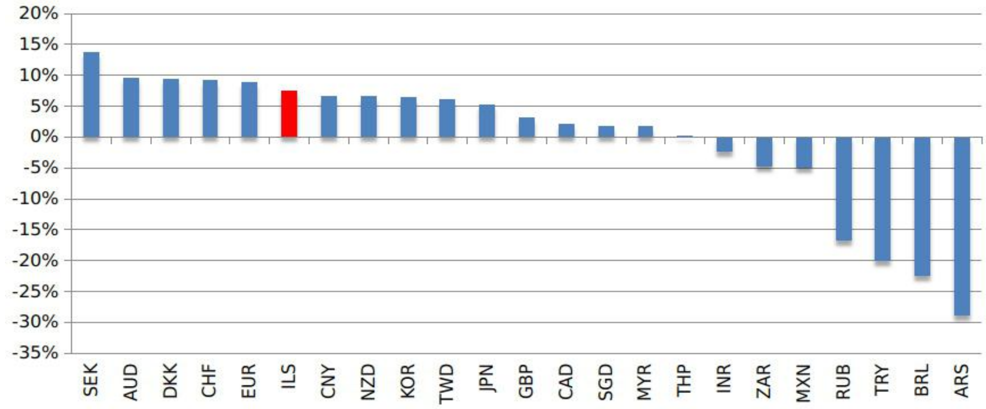
The exchange rate of the RMB against the USD fluctuated in both directions. At the end of 2020, the central parity of the RMB against the USD was 6.5249, appreciating in 140 trading days and depreciating in 103 trading days, out of the year's total of 243 trading days. The average intraday volatility increased from 0.12 percent in 2019 to 0.18 percent in 2020, and the price difference between the domestic market (CNY) and the overseas market (CNH) maintained a narrow spread(see Chart 4-1). In 2020, despite the drastic fluctuations in international financial markets, the RMB exchange rate against the USDremained basically stable at a reasonable and balanced level, showing steady performance among the global currencies (see Chart 4-2).

Chart 4-1 Trends in the RMB Spot Exchange Rate Against the USD in the Domestic and Offshore Markets, 2020



Sources: CFETS, Reuters.

Chart 4-2 Changes in the BilateralExchange Ratesof the Major Developed Economies and the Emerging Markets against the USD in 2020



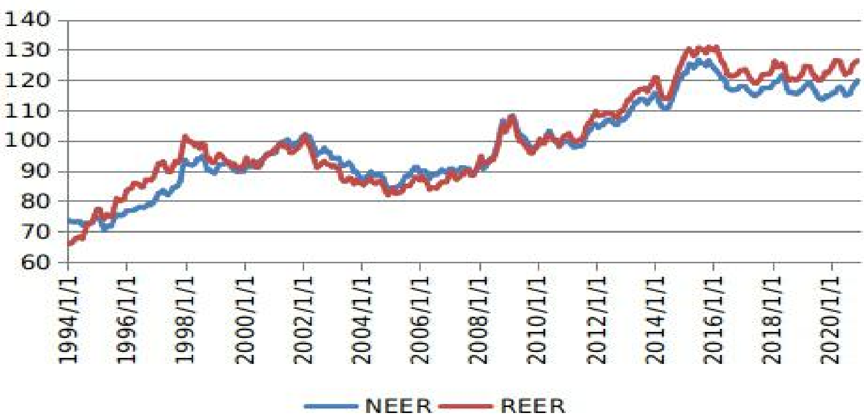
Source: Reuters.

The RMB exchange rate versus the other major currencies went in different directions. At the end of 2020, the mid-price ofthe RMB against the EUR, 100JPY, GBP, AUD, CAD, and CHF stood at 8.0250, 6.3236, 8.8903, 5.0163, 5.1161, and 7.4006, respectively, a depreciation of 2.6 percent, an appreciation of 1.3 percent, an appreciation of 2.9 percent, a depreciation of 2.6 percent, an appreciation of 4.4 percent, and a depreciation of 2.7 percent, respectively, compared with the previous year.

The RMB exchange rate was basically stable against a basket of

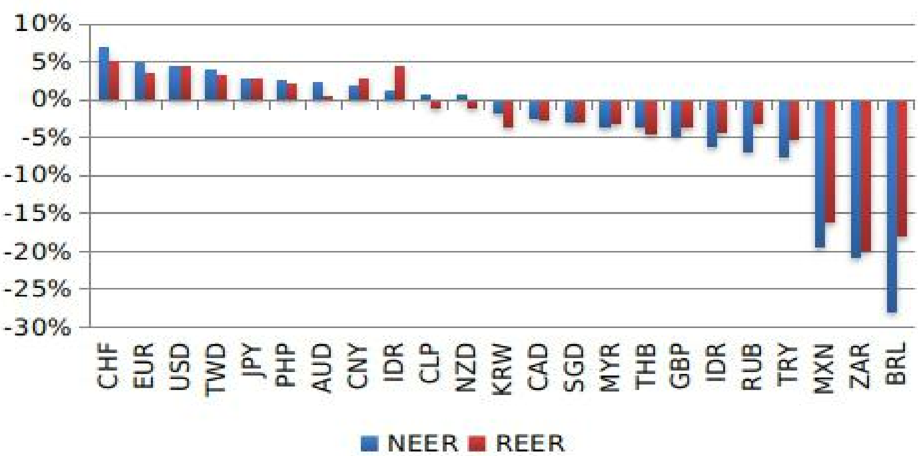
currencies. According to CFETS data, at the end of 2020 the RMB exchange-rate indexes of the CFETS, the BIS basket of currencies, and the SDR basket of currencies were 94.84, 98.68, and 94.23, respectively, an appreciation of 3.8percent, 3.8percent, and 2.6percent, respectively, compared with that at the end of 2019. According to the BIS, the nominal effective exchange rate of the RMB appreciated by 4.0 percent in 2020. Deducting for inflation, the real effective exchange rate of the RMB depreciated by 3.4percent (see Charts 4-3, 4-4).

Chart 4-3Trends in the Effective RMB Exchange Rate



Source: BIS.

Chart 4-4Effective Exchange-Rate Movements of theMajor Developed and Emerging Market Currencies in 2020



Source: BIS.

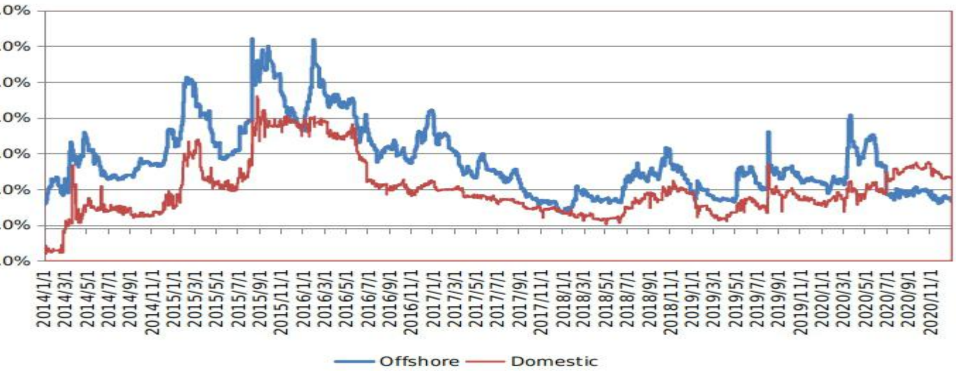
The flexibility of the RMB exchange rate continued to increase. By the end of 2020, the one-year historic volatility of the RMB exchange rate against the USD in the domestic and foreign markets was 4.2 percent and 5.1 percent,respectively, up 0.5 and 0.6 percentage point, respectively, compared with the beginning of the year, and it was at a historic high level. The implied volatility of the option market was 4.7 percent and 6.4 percent, respectively, up by 0.9 and 1.7 percentage point, respectively, compared with the beginning of the year (see Chart 4-5). The flexible RMB exchange rate has played the role of an automatic stabilizer in adjusting the macro economy and the balance of payments, effectively releasing the pressure of external shocks.

Chart 4-5One-Year Volatility ofthe RMB against the USD Exchange Rate in Domestic and Foreign Markets

Source: Bloomberg.

RMB exchange-rate expectations were stable. In 2020, domestic and offshore risk reversals (the difference between the volatility of the USD call / RMB put options and the USD put /RMB call options)first rose and then fell,but generally remained stable, at 0.7 percent and 1.3 percent at the end of the year, respectively, indicating that the market had no obvious expectation of a RMB appreciation or depreciation.

Chart 4-6The 1-Year Risk Reversals of the RMB Against the USD in the Domestic and Offshore Options Markets



Source: Bloomberg.

Box5

Analysis of Global Exchange-Rate Trendsin 2020

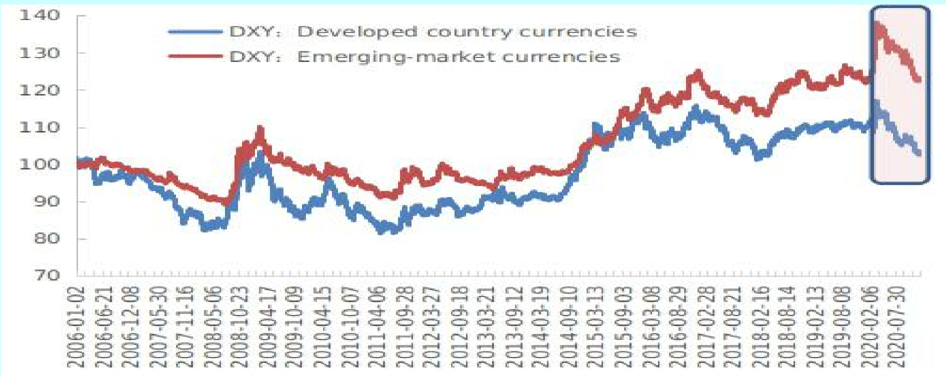
Due to the impact of COVID-19, in 2020the global economy fell into its most severe recession since World War II, and the USD fluctuated at a high level, with the currencies of 37 out of 78 economies appreciating against the USD (see Table C5-1). The currencies of the major Asian economies rose steadily; the euro and the major European currencies remained strong; the currencies of some countries in Eastern Europe, West Asia, Central Asia, and the Americasexperienced significant depreciations.

The USD fluctuated at a high level in 2020. According to the index of the dollar against the currencies of the major developed economiesand the currencies of the major emerging market economies published by the Federal Reserve, in 2020 the USD fell 5.6 percent against the currencies of other developed economies, while it rose 0.26 percent against the currencies of the emerging market economies. On the whole, in 2020 the dollar was at a high level, first rising andthen falling, with wide fluctuations (see Chart C5-1).

Overall, the currencies of the Asian and Oceanian economies rose steadily, but the currencies of the Central Asian and some Western Asian countries performed less well. In 2020, most of the currencies of the major Asian economies appreciated slightly against the USD, with the RMB, Korean won, Japanese yen, and Philippine peso appreciating more than

5 percent against the USD in the whole year, while volatility was significantly lower than that in other parts of the world. The Australian dollarand the New Zealand dollar in Oceania continued to rise, with the Australian dollar gaining more than 10 percent as a result of stronger demand for commodities, such as minerals and natural gas, on the back of a recovering global economy. The currencies of the Central Asian countries generally depreciated sharply and exchange-rate volatility was high. The depreciation of the Turkish lira in West Asia was the largest depreciation in Asia, mainly due to the economic downturn in recent years, high inflation, and the continued decline of foreign-exchange reserves in Turkey.

Chart C5-1 The dollar will be relatively high in 2020



Source: Federal Reserve

The currencies of the European economies were the strongest performers, but the Eastern European countries saw significant depreciations. The Swedish krona was the world's "strongest currency." The euro, Swiss franc, and Danish krone were also relatively strong. The main reason is that the above-mentioned currencies have certain hedging functions and the corresponding economies maintain trade surpluses. The Riksbank kept interest rates unchanged throughout 2020. The Eastern European currencies fell sharply across the region, largely because of geopolitical factors and plunging global oil prices.

The performance of currencies in North and South America diverged. The Canadian dollar in North America and the Chilean peso in South America wereboth relatively stable, but the Mexican peso in North America and the Uruguayan peso, the Brazilian real, and the Argentine peso in South America were generally devalued, and both the bilateral and multilateral exchange rates against the USDdropped significantly. These countries have been plagued by economic downturns and high inflation for years, and the impact of the epidemic further raised investors' concerns about their fiscal positions, sending their currencies into a downward spiral of a sustained depreciation.

The overall performance of the African currencies was poor, with a general depreciation and high volatility. African countries across the continent faced deteriorating government finances and poor growth prospects. Among them, the rand of South Africa, the most important economy in the African region, depreciated by more than 5 percent against the USD in 2020, with volatility exceeding 7 percent.

Table C5-1Changes in theExchange Rates of 78 Economies against the USD

region	size of currency sample	appreciating currency within the region	
		numbers	proportion within the region
Asia	31	16	51.6 percent
Oceania	2	2	100.0 percent
Europe	21	15	71.4 percent
North America	5	1	20.0 percent
South America	8	1	12.0 percent
America	11	2	18.2 percent
Among the 78 economies, 37 of the currenciesappreciated,accounting for 47.4 percent.			

Sources: BIS, Wind.

In general, against the background of the epidemic, the major developed countries adopted extremely loose monetary and fiscal policies, and international financial markets fluctuated significantly. The fluctuation of the USD had a great impact on global currency. However, the differing performances of the exchange rates of the various countries fully show that the economic fundamentals are the cornerstone of stability in a country's currency.

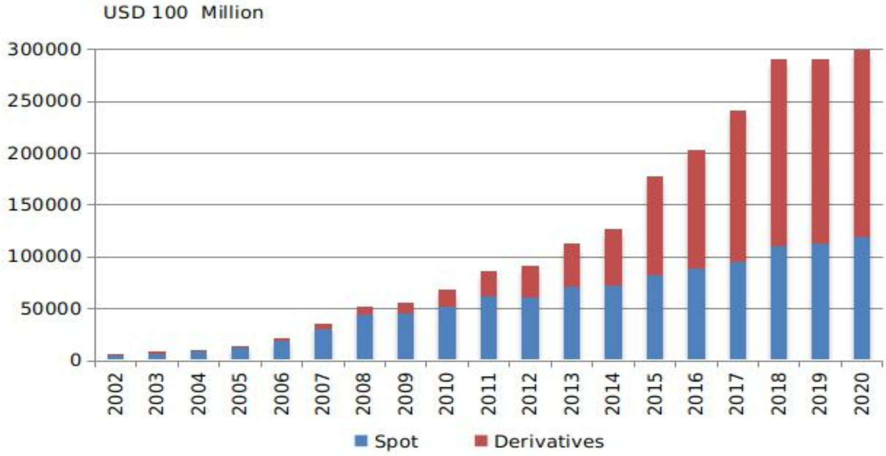
(II) Transactions in the Foreign-Exchange Market

In 2020,the cumulative trading volume of the RMB/foreign-currency market totaled USD 30.0 trillion, an increase of 3.0 percent compared with that in 2019, with an average daily trading volume of USD 123.4 billion (Figure 4-7). The total trading volume in the client market and the inter-bank market were USD4.6 trillion and USD 25.4 trillion[11], respectively. Spot and derivative

[11] The client market uses the total volume of both purchases and sales of foreign exchange. The inter-bank market uses the

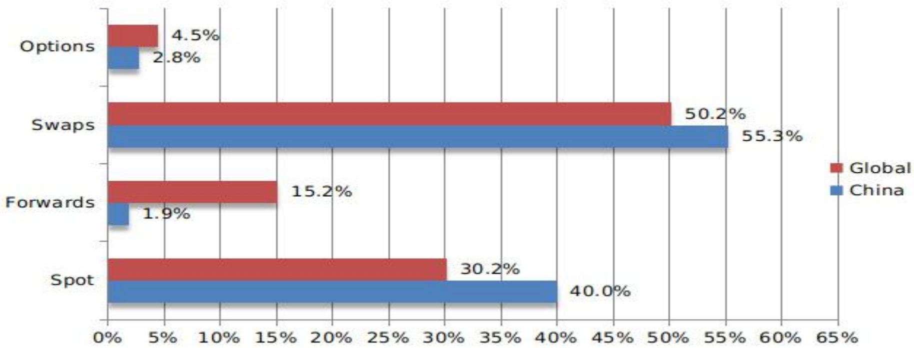
transactions witnessed a trading volume of USD12.0 trillion and USD 18.0 trillion, respectively (see Chart 4-1). Derivatives accounted for 60 percent of the total transactions in the foreign-exchange market (see Chart 4-8).

Chart 4-7Trading Volume in China's Foreign-Exchange Market



Sources: SAFE, CFETS.

Chart 4-8 Comparison of the Structure of Products in the Domestic and Global Foreign-Exchange Markets



Note: Data for China are for 2020; the global data have been adopted from the BIS survey in April 2019.

Sources: SAFE, CFETS, BIS.

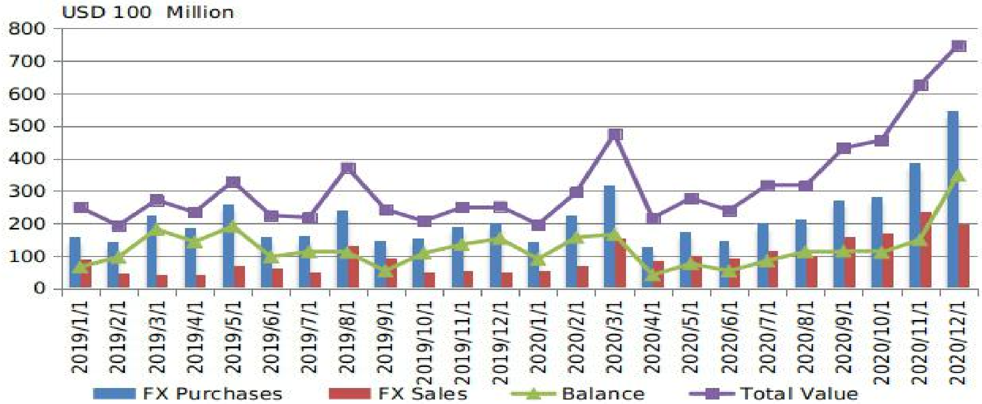
Spot foreign-exchange transactions grew steadily. In 2020, the spot market saw a trading volume of USD 12.0 trillion, up 5.6 percent from 2019. In terms of market distribution,spot purchases and sales of foreign exchange in the

unilateral trading volume. The same as below.

client market totaled USD 3.6 trillion(including the banks' proprietary trading, but excluding the performance of forwards), up 5.8 percent compared with 2019.The spot inter-bank foreign-exchange market saw a trading volume of USD 8.4 trillion, up 5.6 percent. The share of USD transactions was 96 percent.

Foreign-exchange forward transactions increased sharply. In 2020, the forward market saw a cumulative trading volume of USD564.3 billion, up 48percent from 2019. In terms of market distribution, in the client market purchases and sales of forwards in foreign exchange totaled USD 460 billion, of which purchases and sales of forwards were USD 305.3 billion and 154.7 billion, up 51 percent, 36 percent, and 94 percent, respectively (see Chart 4-9). Short-term 6-month transactions accounted for 69 percent, down 1 percentage point compared with 2019. The inter-bank forward market saw a cumulative trading volume of USD 104.4 billion, up 37 percent year on year.

Chart 4-9The Trading Volume of Purchases and Sales of Forward Foreign-Exchange Transactions in the Client Market



Source: SAFE.

Swap trading rose slightly. In 2020, cumulative foreign-exchange and currency-swap transactions totaled USD 16.6 trillion, up 0.3 percent from 2019.

In terms of market distribution, cumulative foreign-exchange and currency-swap transactions in the client market reached USD239.5 billion, up 100.4 percent. Spot purchases/forward sales and spot sales/forward purchases reached USD181.6 billion and US $57.9 billion, respectively, up 76.4 percent and 250.6 percent, respectively. The inter-bank foreign exchange and currency-swap markets, which play an important role in local and foreign currency liquidity management by banks, saw cumulative transactions of USD 16.4 trillion, down 0.4 percent.

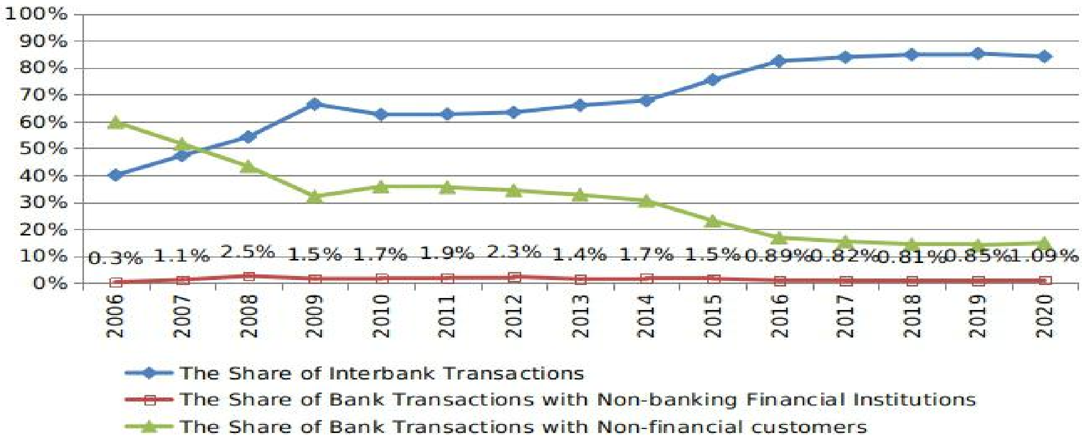
Options transactions fell slightly. In 2020, the trading volume of options totaled USD 841.2 billion, down 1.0 percent from 2019. In terms of market distribution,the client market saw a total trading volume of USD274.6 billion, up 2.1 percent. The inter-bank market saw a total trading volume of USD 566.7 billion, down 2.5 percent.

The foreign-exchange hedge rate of enterprises increased. As the two-way volatility of the RMB exchange rate increased, enterprises actively adopted various methods to manage exchange-rate risks, such as RMB pricing and settlements, foreign-exchange derivatives transactions, and a natural balance of imports and exports. It is estimated that the foreign-exchange hedge rate[12] increased by 3 percentage points to 17.1 percent in 2020 compared to 2019, showing that the role of the foreign-exchange derivatives market in serving the real economy was further enhanced.

[12]Hedge rate = (bank to client forward settlement and sale contracts + bank to client foreign-exchange options contracts)/(bank to client spot settlement and sale + bank to client forward settlement and sale contracts + bank to client foreign-exchange options contracts).

The structure of foreign-exchange market participants remained stable. Proprietary transactions by banks continued to dominate (see Chart 4-10). The share of inter-bank trading in the overall foreign-exchange market declined slightly, from 85.9 percent in 2019 to 84.7 percent in 2020. The market share of non-financial clients and non-bank financial institutions increased from 14.0 percent to 14.8 percent; The market share of transactions by non-bank financial institutions edged up to 1.1 percent from 0.8 percent in 2019.

Chart 4-10 The Structure of Participants in China's Foreign-Exchange Markets



Sources: SAFE, CFETS.

Table 4-1 Transactions in the RMB/Foreign-Exchange Market, 2020

Product	Trading Volume (100 million USD)
Spot	**119958**
Client Market	**36177**
Interbank Foreign Exchange Market	**83782**
Forward	**5643**
Client Market	**4600**
Less than 3 months (including 3 months)	2120
3 months to 1 year (including 1 year)	2072
More than 1 year	408
Interbank Foreign Exchange Market	**1044**
Less than 3 months (including 3 months)	819
3 months to 1 year (including 1 year)	173
More than 1 year	51

Foreign Exchange and Currency Swaps	**165860**
Client Market	**2395**
Interbank Foreign Exchange Market	**163465**
Less than 3 months (including 3 months)	142473
3 months to 1 year (including 1 year)	20339
More than 1 year	653
Options	**8412**
Client Market	**2746**
Foreign Exchange Call Options/RMB Put Options	1291
Foreign Exchange Put Options/RMB Call Options	1455
Less than 3 months (including 3 months)	1218
3 months to 1 year (including 1 year)	1274
More than 1 year	253
Interbank Foreign Exchange Market	**5667**
Less than 3 months (including 3 months)	3975
3 months to 1 year (including 1 year)	1682
More than 1 year	9
Total	**299874**
Client Market	**45917**
Interbank Foreign Exchange Market	**253957**
Including: Spots	119958
Forwards	5643
Foreign Exchange and Currency Swaps	165860
Options	8412

Note: The trading volumes here are all unilateral transactions and the data employ rounded-off numbers.

Sources: SAFE, CFETS.

V. Outlook for the Balance of Payments

The global COVID-19 epidemic continued in 2021, and the unstable factors in international economic and financial operations still exist, including the derivative risks caused by the outbreak of the epidemic, the continuous high tensions in international financial markets, the spiked liabilities of some countries, etc. However, the good long-term fundamentals of the domestic economy have not changed. China will consolidate and expand its achievements in epidemic prevention and control and in economic and social development, accelerate the construction of a new development pattern. with domestic circulation as the main body and domestic and international dual circulation promoting one another, persist in promoting the high-level two-way opening of the financial market, and maintain the basic stability of the RMB exchange rate at a reasonable and balanced level. These factors will help maintain a basic balance in international payments.

In the domestic and external environments, there are more factors conducive to China's balance of payments. From a fundamental perspective, the foundation for healthy and stable operation of the domestic economy has been consolidated. Under the new development pattern, actively promoting the coordinated development of domestic and foreign demand, imports, and exports, the introduction of foreign capital and foreign investment will help maintain a basic equilibrium in the balance of payments. From a policy perspective, building a new higher-level economic system and promoting the liberalization and facilitation of cross-border trade and investment will help promote a two-way and balanced flow of domestic and foreign capital. From the perspective of market conditions, the enhanced flexibility of the RMB exchange rate and the enhanced depth, breadth, and maturity of the foreign-exchange market will help for the exchange rate to continue to play the role of an automatic stabilizer in the balance of payments. If the COVID-19 vaccine spreads globally with apparent effects, the world economy and trade activities will gradually recover and the impact on China's macro-economy will be positive.

The current account surplus is expected to remain within a reasonable range. First, trade in goods will maintain a certain scale of surplus. If the global epidemic stabilizes, the overseas industrial chain and supply chain will gradually be repaired. Since December 2020, the purchasing manager index (PMI) of the manufacturing industry in the United States, Germany, Japan, and other major countries has exceeded the pre-epidemic level, indicating that the manufacturing industry has improved. At the same time, the global economic recovery and the boost in external demand will support China's exports. **Second,** it is difficult for the deficit in the services tradeto recover to the pre-epidemic level in the short term. If greater progress is made in global epidemic prevention and control and restrictions on the mobility of cross-border personnel are relaxed, outbound travel expenses will gradually increase. Based on the above factors, it is expected that the current account will maintain a reasonable surplus.

Cross-border capital flowsare expected to continue to perform in a pattern of a two-way flow with an overall equilibrium. On the one hand, prospectsfor China's economic development are good and the business environment is constantly improving, which will attract long-termforeign capital to further develop in China. At the same time, the opening of the financial market has been steadily promoted, stocks and bonds have been included in the major global indexes, and RMB assets are still attractive to global investors. **On**

the other hand, China will adhereto promoting a high-level two-way opening of the financial market, continue to broaden foreigninvestment channels, and better meet the demand for a diversified allocation of overseas assets by domestic entities. Overseas assets held by the private sector are expected to increase further so as to play a role in balancing cross-border capital flows.

2021 is the beginning year of the "14th Five-yearPlan."The foreign exchange administration will adhere to the guidance of Xi Jinping's China's socialist ideology for the new era, base itself on a new stage of development, implement a new development concept, and build a new development pattern, continue to do well in "six stability" work, implement the tasks of the "six guarantees," and deepen the reform and opening up in the foreign-exchange field. We will improve the foreign-exchange management system and mechanism that are compatible with the new open economic system at a higher level, take various measures to maintain a basic balance in international payments, and celebrate the 100th anniversary of the founding of the party with outstanding achievements.

On the one hand, we will continue to promote the reform of trade and facilitation of investment, promote the opening of the financial market, continuously strengthen the construction of the foreign-exchange market, and serve the development of the real economy. **First** is to continue to promote the two-way opening of the capital account, including the pilot on the integration of the pool of local and foreign currency funds of multinational companies; we will promote the QDLP/QFLP pilot project, expand the scope of the QDLP pilot project,improve the QDLP investment reporting system, and perfect the normalized quota issuance mechanism for qualified domestic institutional investors (QDII); we will continue to promote the reform of foreign debt registration management and improve the management of funds for overseas institutions to issue stocks and bonds in China. **Second** is to expand the pilot onthe facilitation of trade and foreign-exchange receipts and payments, support the development of new trade formats, such as cross-border e-commerce, market procurements, and comprehensive foreign-trade services, and improve online verifications of tax filing information on foreign-exchange for service-trade payments. **Third** is to support the construction of "two zones" in Beijing, the reform and opening up of Shanghai international financial center, Guangdong, Hong Kong, Macao, and the Hainan free trade port, and the reform and innovation of foreign-exchange management in the pilot free trade zone. **Fourth** is to build an open, multi-functional foreign-exchange market and to support financial institutions to launch more foreign-exchange derivatives to meet market demand.

On the other hand, we should prevent the risks of cross-border capital flowsand safeguard national economic and financial security. **First** is to adhere to the principle of marketization and to give full play to the role of the exchange rate to regulate the macro-economy and the balance of payments. **Second** is to improve the integrated management framework of "macro prudence+ micro supervision" in the foreign-exchange market, strengthen the two-way monitoring and risk assessment of cross-border capital flows and the foreign-exchange market, improve the management of cross-border capital flowsby strengthening macro prudence as the core, improve micro supervision of the foreign-exchange market by changing the supervision method, and crack down on underground banks and illegal activities in the field of foreign exchange, such as cross-border gambling, with a "zero tolerance" attitude.**Third** is to strengthen management of market expectations and guide financial institutions and enterprises to establish a "risk neutral" principle. **Fourth** is to improve the operation and management of foreign-exchange reserves, adhere to the principle of marketization, do a good job in strategic allocations in a forward-looking manner, dynamically optimize the investment portfolio, and strive to ensure the safety, liquidity, and value maintenance and appreciation of foreign-exchange reserve assets.