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Abstract

In 2022, the major developed economies accelerated their schedule of tightening their monetary policies in the face of the high inflation, the geopolitical situation become more complex, and the turbulence in global financial markets intensified. China effectively responded to internal and external challenges and the national economy withstood pressures and maintained growth. The overall operation of the domestic foreign-exchange market was stable, with a significant increase in resilience. The RMB exchange rate became more flexible and performed relatively steadily among the major global currencies.

China's balance of payments maintained a basic equilibrium in 2022. The current account recorded a surplus of USD 401.9 billion, accounting for 2.2 percent of GDP and continuing within a reasonably balanced range. Specifically, the surplus in trade in goods increased by 19 percent compared to 2021, reflecting the resilience of China's industrial and supply chain and the rapid growth of new export drivers. The deficit in trade in services narrowed by 9 percent, mainly due to the growth of income from emerging productive trade in services. The non-reserve financial account recorded a deficit of USD 211 billion, forming an independent pattern of equilibrium together with the current-account surplus. Specifically, direct investments remained a stable channel for foreign capital inflows, and the prospects for domestic economic development and vast market space continued to be attracted to international long-term capital. The scale of foreign-related capital inflows, such as the surplus in the current account and the inflows of foreign investments, remained at a high level, which were mainly converted into overseas assets of domestic enterprises, banks, and other

market entities, including outward direct investments and outward portfolio investments. Reserve assets involving transactions increased slightly. By the end of 2022, China's net external assets reached USD 2.53 trillion, an increase of 16 percent compared to the end of 2021.

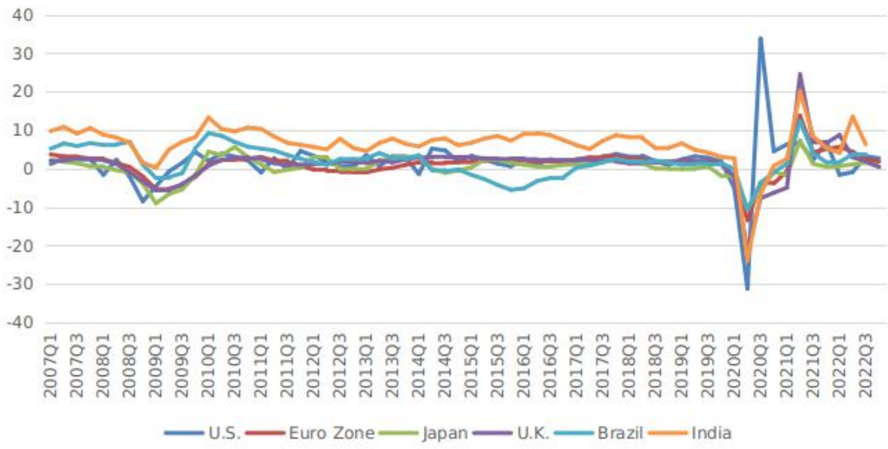
In 2023, the external environment will remain complex and ever-changing, the momentum for global economic growth will weaken, the pace of monetary-policy adjustments in the major developed economies will generally slow down, and there will still be some uncertain factors in global financial markets. China's economic growth rate will generally rebound, the internal foundation for China’s balance of payments will be solidified, the current account is expected to maintain a reasonable surplus and the stability of cross-border capital flows will be enhanced. Going forward, the State Administration of Foreign Exchange will fully implement the spirit of the 20th National Congress of the Communist Party of China, better ensure both development and security, carry out reform, development, and stability work in the field of foreign exchange, maintain stable operations in the foreign-exchange market, promote a basic equilibrium in the balance of payments, and serve the high-quality development of the real economy.

I. Overview of the Balance of Payments

（I）The Balance-of-Payments Environment

In 2022, China’s external environment was complex, with global inflation rapidly rising and maintaining high levels. The central banks of the major developed economies continued to tighten their monetary policies, making a difficult balance between price and growth stability. The momentum for a global economic recovery weakened, and global financial markets experienced significant volatility. China efficiently coordinated epidemic prevention and control with economic and social development and effectively responded to unexpected factors, thus reaching a new level of economic aggregates, steadily improving the quality of development, and maintaining overall economic and social stability.

Global economic growth has slowed down. In 2022, multiple factors, such as the tightening of monetary policy in the developed economies, geopolitical conflicts, energy shortages, and high inflation, put pressures on the global economy. According to estimates from the International Monetary Fund (IMF), the rate of global economic growth in 2022 was 3.4 percent, a decrease of 2.6 percentage points compared to 2021. The growth rate decreased by 2.5 percentage points in the developed economies and by 2.7 percentage points in the emerging economies. Among the major economies, the GDP growth rate in the U.S. was negative during the first and second quarters, and 3.2 percent in the third quarter. However, due to the cumulative effect of the Federal Reserve's rapid interest-rate hikes, the growth rate decreased to 2.7 percent in the fourth quarter; The GDP growth rates in the Euro zone, Japan, and the UK have all shown a declining trend as did the economic growth rates in the emerging economies, such as India, Malaysia, Thailand, and Mexico.

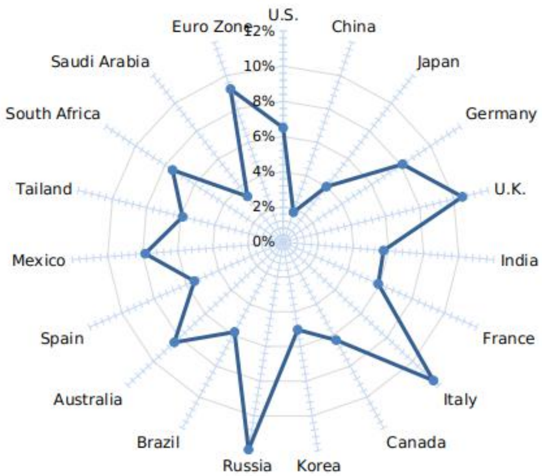


Notes: The U.S. growth rate is the annualized quarterly growth, whereas the growth rates in the other economies are the quarterly growth rates year on year.

Source: Huanya Economic Database, Wind

Figure 1-1 Economic Growth Rates of the Major Economies

Global inflation was at a historic high, with the major developed economies and some emerging economies continuing to tighten their monetary policies. Affected by factors such as the excessive money supply and the rising energy prices, the developed economies, represented by the U.S. and the Euro zone, experienced high inflation in 2022, which has been rare in nearly 40 years. In the first half of the year, inflation in the U.S. generally rose. The consumer price index (CPI) in June rose by 9.1 percent year on year, hitting a 40-year high. During the same period, the Harmonized Consumer Price Index (HICP) in the Euro zone rose by 8.6 percent year on year, a new high since the beginning of statistical records. In the second half of the year, inflation in the United States and Europe declined slightly. but it remained at a relatively high level (see Figure 1-2). Among the emerging economies, during some months Brazil and Russia achieved double-digit CPI growth, and the monthly CPI growth rates in both Thailand and South Africa were over 5 percent. In response to the high inflation, the monetary policies in the major developed economies tightened rapidly, and the Federal Reserve raised the target range of the federal funds interest rate seven successive times, representing a cumulative increase of 425 basis points. The European Central Bank and the Bank of England repeatedly raised their policy interest rates, and the Bank of Japan raised the yield of 10-year treasury bonds. In addition, some emerging economies, such as Mexico, South Africa, Brazil, India, and Indonesia, also raised their interest rates multiple times to combat inflation.

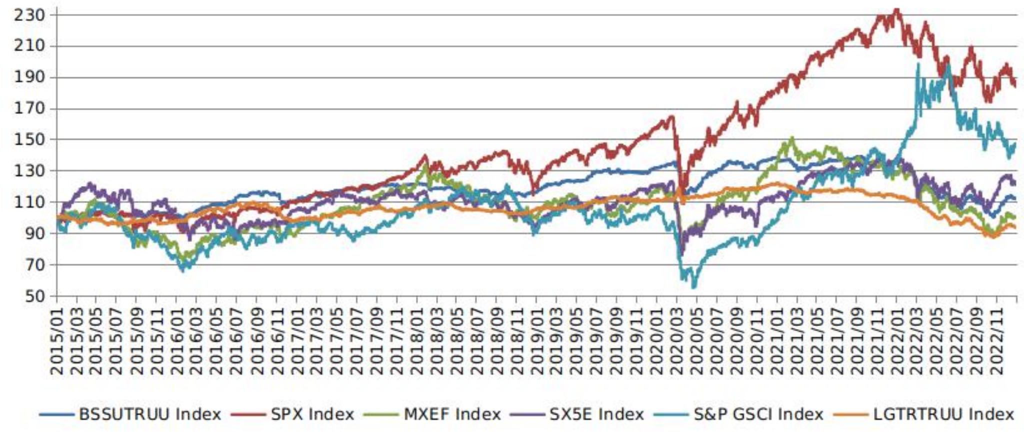


Note: Inflation in each economy is measured by the year-on-year change in the CPI. The figures shows year-on-year data in December 2022.

Source: Huanya Economic Database

Figure 1-2 Inflation of the Global Major Economies during 2022

International financial markets experienced significant fluctuations. In 2022, due to the major developed economies continuing to tighten their monetary policies, coupled with the intensified geopolitical conflicts, there were severe fluctuations in global stock and bond exchange markets. From the perspective of the global stock markets, the S&P 500 Index and the STOXX50 fell 19 percent and 12 percent, respectively, with the indexes in the emerging markets falling more than those in the U.S. and Europe. From the perspective of the global bond market, the tightened monetary policy drove up the yield of treasury bonds in the developed economies and they continued to fluctuate at a high level. The Bloomberg Barclays Emerging Market Index and the Developed Country Sovereign Bond Index both fell sharply. From the perspective of international currency markets, the US Dollar Index climbed to a new high in nearly two decades, and non-US currencies throughout the world generally faced pressures. The exchange rates of the euro, yen, and pound against the US dollar all reached new lows in two decades, and the currencies in some emerging economies also depreciated significantly. In addition, due to factors such as the crisis in Ukraine and the ongoing mismatch between global supply and demand, the prices of energy, metals, and agricultural products fluctuated widely. (See Figure 1-3).

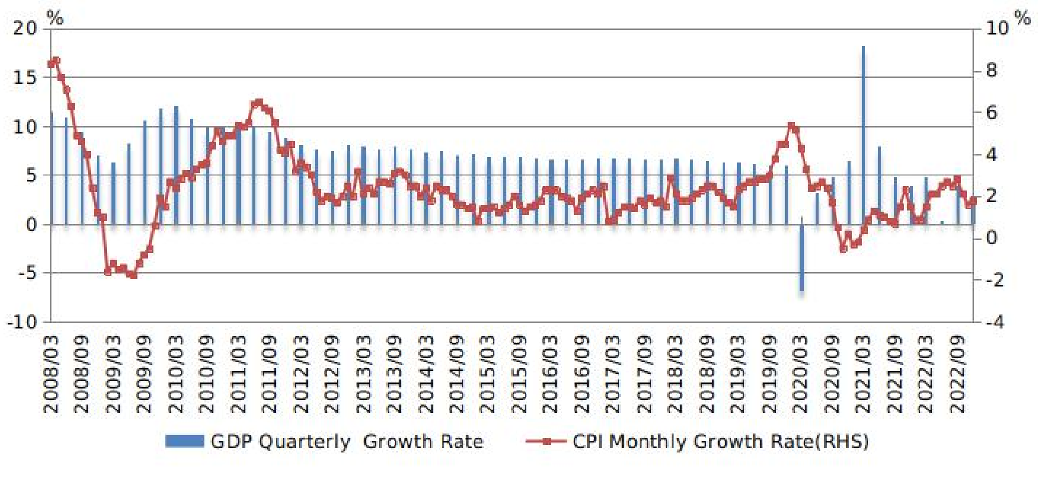


Note: BSSUTRUU and LGTRTRUU are the Bloomberg Barclays Emerging Market Index and the Developed Country Sovereign Bond Index, respectively; MXEF is the MSCI Emerging Market Index, SPX is the S&P 500 Index, SX5E is the Euro STOXX 50 Index, and SPGSCI is the S&P GSCI Commodity Price Index, all of which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

Source: Bloomberg

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

The domestic economy withstood pressures and maintained growth. In 2022, in the face of complex and the serious domestic and international situations and multiple unexpected factors, China efficiently coordinated epidemic prevention and control with economic and social development, increased macroeconomic regulatory efforts, and maintained overall stability in the macroeconomic situation. According to the preliminary accounting of the National Bureau of Statistics, in 2022 China's GDP was 121.02 trillion yuan, an increase of 3.0 percent compared to 2021 at constant prices, and the Consumer Price Index (CPI) increased by 2 percent (see Figure 1-4). Overall, China's economy continued to grow, inflation remained low, and the resilience of development continued to be evident, providing a solid foundation for the stable operation of China's foreign-exchange market and the international balance of payments.



Source: NBS

Figure 1-4 The Growth Rates of China's Quarterly GDP and Monthly CPI

BOX 1

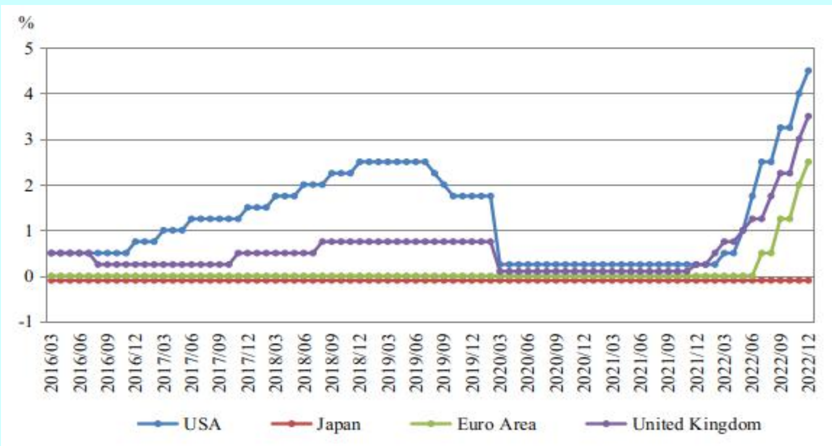
Background, Progress, and Impact of the Central Bank Rate Hikes in 2022

In 2020, the major developed economies launched coordinated fiscal and

monetary-easing policies in response to the COVID-19 epidemic. After the outbreak of COVID-19 in 2020, the major developed economies quickly launched unprecedented coordinated fiscal and monetary-easing policies, including providing large amounts of cash payments and subsidies to residents, providing enterprises with non-repayable loans, restarting quantitative easing, and launching targeted financing tools. For example, from 2020 to 2021, the cumulative scale of the multiple rounds of a fiscal stimulus in the U.S. reached 15 percent of the gross domestic product (GDP), and the Federal Reserve's balance sheet doubled from $4.1 trillion before the pandemic to $8.7 trillion. The fiscal and monetary stimulus precipitated a rapid recovery of demand in the major developed economies in 2021. The real GDP in the U.S. and the Euro zone increased by 6.0 percent and 5.3 percent, respectively, far exceeding their potential growth rates. Total economic output in the U.S. in 2021 exceeded that before the pandemic. Compared to the rapid expansion of demand, the supply side in the developed economies continued to face obstacles, such as disruptions to the supply chain caused by the epidemic and reduced participation by the labor force. The imbalance between supply and demand has driven a rapid rise in inflationary pressures since 2021.

In 2021, main central banks have underestimated the sustained inflationary pressure. From March to August 2021, the core consumer price index (Core CPI) of the U.S. continuously exceeded 3% and then 4%. The Federal Reserve believed that the increase in inflation was a "temporary" phenomenon that mainly due to local imbalance in commodity price increases. It was not until the core CPI broke through 5% in November 2021 that the Federal Reserve stopped the expression of "temporary", but continued to purchase bonds for quantitative easing. At the beginning of 2022, the epidemic prevention policies of major developed economies continued to ease to boost demand. In January 2022, the core CPI of the U.S. exceeded the 6% mark. The Ukrainian crisis broke out in February, impacting global supply chains as well as energy and food supplies, further exacerbating inflationary pressures.

In 2022, the major central banks took a big step in raising interest rates to catch up with inflation, and the "wave of interest-rate hikes" caused severe fluctuations in international financial markets. In 2022, the Federal Reserve raised interest rates seven times and raised the policy target interest rate by 425 basis points to 4.5 percent, which was the fastest among the seven rate hike cycles since 1983. The European Central Bank and the Bank of England raised interest rates by 250 and 325 basis points, respectively. Although the Bank of Japan did not raise interest rates, it expanded the target range of yields of 10-year treasury bonds at the end of the year, signaling a more “hawkish” stand. The central banks in the emerging economies followed by significantly raising interest rates, with the average weighted policy interest rates of the 25 central banks in India, Indonesia, Brazil, South Africa, and other countries increasing by over 4.5 percentage points to reach 7 percent by the end of 2022. In addition to the significant interest-rate hikes, the major central banks also expressed a resolute attitude about controlling inflation, raising market expectations of a long-term tightening of monetary policy. The "interest-rate hikes" caused severe fluctuations in international financial markets. Global bond and stock indices declined significantly in 2022, marking their worst performance since 1990 and 2008, respectively. As a result of the rate hikes, U.S. bond yields rose, the US Dollar Index surged, and there were notable exchange-rate movements among the major currencies. The euro briefly fell below parity against the U.S. dollar, while the Japanese yen and the British pound both reached their lowest levels against the U.S. dollar since 1990 and 1985, respectively.



Source: Refinitiv

Figure C1-1 Policy Interest Rates of Central Banks in Major Developed Economies from 2018 to 2022

After the "interest-rate hike," global inflation started to peak and then decline, and future trends remained uncertain. With the easing of global supply-chain bottlenecks and the decline in consumer demand for goods, there were signs of a decline in commodity prices, driving overall inflation downward. The CPI in the U.S. dropped from a high point of 9 percent to 6 percent, while the CPI in the Euro zone and the UK also decreased slightly from a high of around 11 percent. However, due to the continued tensions in the labor market, high wages, and significant upward pressures on prices in the services industry, market judgment about whether, when, and to what extent the "interest-rate hikes" by the major central banks can drive a cooling of inflation is divided. The “soft landing” group believes that the U.S. can achieve a decline in wages and inflation by reducing the current high demand for corporate labor while maintaining a moderate increase in the unemployment rate of about 1 percentage point to around 4.5 percent in order to avoid an economic recession. The "hard landing" group believes that every time the unemployment rate has been lower than 4 percent and inflation has been higher than 4 percent in U.S. history the economy always faced a recession, and therefore it is inevitable this time as well.

The global economy faced downward pressures due to the environment of "interest-rate hikes," and the emerging economies revealed an overall resilience. The drag of the "interest-rate hike" on economic growth initially appeared in 2022, with slower economic growth in the U.S. and the Euro zone and with some emerging economies also being affected. However, with the support of various factors such as the economic recovery after the epidemic, early interest-rate hikes in some countries, and the resource-exporting countries benefiting from the rising commodity prices, overall performance of the emerging economies during the "interest-rate hikes" of 2022 was better than that during other periods in history that faced similar impacts, showing a certain resilience. Since 2023, the global economy has generally faced downward pressures, thus there have also been positive factors, such as the stabilization and improvements in the Chinese economy and the easing of the energy crisis in Europe. Future trends in central bank monetary policy in the major countries and their impact on the global economy still remain uncertain, and it is necessary to continue to strengthen tracking and monitoring.

（II）The Main Characteristics of the Balance of Payments

The current account posted a surplus, while the non-reserve financial account posted a deficit. During 2022, China's current-account surplus was USD 401.9 billion, up 14 percent year on year, and its non-reserve financial account posted a deficit of USD 211.0 billion (see Table 1-1).

Table 1-1 Structure of the BOP Surplus

USD 100 Million

Item	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance	2930	1913	1887	241	1029	2488	3529	4019
As a % of GDP	2.6%	1.7%	1.5%	0.2%	0.7%	1.7%	2.0%	2.2%
Financial account excluding reserve assets	-4345	-4161	1095	1727	73	-611	-303	-2110
As a % of GDP	-3.9%	-3.7%	0.9%	1.2%	0.1%	-0.4%	-0.2%	-1.2%

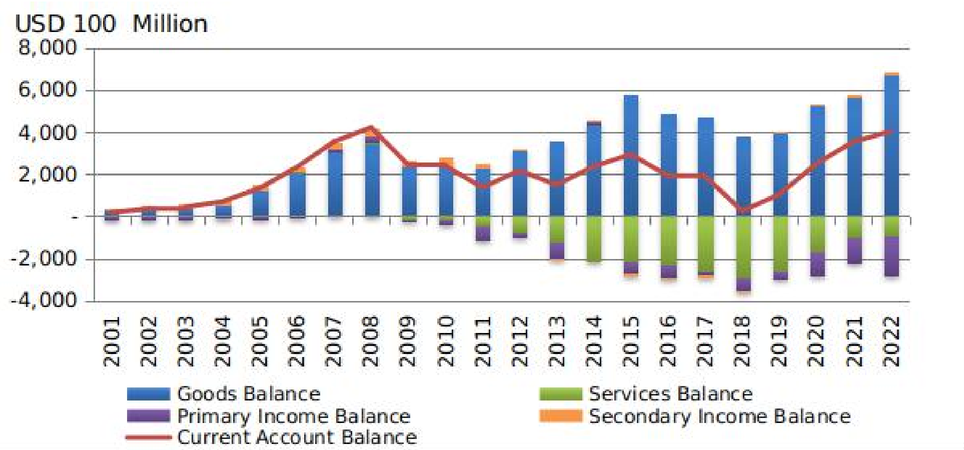
Sources: SAFE, NBS

The surplus of trade in goods expanded. Based on the balance-of payments statistics,[1] exports of trade in goods during 2022 totaled USD

[1] The BOP statistics and the statistics of the General Administration of Customs with respect to trade in goods can be reconciled by the following: First, the BOP statistics supplement the records of non-resident manufacturing by multinational companies in domestic processing trade, offshore transactions, re-exports, and other cases where the ownership changes but the goods do not cross borders. Second, the BOP statistics exclude goods trade in goods involving processing activities where the ownership does not change but the goods cross borders. This includes cases such as processing with imported materials and outward processing. The relevant processing services are included in the services trade statistics. Third, the BOP statistics require that both the import and export values be recorded at offshore prices. For exports, the value is recorded at the offshore price, while for imports, the value is recorded at the onshore price. As a result, the international

3346.9 billion, up 4 percent year on year. Imports of trade in goods totaled USD 2678.2 billion, up 1 percent. Trade in goods recorded a surplus of USD 668.6 billion, up 19 percent (see Figure 1-5).

The deficit in trade in services narrowed. In 2022, revenue from the services trade reached USD 369 billion, an increase of 9 percent and there were expenditures of USD 461.3 billion, an increase of 5 percent. The deficit was USD 92.3 billion, a decrease of 9 percent (see Figure 1-5). Among these, travel, transportation, and intellectual-property usage fees were the main deficit items, with their scale increasing by 7 percent, increasing by 24 percent, and decreasing by 11 percent, respectively. Telecommunications, computers, information services, and commercial services were the main surplus items, and their total surplus increased by 34 percent.



Source: SAFE

Figure 1-5 Major Sub-Items under the Current Account

Primary income[2] continued to post a deficit. In 2022, revenue from primary income totaled USD 190.2 billion and

balance-of-payments statistics deduct international freight and insurance expenditures from the customs import value and include them in the services trade statistics.

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

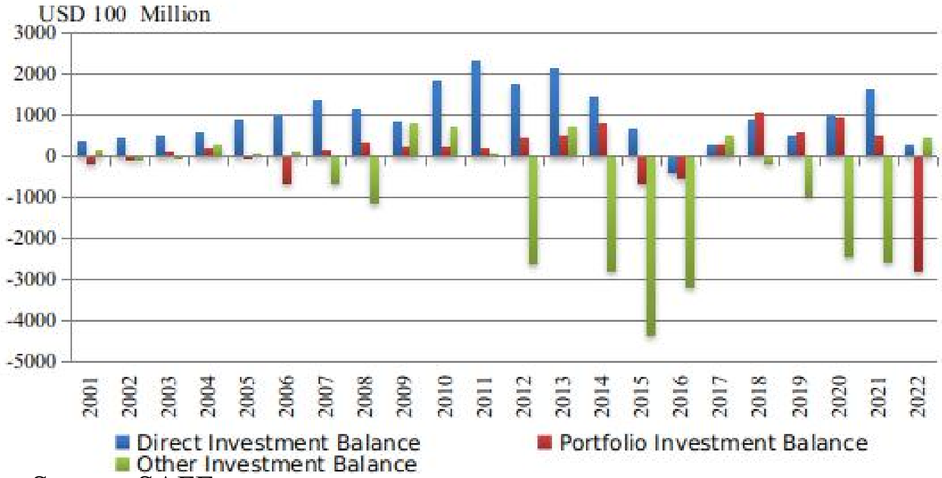
expenditures from primary income totaled USD 383.9 billion. Primary income thus recorded a deficit of USD 193.6 billion (see Figure 1-6). Specifically, employee compensation recorded a surplus of USD 6.3 billion and investment income recorded a deficit of USD 203.1 billion. From the perspective of investment income, expenditures for various types of inward investments totaled USD 368.9 billion and revenue from outward investments totaled USD 165.8 billion.

Secondary income continued to post a small surplus. In 2022, revenue from secondary income totaled USD 44.7 billion and expenditures for secondary income totaled USD 25.6 billion. Secondary income thus recorded a surplus of USD 19.1 billion (see Figure 1-6).

Direct investments continued to post a surplus. Based on the balance-of-payments statistics,[3] in 2022, direct investments posted a surplus of USD 30.5 billion (see Figure 1-6). Outflows of outward direct investments (net increase in assets) reached USD 149.7 billion, and the overall "going global" of enterprises maintained a trend of rational and orderly development. Inflows of foreign direct investments (net increase in liabilities) totaled USD 180.2 billion, reflecting the strong attractiveness of China's industrial and supply chains as well as the enormous potential of the domestic consumer

[3] The BOP statistics and the statistics of the Ministry of Commerce with respect to direct investments can be reconciled by the following: First, 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. Second, direct investments in the BOP statistics are compiled on a net basis, that is, both assets and liabilities are calculated by the investment minus the divestment. In addition, direct investments based on the BOP statistics include unpaid and unremitted profits, retained earnings, shareholders' loans, foreign capital utilized by financial institutions, and real-estate purchases by non-residents.

market to international long-term capital.



Source: SAFE

Figure 1-6 Major Items under the Capital and Financial Accounts

Portfolio investments recorded a deficit. In 2022, portfolio investments posted a deficit of USD 281.1 billion (see Figure1-6). Specifically, outflows of outward portfolio investments (net increase in assets) totaled USD 173.2 billion. Affected by changes in the internal and external environments, net outflows of inward portfolio investments (net decrease in liabilities) totaled USD 107.9 billion.

Overall, other investments were balanced. In 2022, other investments, including deposits, loans, and trade receivables and payables, posted a surplus of USD 45.4 billion (see Figure 1-6). Specifically, net inflows of outward other investments (net decrease in assets) totaled USD 138.6 billion and net outflows of inward other investments (net decrease in liabilities) totaled USD 93.2 billion.

Reserve assets remained stable. In 2022, reserve assets involving transactions (excluding the effects of non-transactional values, such as the exchange rate and prices) increased by USD 100 billion. Specifically, foreign-currency reserve assets increased by USD 98.2 billion.

Table 1-2 China's Balance of Payments in 2022

USD 100 million

Item	Line No.	2022
1. Current account	1	**4,019**
Credit	2	39,508
Debit	3	**-35,489**
1.A Goods and services	4	5,763
Credit	5	37,158
Debit	6	-31,395
1.A.a Goods	7	**6,686**
Credit	8	33,469
Debit	9	-26,782
1.A.b Services	10	**-923**
Credit	11	3,690
Debit	12	-4,613
1.A.b.1 Manufacturing services on physical inputs owned by others	13	135
Credit	14	143
Debit	15	-8
1.A.b.2 Maintenance and repair services n.i.e	16	39
Credit	17	83
Debit	18	-43
1.A.b.3 Transport	19	-224
Credit	20	1,465
Debit	21	-1,689
1.A.b.4 Travel	22	-1,052
Credit	23	96
Debit	24	-1,148
1.A.b.5 Construction	25	67
Credit	26	143
Debit	27	-76
1.A.b.6 Insurance and pension services	28	-153
Credit	29	45
Debit	30	-198
1.A.b.7 Financial services	31	11
Credit	32	50
Debit	33	-39
1.A.b.8 Charges for the use of intellectual property	34	-312
Credit	35	133
Debit	36	-445
1.A.b.9 Telecommunications, computer, and information services	37	178
Credit	38	557

Debit	39	-379
1.A.b.10 Other business services	40	419
Credit	41	944
Debit	42	-525
1.A.b.11 Personal, cultural, and recreational services	43	-12
Credit	44	14
Debit	45	-26
1.A.b.12 Government goods and services n.i.e	46	-19
Credit	47	17
Debit	48	-36
1.B Primary income	49	**-1,936**
Credit	50	1,902
Debit	51	-3,839
1.B.1 Compensation of employees	52	63
Credit	53	204
Debit	54	-141
1.B.2 Investment income	55	-2,031
Credit	56	1,658
Debit	57	-3,689
1.B.3 Other primary income	58	32
Credit	59	41
Debit	60	-9
1.C Secondary income	61	**191**
Credit	62	447
Debit	63	-256
1.C.1 Personal transfers	64	15
Credit	65	57
Debit	66	-42
1.C.2 Other secondary income	67	176
Credit	68	390
Debit	69	-214
2. Capital and financial account	70	**-3,113**
2.1 Capital account	71	**-3**
Credit	72	2
Debit	73	-5
2.2 Financial account	74	**-3,110**
Assets	75	-2,815
Liabilities	76	-294
2.2.1 Financial account excluding reserve assets	77	**-2,110**
Financial assets excluding reserve assets	78	-1,816
Liabilities	79	-294

2.2.1.1 Direct investment	80	**305**
2.2.1.1.1 Assets	81	**-1,497**
2.2.1.1.1.1 Equity and investment fund shares	82	-820
2.2.1.1.1.2 Debt instruments	83	-677
2.2.1.1.1.a Financial sector	84	-364
2.2.1.1.1.1.a Equity and investment fund shares	85	-308
2.2.1.1.1.2.a Debt instruments	86	-56
2.2.1.1.1.b Non-financial sector	87	-1,133
2.2.1.1.1.1.b Equity and investment fund shares	88	-512
2.2.1.1.1.2.b Debt instruments	89	-621
2.2.1.1.2 Liabilities	90	**1,802**
2.2.1.1.2.1 Equity and investment fund shares	91	1,597
2.2.1.1.2.2 Debt instruments	92	205
2.2.1.1.2.a Financial sector	93	125
2.2.1.1.2.1.a Equity and investment fund shares	94	116
2.2.1.1.2.2.a Debt instruments	95	10
2.2.1.1.2.b Non-financial sector	96	1,677
2.2.1.1.2.1.b Equity and investment fund shares	97	1,481
2.2.1.1.2.2.b Debt instruments	98	195
2.2.1.2 Portfolio investment	99	**-2,811**
2.2.1.2.1 Assets	100	**-1,732**
2.2.1.2.1.1 Equity and investment fund shares	101	-477
2.2.1.2.1.2 Debt securities	102	-1,255
2.2.1.2.2 Liabilities	103	**-1,079**
2.2.1.2.2.1 Equity and investment fund shares	104	344
2.2.1.2.2.2 Debt securities	105	-1,423
2.2.1.3 Financial derivatives (other than reserves) and employee stock options	106	**-58**
2.2.1.3.1 Assets	107	27
2.2.1.3.2 Liabilities	108	-85
2.2.1.4 Other investment	109	**454**
2.2.1.4.1 Assets	110	**1,386**
2.2.1.4.1.1 Other equity	111	-2
2.2.1.4.1.2 Currency and deposits	112	125
2.2.1.4.1.3 Loans	113	1,011
2.2.1.4.1.4 Insurance, pension, and standardized guarantee schemes	114	-56
2.2.1.4.1.5 Trade credit and advances	115	103
2.2.1.4.1.6 Other accounts receivable	116	204
2.2.1.4.2 Liabilities	117	**-932**
2.2.1.4.2.1 Other equity	118	0
2.2.1.4.2.2 Currency and deposits	119	-528

2.2.1.4.2.3 Loans	120	-178
2.2.1.4.2.4 Insurance, pension, and standardized guarantee schemes	121	25
2.2.1.4.2.5 Trade credit and advances	122	-314
2.2.1.4.2.6 Other accounts payable	123	64
2.2.1.4.2.7 Special drawing rights	124	0
2.2.2 Reserve assets	125	**-1,000**
2.2.2.1 Monetary gold	126	-35
2.2.2.2 Special drawing rights	127	19
2.2.2.3 Reserve position in the IMF	128	-2
2.2.2.4 Foreign exchange reserves	129	-982
2.2.2.5 Other reserve assets	130	0
3.Net errors and omissions	131	**-906**

Notes:

1. This table is compiled according to the Balance of Payments Manual (Sixth Edition). The statistics are for all economic transactions between Chinese residents and non-residents. Chinese residents follow the principle of economic entity, excluding institutions and individuals in Hong Kong and Macao SAR and Taiwan of China. Therefore, the trade and investment transactions between mainland China and the above three regions are recorded as cross-border transactions.

2. "Credits" are shown as positive values and "debits" are shown as negative values, with the balance equal to the "credits" plus the "debits." With the exception of the items marked "credit" or "debit," all other items in this table refer to the balance.

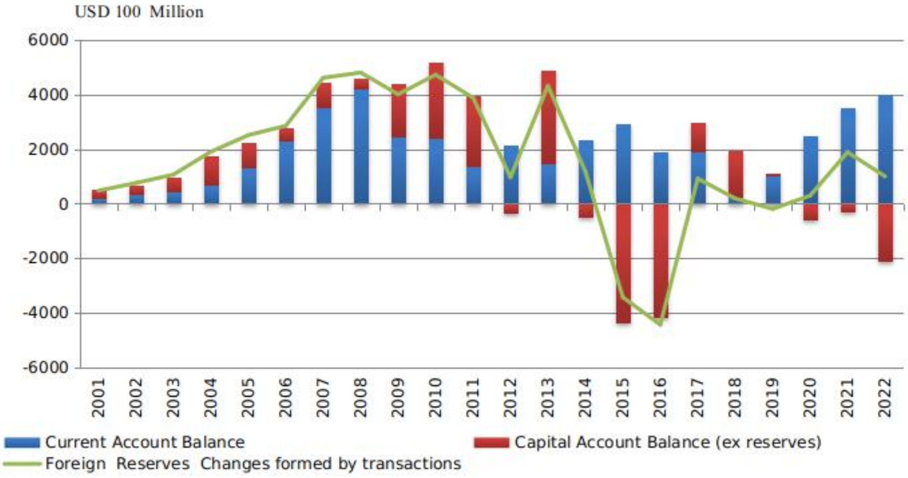
3. This table is based on rounding principles.

Source: SAFE

(III) Evaluation of the Balance of Payments

The current-account surplus grew steadily and remained at a reasonable and balanced level. In 2022, China's current-account surplus was USD 401.9 billion, an increase of 14 percent over 2021, which was basically the same as the historical peak. It accounted for 2.2 percent of GDP, continuing within a reasonably balanced range. The steady operation of China's current account mainly benefits from the following two factors. **First,** in terms of trade in goods, the domestic industrial chain and supply chain still have strong advantages and resilience, the manufacturing industry continues to be transformed and upgraded, new trade models, such as cross-border e-commerce, are flourishing, new growth points of trade are constantly emerging, and China's trading partners are becoming increasingly diversified, thus contributing to robust growth of trade in goods. **Second,** in terms of trade in services, revenue from productive services, such as computer information services, intellectual property, and commercial services, grew rapidly, and travel expenses, such as study abroad, increased, but they were still significantly lower than their level prior to the epidemic.

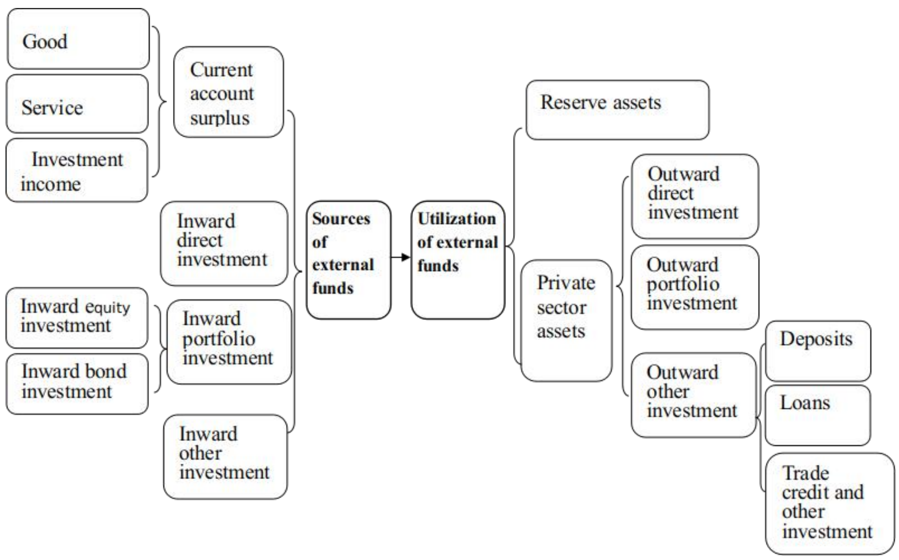
China's balance of payments formed an independent equilibrium,pattern between the non-reserve financial-account deficit and the current-account surplus. In recent years, with the exit of the central bank from normalized foreign-exchange interventions, China's balance of payments has gradually formed an independent balanced pattern, which is mainly reflected by the stable surplus in the current account, the small deficit in the non-reserve financial account, and the more stable changes in reserve assets. In 2022, the non-reserve financial account recorded a deficit of USD 211 billion. **First,** direct investments posted a surplus of USD 30.5 billion. Among them, foreign direct investments totaled USD 180.2 billion, which was down from 2021 but was about the same as it was in 2019 prior to the epidemic. Outward direct investments maintained their trend of generally stable development. **Second,** China promoted the opening of its financial market in a gradual and controllable manner. In recent years, foreign investors have continuously increased their holdings of RMB assets, and most investments have been relatively stable. Therefore, the fluctuations in related capital were not significant in the context of the changes in the international environment in 2022. Since the end of the year, capital has already returned to a state of basic stability, with an improvement in external liquidity. Meanwhile, domestic entities have been enthusiastic about overseas investments, with an increase of 38 percent in foreign portfolio investments. **Third,** external liabilities under other investments, such as deposits and loans, decreased, mainly reflecting the changes and the impacts of the international financial environment. Capital related to external assets, such as cross-border deposits and loans, has seen a partial inflow of foreign assets, hedging the capital outflows through some other channels and playing a self-regulating role (see Figure 1-7).



Source: State Administration of Foreign Exchange

Figure 1-7 Structure of China's BOP

The surplus in cross-border trade and investments was mainly converted into outward investments by domestic market entities. Balance-of-payment data show that the scale of capital sources for China's outward investments totaled USD 380.9 billion in 2022, mainly coming from the large surplus in the current account and the net inflows into China of foreign direct investments. The capital sources were still based on the surplus in cross-border trade and investments related to the real economy rather than relying on external financing, so they were characterized by high stability. Most of the above-mentioned capital was converted into outward investments by domestic market entities, including USD 149.7 billion of foreign direct investments and USD 173.2 billion of foreign portfolio investments, accounting for more than 80 percent of the sources of capital. This is an important manifestation of "enabling the public to increase their holdings of foreign exchange." In addition, reserve assets increased by USD 100 billion. Overall, China's enterprises, banks, and other market entities have improved their efficiency in allocating resources under the market regulatory mechanism, and the sources and applications of outward capital have been basically matched. The large surplus in cross-border trade and capital inflows of foreign investments no longer correspond to rapid growth in official reserves; instead they are mainly reflected in various types of outward investments by domestic entities. Thus, the holders of China's external assets and the types of outward investments are more diversified, which helps to optimize the structure and to match external assets and liabilities, to improve the coordination of risks and returns, and to further enhance the market entities' ability to resist risks.



Note: Figure 1-8 displays the main items in sources and uses of external funds, but it does not encompass all the items.

Source: State Administration of Foreign Exchange

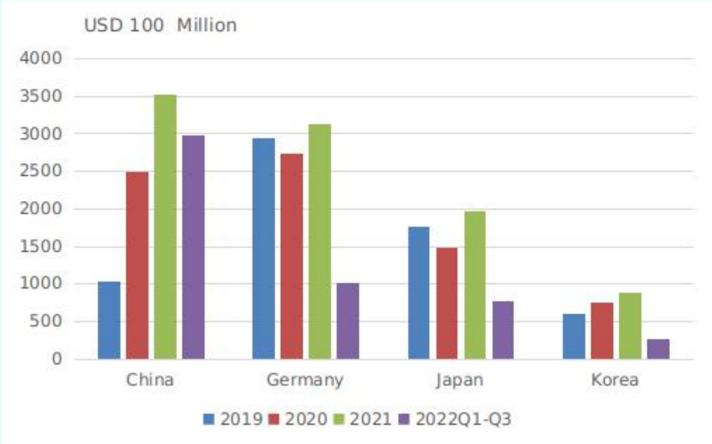
Figure 1-8 Sources and Utilization of China's Outward Capital

BOX 2

The Stability of China's Current Account Has Demonstrated Outstanding Performance on a Global Scale

Over the years, China's current-account surplus has remained in a reasonable and balanced range. Since the outbreak of COVID-19 in 2020, China's current account has shown a strong robustness. The scale of the current-account surplus has continued to grow steadily, playing a fundamental role in stabilizing the balance of payments and the foreign-exchange market.

Since 2020, many countries with current-account surpluses have experienced large fluctuations in the scale of their surpluses, while China's current-account surplus has maintained steady growth. At the initial stage of the global pandemic in 2020, the current-account surpluses of Germany and Japan narrowed by 7 percent and 16 percent, respectively. In 2021, their current-account surpluses resumed growth from their low base. Since the 2022 crisis in Ukraine, the current-account surpluses of several energy suppliers, such as Russia and Norway, have increased, while the current-account surpluses of most traditional trade-surplus countries have declined significantly. In the first three quarters of 2022, the current-account surpluses of Germany, Japan, and South Korea were USD 102.2 billion, USD 77.8 billion, and USD 25.7 billion, respectively, down 57 percent, 53 percent, and 60 percent from the same period of 2021. Since 2020, China's current-account surplus has continued to show a growth trend. The scale of the surplus has increased from USD 102.9 billion in 2019 to USD 401.9 billion in 2022, with an average annual growth rate of 66 percent, and its ratio to the gross domestic product (GDP) has remained at about 2 percent, which continues to be within a reasonable and balanced range.



Sources: IMF, State Administration of Foreign Exchange

Figure C2-1 The Current Accounts of China, Germany, Japan, and South Korea

Trade in goods is the main source of a current-account surplus. In recent years, many surplus countries have been impacted by a number of factors, but China's trade in goods has become more resilient and its surplus has increased. The countries with a surplus of trade in goods can be roughly divided into two groups: the countries exporting industrial products and the countries exporting energy and resources. Among these, Germany, Japan, South Korea, and China mainly stimulate exports of industrial products through manufacturing and they are also important energy demand countries. In recent years, affected by the global pandemic and the crisis in Ukraine, many countries with a surplus in trade in goods, which mainly export industrial products, have faced multiple shocks. In 2022, in particular, trade in goods in Germany, Japan, and South Korea recorded much smaller surpluses or even deficits. According to data from the International Monetary Fund, during the first three quarters of 2022, the German and South Korean surpluses in trade in goods were USD 86.7 billion and USD 17.5 billion, respectively, a year-on-year decrease of 53 percent and 71 percent, respectively. Japan's trade in goods posted a deficit of USD 85 billion, compared to a surplus of USD 21.1 billion during the same period of 2021. In 2022, China's surplus of trade in goods was USD 668.6 billion, an increase of 19 percent compared to 2021, and continuing the growing trend of the past three years.

The stable industrial and supply chain and the optimization of the trade structure in China are crucial factors supporting the surplus of trade in goods.

From the perspective of exports, China has a complete range of industries and the manufacturing industry is continuing to be transformed and upgraded. China exports not only mid- to high-end manufacturing products, such as automobiles and machinery, which also account for a relatively high proportion of exports in Germany, Japan, and South Korea but also daily necessities such as textiles and clothing as well as daily electronic products such as mobile phones and computers, which better satisfied global consumer demand against the background of the pandemic. At the same time, China's export markets are diversified and the proportion of exports to ASEAN and Africa has been increasing year by year in recent years, effectively compensating for the impact of the fluctuations in demand for exports in Europe and United States. Germany has sold over 70 percent of its exports to Europe and the United States, while Japan and South Korea have exported a relatively low proportion of their exports to Africa and Latin America. From the perspective of imports, although the crisis Ukraine has raised global food and energy prices, the proportion of food in China's imports is relatively low and China is strongly able to be self-sufficient in food grain. At the same time, the proportion of oil and natural gas in China's imports is lower than that in Japan and South Korea, and China has stable and diversified sources of energy imports. In 2022, the growth rate of energy commodity imports in China was half that of Germany, Japan, or South Korea.

In recent years, China's deficit in trade in services has generally narrowed, which, in addition to being affected by the global pandemic, also reflects the vigorous development of emerging trade in services, which is another factor leading to an increase in the current-account surplus. In the first three quarters of 2022, Germany's trade in services recorded a deficit of USD 32.1 billion, compared to a surplus of USD 2.1 billion in the same period of 2021. Japan's trade in services posted a deficit of USD 33.8 billion, an increase of 18 percent compared to the same period of 2021. The larger deficits in Germany and Japan were mainly due to the increase in deficits in information and computer services, commercial services, and intellectual-property usage fees. At the same time, the opening of the borders in

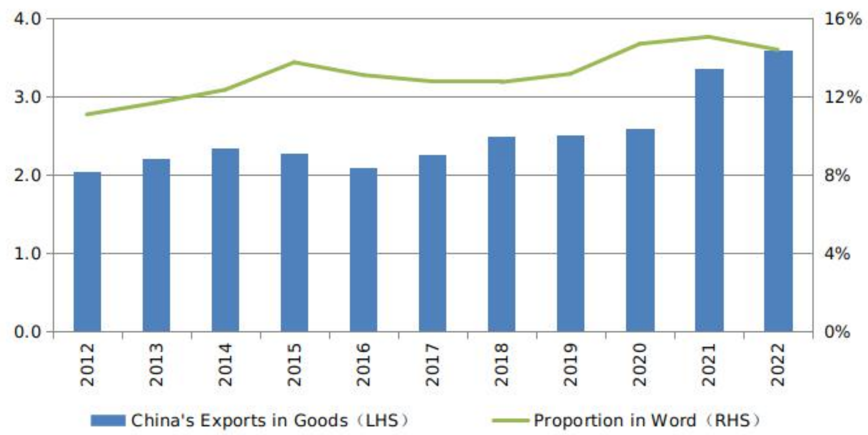
Germany was relatively early, driving the gradual recovery of travel expenses. During the past three years, against the backdrop of the global pandemic China's travel deficit has remained low. However, in 2022 the deficit in trade in services narrowed further by 9 percent while the travel deficit increased, mainly due to the surplus in other commercial services and telecommunications and computer information services which increased by 24 percent and 66 percent, respectively. This indicates that the international competitiveness of China's knowledge-intensive services industry has been strengthened, and it also reflects the fruitful achievements of the deep integration of the manufacturing industries and the service industries in recent years.

In the future, China will accelerate construction of a new development pattern, enhance the endogenous power and reliability of domestic systemic circulation, and improve the quality and level of international circulation, which will help to improve the quality and efficiency of trade in goods and the high-quality development of trade in services, and will further consolidate the foundation for the sound operation of China's current account.

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

（Ⅰ） Trade in Goods

Exports and imports of goods achieved steady growth, and the terms of trade improved further. In 2022, facing the complex international economic environment and the highly volatile international financial markets, China coordinated the domestic and international situations and its foreign trade withstood the impact of multiple unexpected factors, maintaining stable growth on the high base of 2021. According to customs statistics, in 2022 China's foreign trade in goods totaled USD 6.31 trillion, an increase of 4.4 percent over 2021. Among the foreign trade in goods, exports reached USD 3.59 trillion, an increase of 7 percent, imports reached USD 2.72 trillion, an increase of 1.1 percent. According to the United Nations Conference on Trade and Development (UNCTAD), global exports were expected to grow at 10 percent in 2022. China accounted for 14.4 percent of global exports and remained at its elevated level of recent years (see Figure 2-1). In 2022, China's trade surplus in goods was USD 877.6 billion, an increase of 31 percent compared to 2021. China's terms of trade index (export price index/import price index) was 100.5, an increase of 8.5 percentage points compared to 2021, reflecting further improvements in China's terms of trade.



Sources: General Administration of Customs, United Nations Conference on Trade and Development

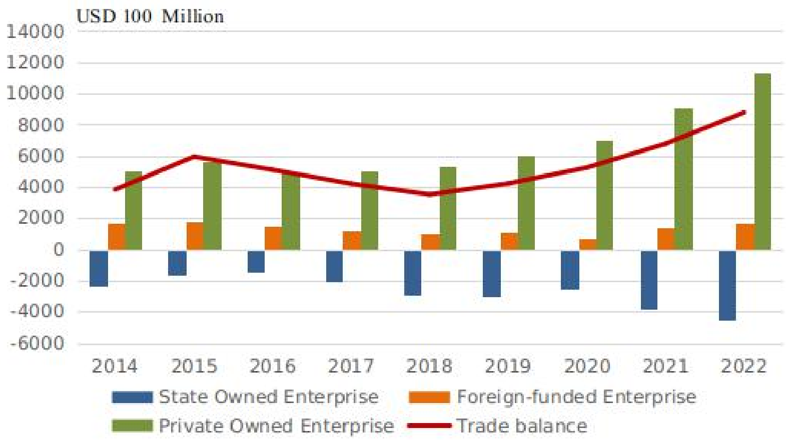
Figure 2-1 China's Exports in Goods and Their Proportion in Global Trade, 2012－2022

The structure of trade in goods continued to improve. In 2022, China's general trade in goods reached USD 4.02 trillion, accounting for 63.8 percent of total foreign trade, up 2.1 percentage points over 2021 and continuing the steady upward trend in recent years. Exports and imports of processing goods amounted to USD 1.27 trillion, accounting for 20.1 percent of total foreign trade, a decrease of 1.7 percentage points compared to 2021 (see Figure 2-2). From the perspective of the trade balance, in 2022 China's general trade surplus reached USD 551 billion, accounting for 62.8 percent of the total trade balance, an increase of 7.7 percentage points compared to 2021. The trade surplus in processing goods was USD 350.4 billion, accounting for 39.9 percent, a decrease of 9.9 percentage points compared to 2021.

Source: General Administration of Customs

Figure 2-2 Proportion of General Trade and Processing Trade, 2017 – 2022

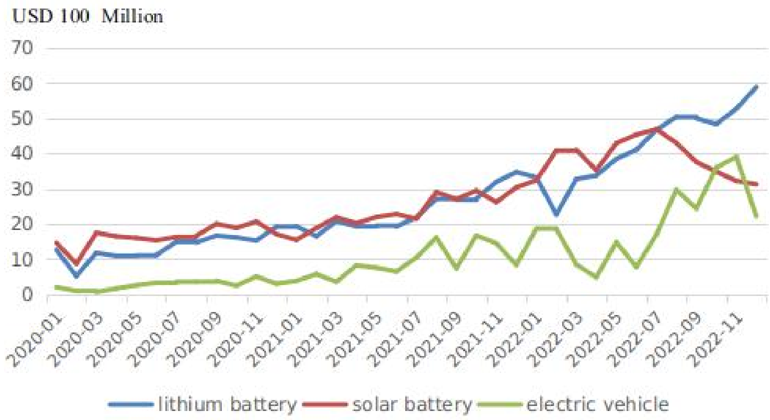
For the first time, private enterprises contributed to half of the volume of China's foreign trade. In 2022, exports and imports of goods by private enterprises totaled USD 3.13 trillion, an increase of 9 percent compared to 2021 and accounting for 50 percent of the total foreign trade. Private enterprises played a significant role in stabilizing China's foreign trade. Exports and imports of goods by foreign-invested enterprises totaled USD 2.08 trillion, accounting for 33 percent. Exports and imports of goods by state-owned enterprises totaled USD 1.02 trillion, accounting for 16 percent. From the perspective of the trade balance, in 2022 private enterprises and foreign-invested enterprises recorded a trade surplus of USD 1132.2 billion and USD 170.3 billion, respectively, while state-owned enterprises recorded a deficit of USD 447.6 billion (see Figure 2-3).



Source: General Administration of Customs

Figure 2-3 Balance of Trade in Goods in Terms of Contributors

New export momentum constantly emerged. From an export perspective, in 2022 China's exports of mechanical and electrical products reached USD 2.05 trillion, an increase of 3.6 percent compared to 2021, accounting for 57 percent of total exports and maintaining a high contribution rate to China's exports. Among them, exports of green and low-carbon products, such as solar cells, lithium batteries, and electric vehicles have shown an overall upward trend in recent years, with a growth rate of over 60 percent and total exports of over USD 120 billion in 2022 (see Figure 2-4). New forms of trade were thriving, with cross-border e-commerce exports reaching RMB 1.55 trillion and up 12 percent in 2022. From the perspective of imports, affected by the rise in commodity prices, imports of crude oil, natural gas, and coal totaled USD 478.1 billion, an increase of 36.5 percent and accounting for 17.6 percent of total imports. Imports of agricultural products and food totaled USD 444 billion, an increase of 7.2 percent and accounting for 16.3 percent of total imports.



Source: General Administration of Customs

Figure 2-4 Export of Lithium Batteries, Solar Cells, and Electric Vehicles

China's trade with "Belt and Road" and RCEP countries witnessed rapid growth. In 2022, China's trade with its top three trade partners, ASEAN, the European Union, and the United States, reached USD 975.3 billion, USD 847.3 billion, and USD 759.4 billion, respectively, an increase of 11.2 percent, 2.4 percent, and 0.6 percent compared to 2021. At the same time, China's trade with countries along the "Belt and Road" increased by 15.4 percent, accounting for 32.8 percent of China's total foreign trade and up 3 percentage points compared with 2021. China's trade with the other 14 member countries of the Regional Comprehensive Economic Partnership Agreement (RCEP) increased steadily, with the growth rates exceeding 15 percent for Malaysia, Indonesia, Singapore, Myanmar, Cambodia, and Laos (see Figure 2-5).

Source: General Administration of Customs

Figure 2-5 China's Exports and Imports with its Major Trade Partners in 2022

BOX 3

The Differences in the Statistical Standards between the BOP Trade in Goods and the Customs Import and Export Data

The BOP trade in goods follows the principles and standards of the balance-of-payments compilation; its differences with the customs import and export data are influenced by numerous factors, such as the statistical principles and the pricing methods. Understanding the similarities and differences between the two types of data can help to scientifically analyze China's foreign economic and trade situation and international balance-of-payments status. In recent years, the State Administration of Foreign Exchange has continued to strengthen the collection of data directly reported by the import and export enterprises, to improve the trade-in-goods statistical system, and to continuously upgrade the quality of the balance-of-payments statement.

There are significant differences in the statistical principles between the BOP goods trade and the customs import and export data, which reflect the development of the status of foreign trade from the perspectives of "transfer of goods ownership" and "cross-border movement of goods," respectively. According to the international balance-of-payments standard, BOP trade in goods reflects transactions involving ownership of goods between residents and nonresidents. Regardless of whether the goods enter or exit the customs territory, as long as there is a transfer of ownership, it must be included in the international balance-of-payments statistics. This indicates an exchange of economic benefits between the two parties to the transaction, which usually corresponds to the settlement between residents and nonresidents or the forms of trade credit claims and debts, such as receivables and payables, advance receipts, and prepayments. Because it is consistent with the principles of the national accounts compilation, the BOP trade in goods is directly used in the gross domestic product (GDP) by expenditure approach. The customs import and export data reflect the cross-border movement of goods, focusing on the entry or departure of material resources into or out of the territory of China, without consideration of whether ownership of the goods is transferred between residents and nonresidents. In recent years, with China’s rapid development of its trade formats and regulatory reforms, the separation of the cross-border movement of goods and the transfer of the ownership of goods have become more common. There are mainly three types of situations:

The first situation is that of global production arrangements, such as "factory-less manufacturing" by multinational corporations. In order to fully utilize China's dual status as a "manufacturing power" and a "consumption power," multinational corporations entrust Chinese enterprises to manufacture and produce goods, which are then sold directly within China's borders. The goods have not been involved in any cross-border movement, but ownership of the goods has been transferred multiple times. After being labeled, the retail price of the products is much higher than the factory price of the Chinese manufacturing enterprises. The above transactions are not included in the customs import and export statistics, but they are included in the international balance-of-payments trade-in-goods statistics. This phenomenon is particularly evident in the electronics industry.

The second situation is the movement of goods that does not involve a transfer of ownership, such as processing, warehousing, and logistics services. When the materials to be processed and the finished products enter or exit the customs territory of the processing enterprise, the customs will calculate the full value of the materials or the finished goods. But because the materials or goods belong to the overseas countries during the entire process from entry to exit, the transactions are not included in the BOP trade in goods. The international balance of payments only includes the processing service fees collected by the processing enterprise. Similarly, there are warehousing services provided by warehousing enterprises in special regulatory areas for overseas enterprises. Goods entering and exiting the customs are declared and included in the customs import and export statistics, but ownership of the goods from entry to departure belongs to the overseas enterprises and it is not included in the BOP trade-in-goods statistics.

The third situation is the transfer of goods ownership that occurs overseas. If the goods are purchased and resold overseas in merchandising transactions, due to the fact that the goods do not enter or exit China's customs territory and do not require any customs declaration, they are not included in the customs import and export statistics. However, ownership of the goods has changed twice, and the goods are included in the international balance-of-payments trade statistics.

In addition, price factors such as the pricing principles and the pricing basis are also important sources of the differences between the two types of data. First, in the international balance-of-payments statistics, the purchase and sale of goods are all based on FOB prices, excluding the impact of freight and insurance premiums; in the customs statistics, the import price of goods is CIF, while the export price is FOB. Second, in practice, the valuation of the BOP trade in goods is based on the transaction prices recorded by the enterprises, while in the customs import and export statistics, the pricing is based on the cross-border declaration value by the customs declaration entities. Due to situations such as proxy declarations, goods ownership is not consistent with goods cross-border movement, or if ownership is transferred between nonresidents etc., there may be a significant deviation between the declaration price and the transaction price. When logistics, warehousing, and other types of enterprises function as agents for the customs declaration of the export of goods, the customs declaration price is often the overseas market sales price offered by the overseas entrusted customers, which is generally higher than the transaction price between the overseas entrusted customers and the domestic processing enterprises.

Table C3-1 Differences in the Statistical Standards for the BOP Trade in Goods and the Customs Import and Export Data

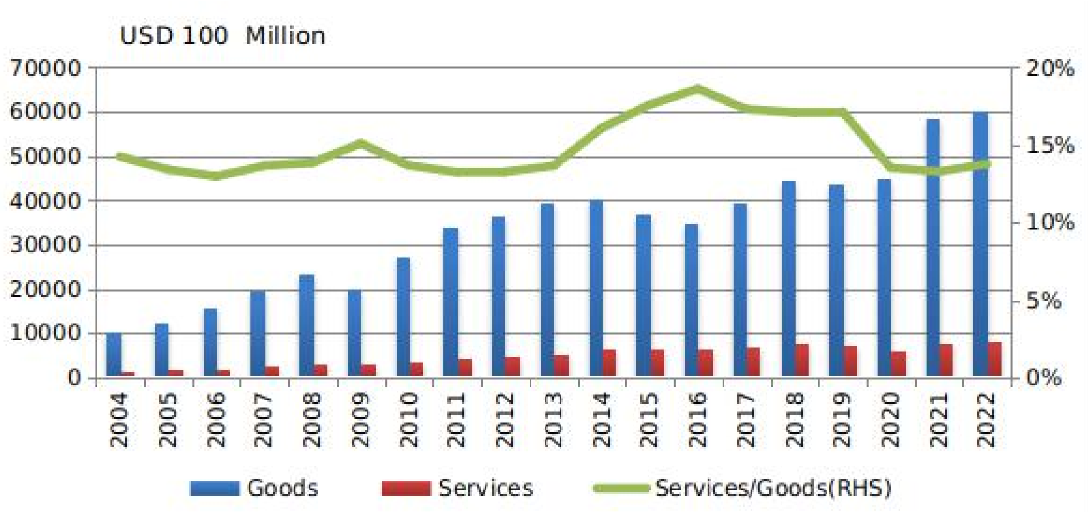
Customs import and export (Cross border movement of goods)	Main differences	BOP goods trade (Transfer of ownership of goods)
	1. Different statistical principles	

×	① Domestic production+ Domestic sales (Transfer of ownership)	√
√ (Full value recorded in imports and exports)	②Processing	× (Processing revenue should be recorded in the services trade)
×	③ Merchandising	√ (Net amount recorded on the credit side of the goods account)
√	④Warehousing, logistics, and others (no transfer of ownership)	×
	2.Price factors	
Customs declaration price (may be the sales price between nonresidents)	①valuation basis	Transaction prices between residents and nonresidents
Exports based on FOB, imports based on CIF	②pricing principles	All based on FOB
	③**O**ther factors, such as import and export returns,false data, etc.	

The changes in and the complexity of the trade patterns create higher requirements for the BOP data sources. China's BOP statistics will continue to improve the quality of the data sources and focus on front-line market entities. The continuous evolution of the global industrial supply chain model of multinational corporations and the rapid development of new forms of foreign trade in China have brought enormous challenges to the BOP trade-in-goods statistics The direct financial data collected from the enterprises come from their accounting and corresponding business information. The principles of accrual and double-entry accounting have an inherent consistency with the BOP statistics, which is conducive to promoting the coordination of "debit and credit" and "flow and stock" on the BOP and IIP statement. In 2023, the State Administration of Foreign Exchange will continue to steadily promote the direct declaration of the BOP statistics by large and medium-sized enterprises, continuously track and study the evolution of various foreign-related business models of import and export enterprises, carry out special trade enterprise surveys to enrich the data sources, and ensure the quality of the data from the sources. At the same time, we will deepen inter-departmental data cooperation to provide a comprehensive and objective data foundation for accurately assessing China's foreign-trade situation.

（Ⅱ） Trade in Services

The volume of trade in services expanded steadily. In 2022, China's trade in services totaled USD 830.2 billion, an increase of 6 percent compared to 2021. The ratio of trade in services to trade in goods was 14 percent, a slight increase of 0.5 percentage point compared to 2021 (see Figure 2-6). In terms of major items, the total volume of transportation reached USD 315.4 billion, an increase of 15 percent compared to 2021. Both the volume and the growth rate of transportation were at the top out of the 12 sub-items of trade in services, reflecting the impact of factors such as the growth of trade in goods and international shipping price adjustments for transportation. The total volume of other business services was the second largest, at USD 146.9 billion, an increase of 5 percent. With a slow rebound in expenditures for cross-border study, the total volume of travel reached USD 124.4 billion, an increase of 3 percent, ranking third largest among the trade-in-services sub-items.

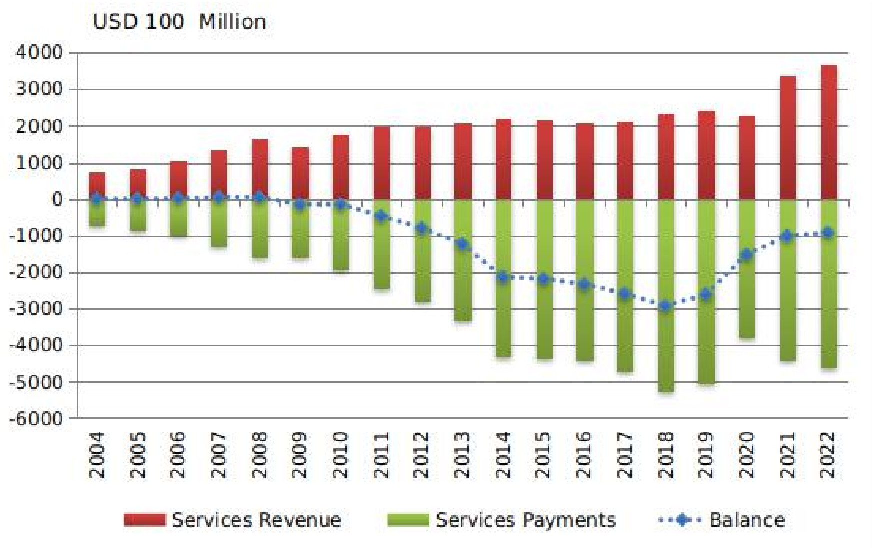


Source: State Administration of Foreign Exchange

Figure 2-6 Comparison of the Total Volume of Trade in Goods and the Total Volume of Trade in Services

Exports of trade in services recorded a new high. In 2022, exports of trade in services reached USD 369 billion, an increase of 9 percent compared to 2021 (see Figure 2-7), representing a historic high. Among the items that accounted for a substantial proportion of the exports of trade in services, the export of transportation reached USD 146.5 billion, an increase of 14 percent and accounting for 40 percent. The export of other business services reached USD 94.4 billion, an increase of 9 percent and accounting for 26 percent. The export of telecommunications, computers, and information services amounted to USD 55.7 billion, an increase of 10 percent and accounting for 15 percent.

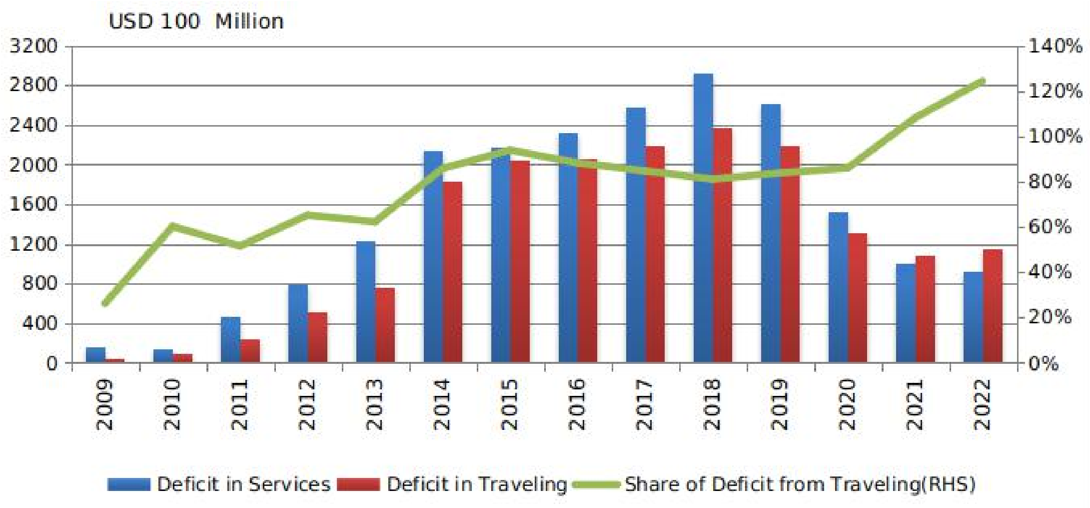
Imports of trade in services continued to grow. In 2022, imports of trade in services reached USD 461.3 billion, up 5 percent over 2021. Among the items that accounted for a substantial proportion of the trade in services, the import of transportation reached USD 168.9 billion, up 15 percent and accounting for 37 percent. The import of travel reached USD 114.8 billion, up 5 percent and accounting for 25 percent. The import of consultancy services, technical services, and other business services totaled 52.5 billion, down 1 percent and accounting for 11 percent.



Source: State Administration of Foreign Exchange

Figure 2-7 Exports and Imports of Trade in Services

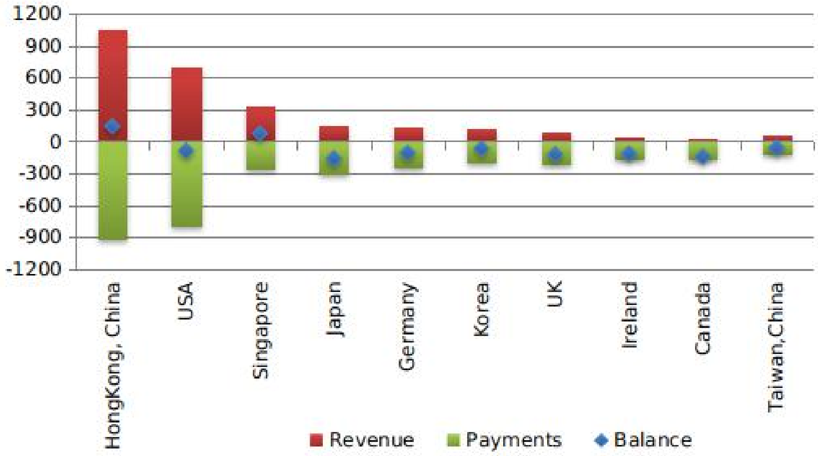
The trade-in-services deficit continued to narrow. In 2022, the deficit in trade in services was USD 92.3 billion, down 9 percent compared to its low 2021 level, mainly reflecting the impact of the rapid increase in the trade surplus in the emerging productive services (see Figure 2-8). In terms of the major items, the deficit in travel was USD 105.2 billion, up 7 percent, indicating that with the optimization and adjustment of the domestic epidemic prevention and control policies, cross-border study and tourism activities resumed in an orderly manner. The deficit in the use of intellectual property was USD 31.2 billion, down 11 percent, mainly due to the increase in the export of the use of intellectual property, indicating an improvement in the international competitiveness of the related industries. The emerging productive services were the main surplus items, among which telecommunications and computer and information services recorded a surplus of USD 17.8 billion, up 66 percent, and other business services recorded a surplus of USD 41.9 billion, up 24 percent.



Source: State Administration of Foreign Exchange

Figure 2-8 Contribution of Travel to the Deficit in Trade in Services

China’s trade partners remained stable. In 2022, China’s top ten partners for trade in services were Hong Kong SAR, the United States, Singapore, Japan, Germany, South Korea, the United Kingdom, Ireland, Canada, and Taiwan province. Trade in services with these partners totaled USD 614.3 billion, accounting for 79 percent of China's total trade in services. The concentration of these trade partners increased compared with that in 2021. Among them, China posted a surplus of trade in services with Hong Kong SAR and Singapore, while China posted a deficit of trade in services with its eight other major trade partners (see Figure 2-9), but the deficit was generally narrowing.



Source: State Administration of Foreign Exchange

Figure 2-9 China's Trade in Service in terms of its Trade Partners in 2022

BOX 4

China's intellectual property is showing a positive trend of development

In recent years, with implementation of a strategy to strengthen intellectual-property rights, China continuously enhanced its international cooperation in intellectual-property rights, and the momentum for development in intellectual-property trade has been positive. Against the backdrop of the epidemic, China showed strong resilience in intellectual-property trade, recording continuous growth in the volume of trade and a gradual increase in its global share. As a result, intellectual-property trade has become an important driving force behind the high-quality development of China's trade in services.

Ⅰ. In recent years, intellectual-property trade in China has continued to expand

Intellectual-property trade is growing rapidly. With the deep adjustments in international economic and trade patterns, the position of intellectual property in the global value chain is becoming increasingly prominent, driving the rapid growth of intellectual-property trade. From 2002 to 2022, the total volume of intellectual-property trade in China increased from USD 3.2 billion to USD 57.8 billion, with an average annual growth rate of about 15.5 percent. During the same period, the average annual growth rates of trade in goods and trade in services were 12.9 percent and 11.6 percent, respectively.

Intellectual-property trade mainly focuses on the introduction of technology. As China's industries accelerate their extension to both ends of the value chain, demand to utilize the achievements in international innovation continues to grow, gradually forming an increasing pattern of mainly importing advanced technology and exporting patent technology. From 2002 to 2022, the import of intellectual property to China increased from USD 3.1 billion to USD 44.5 billion, and the export of intellectual property from China grew at 22.7 percent annually during the same period.

Against the backdrop of the epidemic, the development of intellectual-property trade has shown strong resilience. Since the outbreak of COVID-19, the global economy has suffered from the two-way impact on both supply and demand, creating a downturn, but China's intellectual-property trade has shown strong resilience. In 2022, China's intellectual-property trade accounted for approximately 7 percent of total trade in services, an increase of 1.5 percentage points compared to 2019.

Ⅱ. China has gradually enhanced its competitiveness in intellectual-property trade

The software and information-technology industry has become a pillar industry for China's intellectual-property exports. The software and information-technology services industry contributed $11.3 billion in intellectual-property trade revenue, accounting for 85 percent of the total intellectual-property trade revenue in

China. This sector mainly focuses on electronic communications and online gaming. Driven by policies and other factors, the pharmaceutical manufacturing industry has accelerated the transformation of its R&D achievements. In 2022, the industry recorded revenue of USD 1 billion from intellectual-property trade, accounting for 8 percent of the total revenue from intellectual-property trade.

Technological innovation provides strong support for intellectual-property trade. In recent years, China has continuously increased investments in scientific and technological innovation, strengthened key technology research, fully utilized the innovative abilities of enterprises, and stimulated the innovative vitality of the entire society. The ranking of China's Global Innovation Index[4] rose from 34th place in 2012 to 11th place in 2022. In 2022, China applied for 70,000 international patents, maintaining its position as the world’s top applicant for three consecutive years. The proportion of China's international patent applications to global applications increased from 7.8 percent in 2010 to 25 percent in 2022.

1. China continues to promote the healthy development of intellectual-property trade

China will adhere to its innovation-driven development strategy. China will deepen its reform of the intellectual-property field, promote the construction of a technology-innovation system with enterprises as the main body and it will be market-oriented and deepen the integration of industry, academia, and research. China will also promote the industrialization and large-scale application of recent technologies. In addition, China will coordinate and promote international cooperation in the field of intellectual-property rights, actively participate in the reform and construction of the global governance system for intellectual-property rights, and it will build an international cooperation network with multilateral and bilateral coordination and linkages.

China will increase the cultivation of enterprises with intellectual-property advantages. China will continuously improve the fair-competition system, strengthen

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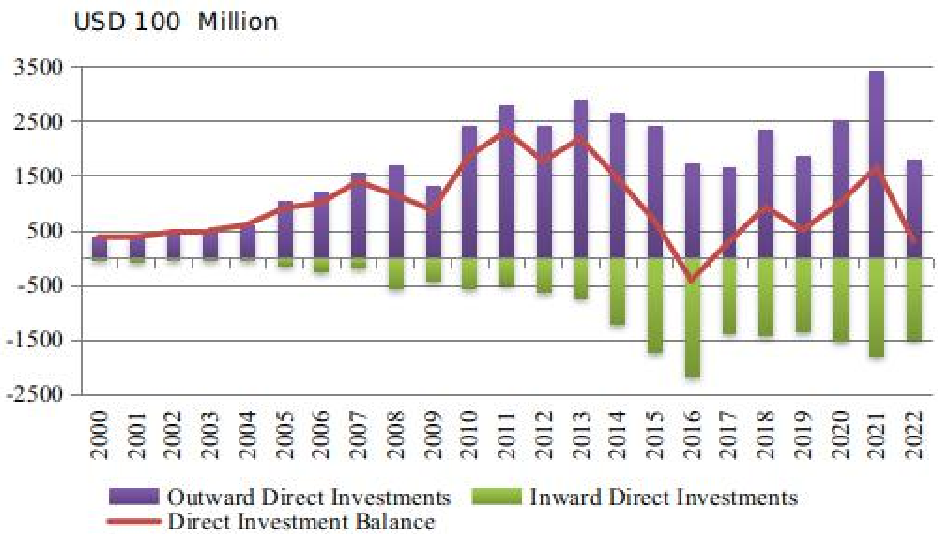
[4] Source：World Intellectual Property Organization.

intellectual-property rights protection, and build a world-class business environment. China will optimize its policy support system and cultivate a group of world-class enterprises with strong intellectual-property competitiveness. China will promote multinational enterprises to participate in more global intellectual-property trade to support the high-quality development of China's services industry.

(III) Direct Investments

Net inflows of direct investments continued.[5] In 2022, net inflows of direct investments in China's balance of payments totaled USD 30.5 billion (see Figure 2-10), with the overall balance of inward and outward direct investments remaining stable.



Source: State Administration of Foreign Exchange

Figure 2-10 China's Direct Investments

Outward direct investments (ODI) remained stable but with a slight decline. In 2022, China's ODI (net increase in direct-investment assets)[6] totaled USD 149.7 billion (see Figure 2-11), basically equal to the average level during the last three years, and the "going-out" of

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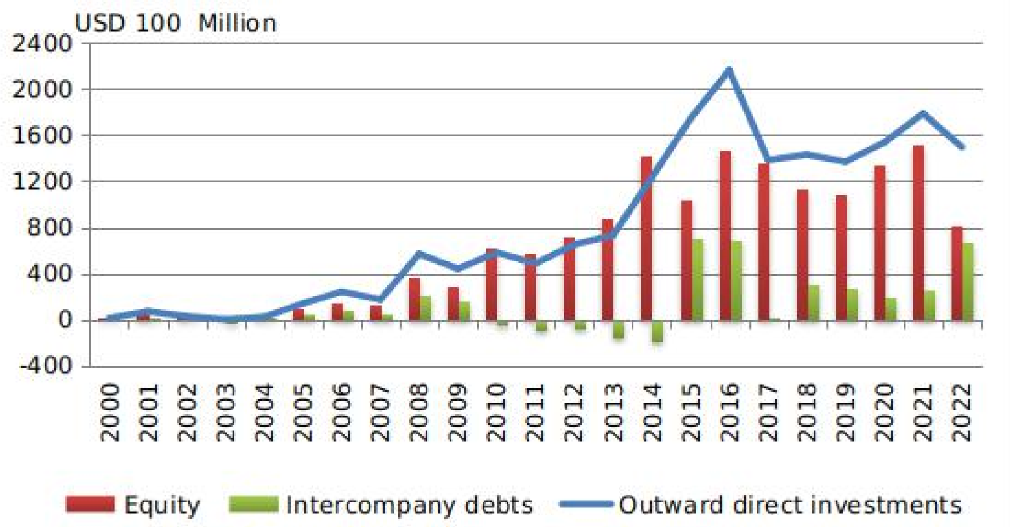
[5] Net flows of direct investments indicate the difference between the increase in direct-investment assets (net outflows of funds) and the net increase in direct-investment liabilities (net inflows of funds). When the net increase in direct-investment assets is larger than the net increase in direct-investment liabilities, direct investments register a net outflow, and vice versa.

[6] Direct-investment assets are mainly composed of external direct investments. These include reverse investments to overseas parent companies by domestic subsidiaries as well as investments between cross-border affiliates. The net increase in direct-investment asset transactions, which is negative in the balance-of-payments statement, represents a net outflow.

domestic enterprises remained stable and orderly.

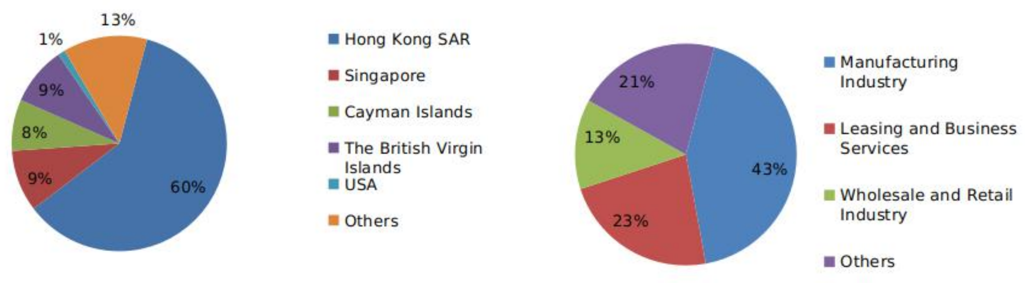
In terms of the composition of direct investments, equity investments were roughly equal to loan assets to overseas affiliated enterprises. First, equity investments amounted to USD 82.0 billion, with the first half of the year and the second half of the year at USD 38.1 billion and USD 43.9 billion, respectively. Second, net outflows of loans to affiliates amounted to USD 67.7 billion, with USD 27.9 billion and USD 39.8 billion, respectively, during the first and second quarters of the year, mainly due to the tightening of monetary policies in the developed economies, which raised overseas financing costs. As a result, overseas companies have significantly increased their funding from domestic affiliated companies.



Source: State Administration of Foreign Exchange

Figure 2-11 China’s Direct-Investment Assets

In terms of sectors, the ODI of the manufacturing industries in China’s non-financial sector rose. **First,** direct-investment assets by the non-financial sector amounted to USD 113.3 billion. The first destination for the “going out” by domestic enterprises is still Hong Kong, China, accounting for 60 percent; among the domestic “going-out” enterprises, manufacturing, leasing and commercial services, and wholesale and retail industries accounted for 43 percent, 23 percent, and 13 percent, respectively (see Figure 2-12). **Second,** direct investments by the financial sector reached USD 36.4 billion.



Source: State Administration of Foreign Exchange

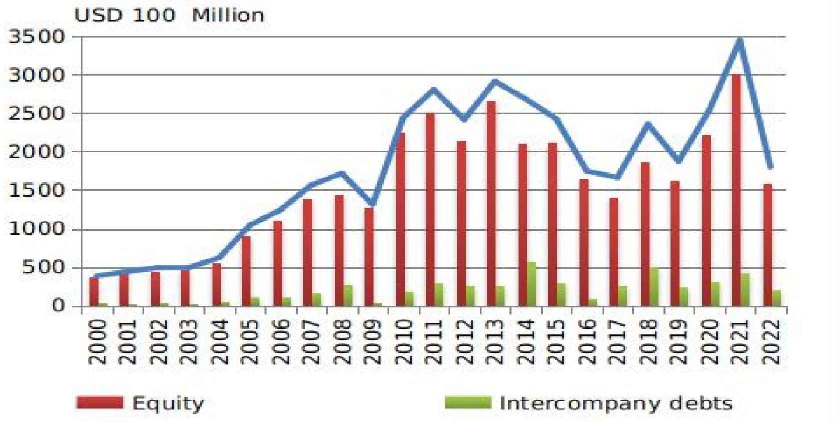
Figure 2-12 Distribution of China's ODI by the Non-financial Sectors in 2022 (by Investment Destination and Domestic Industry)

Inward foreign direct investments in China continued to show a large inflow. In 2022, net inflows of inward direct investments (net increase in liabilities)[7] in China totaled USD 180.2 billion (see Figure 2-13), roughly the same as that in 2019 prior to the pandemic. The scale of inward foreign direct investments in China remained at a relatively high level, reflecting the strong attractiveness of China's industrial and supply chains as well as the huge potential of the domestic consumer market to international long-term capital.

In terms of the composition of inward foreign direct investments, equity investments constituted the major part, supplemented by inflows from affiliates. **First,** net inflows of equity investments in China totaled USD 159.7 billion, of which the inflows of capital investments in China increased by 17 percent and 12 percent in 2019 and 2020, respectively. Second, China received loans from foreign affiliates in the amount of

[7] Direct-investment liabilities are mainly composed of foreign direct investments. These include reverse investments to domestic parent companies by overseas subsidiaries as well as investments between cross-border affiliates. The net increase in direct-investment liability transactions, which is positive in the balance-of-payments statement, represents a net inflow.

USD 20.5 billion, with a net inflow of USD 22.5 billion in the first half of 2022 and a net outflow of USD 2.1 billion in the second half of 2022, due to the rising costs of overseas financing.



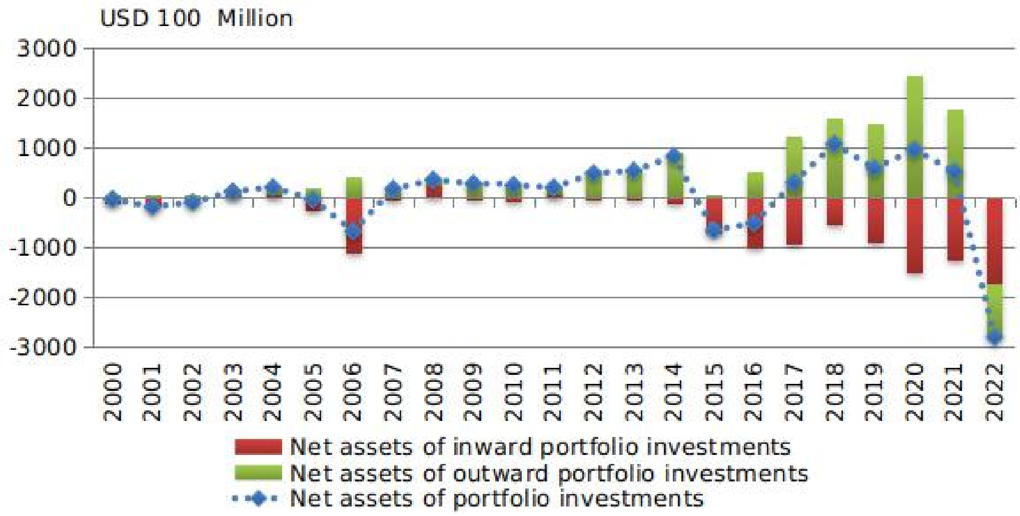
Source: State Administration of Foreign Exchange

Figure 2-13   Direct-Investment Liabilities

In terms of sectors, China's non-financial sector absorbed more than 90 percent of the direct investments in China. **First**, China's non-financial sector absorbed USD 167.7 billion of direct investments. Among these, manufacturing absorbed the most foreign direct investments, accounting for 30 percent and up 16 percent points from 2021; wholesale and retail ranked second, accounting for 19 percent and up 3 percent points from 2021; the scientific research and technology services industry accounted for 18 percent, 5 percent points higher than that in 2021. At the same time, the non-financial sectors in China mainly absorbed direct investments from Hong Kong, China, accounting for more than 70 percent, followed by those from Korea and the Cayman Islands, which together accounted for 15 percent of the total direct investments in the non-financial sectors. **Second**, China's financial sector absorbed USD 12.5 billion, down from 2019 prior to the pandemic, mainly due to a decline in the absorption of capital investments.

(IV) Portfolio Investments

Portfolio investments showed a net outflow that significantly narrowed in the fourth quarter. In 2022, China's net outflows of portfolio investments amounted to USD 281.1 billion (see Figure 2-14), with net outflows of USD 79.6 billion, USD 78.3 billion, USD 104.0 billion, and USD 19.3 billion in the four quarters, respectively. Affected by the high inflation rate, in 2022 the U.S. and the other main advanced economies tightened their monetary policies. As a result, the US dollar exchange rate and interest rate increased, causing a deep decline in the indexes of global stock and debt markets, and cross-border portfolio investments declined. Portfolio investments in China adjusted along with the global trends. At the end of 2022, with the stabilization of the external environment and the steady recovery of the domestic economy, overseas investors resumed their holdings of stocks and debt securities in China. In general, the net outflows in portfolio investments caused by the short-term market inflation did not change the overall balanced pattern of China's cross-border capital flows.



Source: State Administration of Foreign Exchange

Figure 2-14 Net Flows of Portfolio Investments

China's outward portfolio investments remained active, with bond investments constituting the major part. In 2022, net outflows (net increase in assets) of China's outward portfolio investments reached a record high of USD 173.2 billion, up 38 percent from that in 2021. Among these, net outflows of equity investments climbed from USD 41.1 billion in the first quarter to USD 67.3 billion in the third quarter, and then they declined to USD 21.3 billion in the fourth quarter. In terms of investment instruments, equity investments amounted to USD 47.7 billion, down 44 percent, and bond investments reached a record high of USD 125.5 billion, increasing more than two times year to year.

In term of channels for outward portfolio investments, **first,** Chinese residents invested USD 52.1 billion in the Hong Kong bond market via the "southbound link" of the Bond Connect. Second, domestic non-bank financial institutions and people invested USD 49.1 billion in overseas securities via the Shanghai–Hong Kong Connect, the Shenzhen–Hong Kong Connect, and the Mutual Recognition of Funds. Third, domestic financial institutions directly invested USD 45.4 billion in overseas bonds. Fourth, qualified domestic institutional investors (QDIIs and RQDIIs) invested a total of USD 21.5 billion in stocks and bonds issued by non-residents.

Inward portfolio investments in China showed an outflow, but by the end of the year it had turned to an inflow. In 2022, China's inward portfolio investments recorded a net outflow (net decrease in liabilities) of USD 107.9 billion, compared to a net inflow of USD 176.6 billion in 2021. Specifically, inward portfolio investments in China recorded a net outflow of USD 38.5 billion, USD 34.7 billion, and USD

36.7 billion in the first three quarters of the year, respectively, but they turned to a net inflow of USD 2 billion in the last quarter. In terms of the investing instruments, bond investments recorded a net outflow of USD 142.3 billion, while equity investments in China registered a net inflow of USD 34.4 billion.

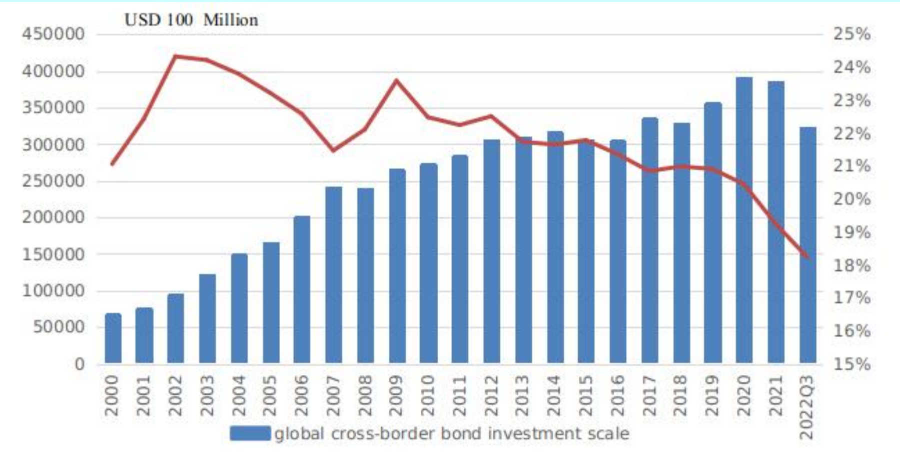
In terms of the major channels for inward portfolio investments, first, foreign institutions reduced their holdings of Chinese bonds and redeemed USD 145.6 billion of bonds upon maturity. Second, investments via the Stock Connect totaled USD 13.1 billion. Third, non-residents invested in stocks or Global Depository Receipts (GDR) issued overseas by domestic institutions, resulting in a net inflow of USD 8.4 billion. Fourth, non-residents invested in domestic stocks via QFII and RQFII channels, totaling a net inflow of USD 8.4 billion. With optimization of the epidemic prevention and control measures in China, the effects of the various policies and measures to stabilize growth gradually became apparent, and the trend of economic stabilization and recovery was further consolidated. Since November 2022, net inflows of portfolio investments in China have resumed.

BOX 5

China Becomes an Important Destination for Global Cross-border Bond Investments

In recent years, cross-border bond investments in China have increased, with the proportion of the size of stocks in the major emerging economies increasing to one-third. China's macro situation is stable, and the opening-up of the bond market adheres to the principle of gradual control, balanced efficiency, and security. Cross-border bond investments in China are dominated by medium- and long-term funds, as China's stability to absorb bond investments is relatively high. Supported by internal fundamentals, foreign investment will continue to steadily be allocated to RMB bonds in the future.

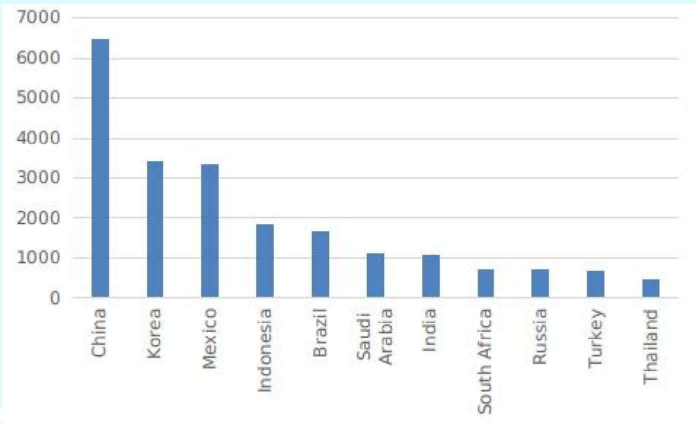
The total amount of global cross-border bond investments has steadily increased, but the growth rate has slowed down in recent years. According to balance-of-payments data, the total stock of bond investments globally (including investments in domestic bond markets and bonds issued in overseas markets, the same below) has increased from USD 6 trillion at the end of 2000 to nearly USD 40 trillion by 2021. In terms of the changes, from 2001 to 2007 global bond investments grew at an average annual rate of 20 percent, accounting for the highest proportion of all cross-border investments (including direct investments, bond investments, deposits and loans, and other investments) at 24 percent. Since 2008, international financial markets have become more volatile, and the average annual growth rate of global bond investments has significantly slowed down to 2 percent. In 2022, in particular, due to the comprehensive impact of the significant interest-rate hikes by the developed economies, the global economic downturn, and the international political turmoil, the global bond market generally declined, investor confidence weakened, the scale of bond investments absorbed globally dropped to USD 32 trillion, a decrease of USD 6.3 trillion compared to that in 2021, and the proportion of total cross-border investments decreased to 18 percent.



Source: International Monetary Fund

Figure C5-1 The Total Amount of Cross-border Bond investments and Their Proportion pf Total Cross-border Investments

China's absorption of bond investments has grown rapidly, becoming the main force for the emerging economies to absorb bond investments in recent years. Before 2012, China's annual absorption of bond investments was only billions of dollars. From 2012 to 2016, the Qualified Foreign Institutional Investor (QFII/RQFII) system continued to improve, and average annual bond investment absorption increased to more than USD 20 billion. Since 2017, the opening-up of China's bond market has expanded, becoming more convenient for foreign investors to invest directly in the inter-bank bond market. During this period when the "Bond Connect" was officially implemented and China's treasury bonds were gradually included in the international mainstream index, the average annual absorption of cross-border bond investments jumped to USD 100 billion. From 2017 to the third quarter of 2022, China's cumulative increase in bond investments was nearly USD 430 billion, lower only than that of the United States, Japan, and other countries, ranking sixth globally and equivalent to the total of all bond investments in the other emerging economies. In 2018, China's absorption of cross-border bond investment stock jumped to the top of the emerging economies for the first time. In 2021, the proportion of China's absorption of cross-border bond investments in the total absorption by the major emerging economies increased to one-third.

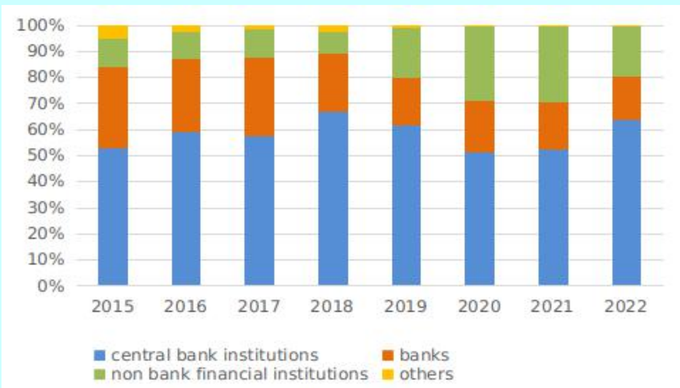


Source: International Monetary Fund

Figure C5-2 Scale of Cross-border Bond Investments Absorbed by the Major Emerging Economies as of the End of the Third Quarter of 2022

In the medium to long term, the stability of China's absorption of cross-border bond investment remains relatively high, and phased adjustments

will not affect the overall equilibriuem of balance of payments. Cross border bond investment is susceptible to changes in market conditions, and volatility is a common characteristic of bond investment funds. According to comparative calculations of data in recent years, the volatility of China's absorption of cross-border bond investment is at a relatively low level globally, mainly due to China's adherence to the principles of gradual and controllable progress, balancing efficiency and safety, and promoting the opening-up of financial market, and the stickiness and stability of related investment funds are relatively strong.For example, China's bond market was first opened to long-term investors such as foreign central banks, and then, with the inclusion of bonds in international mainstream indices, it attracted related portfolio investment funds. Therefore, the proportion of overseas central bank institutions and banks with sound investment behavior reached 70 per- cent to 80 percent. In 2022, in the face of the serious and unfavorable external environment, the volatility of investment funds from overseas central bank institutions and banks was relatively low, playing a fundamental role in stabilizing cross-border bond investments. In the meantime, cross-border bond investments had a relatively low impact on the robustness of China's balance of payments, mainly because the current account, direct investments, and other basic balance of payments continued to maintain a surplus at a reasonable scale, which could effectively absorb the impact of two-way fluctuations in some cross-border capital flows and support the overall balance in China's international balance of payments and foreign exchange supply and demand.



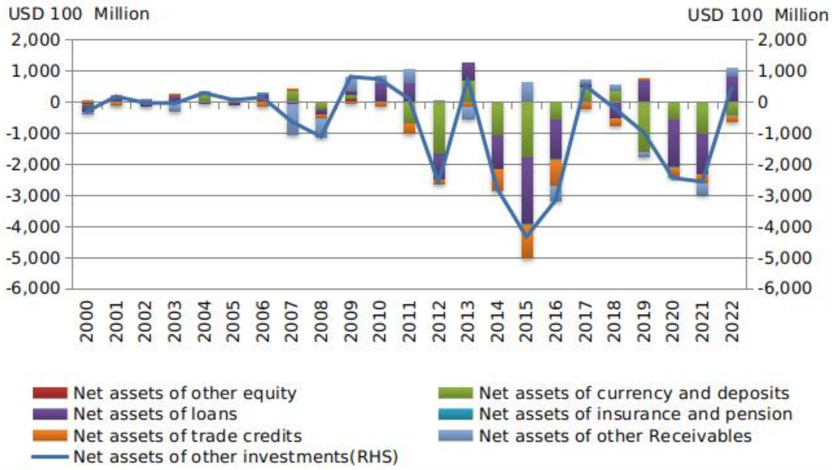
Source: State Administration of Foreign Exchange

Figure C5-3 Proportion of Domestic Bonds holding by Foreign Investors

RMB assets have maintained a globally comparative advantage, and foreign investors will still steadily invest in China's bond market in the future. First, China's economy has been performing well for a long time, with an average economic growth rate of over 6 percent in the past decade. Especially in the context of a global economic downturn in 2023, China's economy will stabilize and rebound, which will enhance the attractiveness of RMB assets. Second, China's macroeconomic policies adhere to a self-centered approach, with relatively independent trends in interest rates, exchange rates, and asset prices, resulting in a good diversification effect of RMB assets in global asset allocations and possessing diversified allocation functions. Third, in recent years, the risk-return characteristics of RMB bonds have been different from those of other emerging market bonds and have been closer to those of developed country bonds. RMB bonds have gradually become quasi safe assets, with a prominent hedging attribute. Foreign investment in China's bond market is relatively low at present, and there is still much room for improvement in the future.

（V） Other Investments

Other investments have turned into a surplus. In 2022, other investments recorded a surplus of USD 45.5 billion, whereas they recorded a deficit of USD 257.2 billion in 2021 (see Figure 2-15). Among these, currencies and deposits showed a deficit of USD 40.3 billion, loans registered a surplus of USD 83.3 billion, trade credits recorded a deficit of USD 21.1 billion, and other receivables and payables recorded a surplus of USD 26.8 billion.



Source: State Administration of Foreign Exchange

Figure 2-15 Net Flows of Other Investments

External other investments registered a net inflow. In 2022, China's external other investments showed a net inflow of USD 138.6 billion, compared with a net outflow of USD 419.7 billion in 2021. Specifically, deposits showed a net inflow of USD 12.5 billion, compared with a net outflow of USD 166.1 billion in 2021. Loans recorded a net inflow of USD 101.1 billion, compared with a net outflow of USD 139.8 billion in 2021 mainly due to the maturity of external loans. Net inflows of trade credit assets totaled USD 10.3 billion, compared with an outflow of USD 61.1 billion in 2021. The inflows of trade credit assets were mainly because in the first quarter enterprises collected export receivables, while in the second quarter and second half of the year, the trade credit assets turned to net outflows. Other receivable assets registered a net inflow of USD 20.4 billion, while they showed a net outflow of USD 47.8 billion in 2021. In the face of the complex external environment in 2022, the net inflow of other external assets effectively offset some capital outflows through various channels, thus promoting a better balance in international payments.

Net inflows in liabilities registered a net outflow. In 2022, other investments to China showed a net outflow of USD 93.2 billion, compared with a net inflow of USD 162.5 billion in 2021. Specifically, deposits by non-residents registered a net outflow of USD 52.8 billion, while in 2021 they registered a net inflow of USD 66.3 billion, mainly due to the maturity of residents' deposits in domestic banks. China repaid USD 17.8 billion for overseas loans, compared with a net inflow of USD 9.6 in 2021. Trade credit liabilities recorded a net outflow of USD 31.4 billion because of repayments to import payables, compared with a net inflow of USD 33.4 billion in 2021. Other payable liabilities registered a net inflow of USD 6.4 billion, a decrease from 2021.

BOX 6

The Scale of China's External Debt is Reasonable, with an Optimized Structure and Overall Risks under Control

In recent years, China has steadily and orderly promoted the opening-up of its financial markets and has constantly improved the full-scale macro-prudential management of cross-border financing. The total scale of external debt steadily increased, the structure of external debt was continuously optimized, and overall risks were under control, providing important international financial support for the development of the real economy.

I. The scale of China’s external debt developed in line with the development of the economy

In recent years, China's economic strength and openness have been continuously enhanced, thus attracting overseas capital inflows and contributing to the steady growth of external debt. At the end of 2022, China's external-debt balance totaled USD 2452.8 billion, an increase of USD 1037 billion over the end of 2016, with an average annual growth rate of about 12 percent. Since 2016, the ratio of external debt to GDP has been kept in the range of 12 percent to 17 percent, and the growth of external debt has kept pace with the development of the real economy. In 2022, influenced by multiple factors such as the international and domestic economic situations and fluctuations in the exchange rate, the scale of China’s external debt experienced a slight decline. However, by the end of the year, the balance of external debt showed signs of stabilizing and ceasing its decline. Economic entities have a strong demand for high-quality cross-border funds, and conditions are in place to keep the total amount of foreign debt stable.

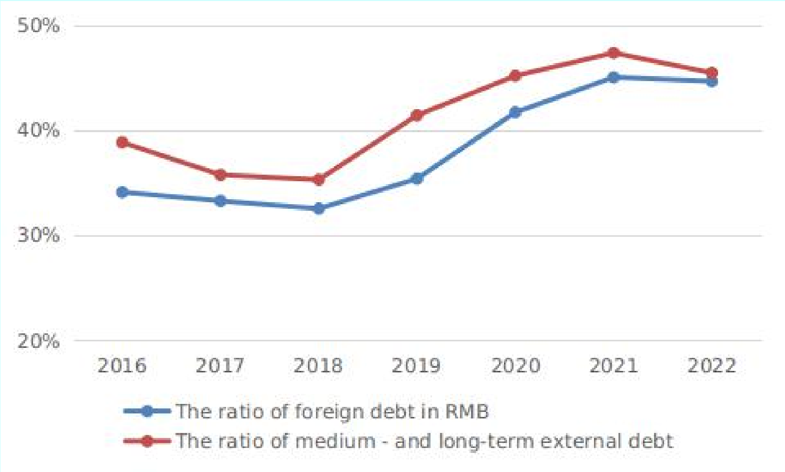
II. China’s external-debt structure has been continuously optimized

The proportion of external debt in RMB has increased, which has boosted the internationalization of the RMB. By the end of 2022, China's outstanding foreign debt in RMB was USD 1114.7 billion, an increase of USD 564.9 billion over the end of 2016 and contributing 59 percent to the growth of foreign debt during the same period. The proportion of foreign debt in RMB was 45 percent, an increase of 11 percentage points, and the currency structure of foreign debt continued to improve. There is no currency mismatch or currency conversion problem in the repayment of RMB foreign debt. The increase in the ratio effectively reduces any exchange-rate risk of China's foreign debt and promotes the internationalization of the RMB in an orderly manner.

Medium- and long-term external debt played a dominant role in the growth of external debt, and the maturity structure of external debt continued to improve**.** At the end of 2022, the balance of China's medium- and long-term external debt was USD 1114.8 billion, an increase of USD 565 billion over the end of 2016 and contributing 54 percent to the growth of the external debt during the same period. The proportion of medium- and long-term external debt was 45 percent, up 6 percentage points. The risks of a maturity mismatch of external debt and a liquidity risk of debt repayments have been significantly reduced.

The external debts of banks grew rapidly, which increased the supply of foreign-exchange funds in China. From the end of 2016 to the end of 2022, the external debt of banks increased by USD 406.2 billion, accounting for nearly 40 percent of the total growth in external debt. This was mainly due to the growth of passive liabilities such as deposits in domestic banks and loans deposited and borrowed from overseas interbank banks by Chinese enterprises overseas. The rapid growth of the banks' passive liabilities has increased the supply of domestic foreign-exchange funds and, aided by low funding costs, has provided strong support for domestic economic development.

The structure of the debt instruments is increasingly diversified, with debt securities becoming the main driver. In recent years, the diversified structure of our foreign-debt instruments has become increasingly apparent. Debt securities, currency and deposits, loans, trade credits and advances, inter-affiliated loans, and other foreign debts have developed in tandem and grown steadily. At the end of 2022, the balance of debt securities was USD 731.5 billion, an increase of USD 501.4 billion over the end of 2016, contributing 48 percent to the growth of foreign debt during the same period. Debt securities accounted for 30 percent, up 14 percentage points. The increase in the proportion of debt securities matches with the opening-up of China's financial market. As Chinese bonds have been included in succession in the three major international bond indexes, the attraction of China's bond market to foreign institutional investors continues to rise.



Source: SAFE

Figure C6-1 Changes in the Currency and Maturity Structure of China's Foreign Debt from 2016 to 2022

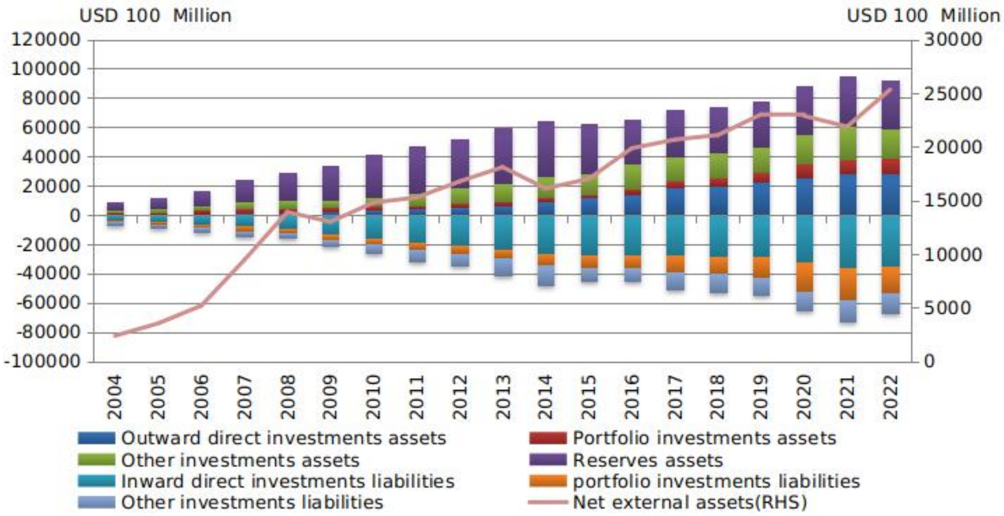
III. China's overall external-debt risks are under control.

In recent years, China's economic fundamentals have been sound for a long time, its financial markets have continued to open up at a high level, its foreign-exchange reserves have been relatively abundant, and external-debt risks have been generally under control. By the end of 2022, China's external debt-to-GDP ratio (the ratio of external debt to gross domestic product), debt-service ratio (the ratio of external debt payments to trade export earnings), debt-to-export ratio (the ratio of external debt to trade export earnings), and the short-term external debt-to-foreign exchange reserves ratio were 13.6 percent, 66 percent, 10.5 percent, and 42.8 percent, respectively. They are all within the internationally recognized security lines (20 percent, 100 percent, 20 percent, and 100 percent, respectively), much lower than the overall level of the developed and emerging economies.

Moving forward, China will continue to adhere to the general principle of seeking progress while maintaining stability, prudently and orderly advance the opening-up of its capital accounts at a high level, facilitate cross-border investments and financing, meet the cross-border financing needs of more market players, and serve the high-quality development of the real economy.

III. International Investment Position

External financial assets and liabilities[8] remained at a relatively high level. At the end of 2022, China's external financial assets reached USD 9258.0 billion and its external liabilities reached USD 6726.7 billion, continuing to be at a relatively high level. Net external assets were USD 2531.3 billion, up 15.8 percent from end-2021 (see Figure 3-1). China's foreign assets and liabilities remain among the top eight in the world and at the top among the emerging economies. The two-way opening-up to "bring in" foreign investment and “going global” foreign have achieved significant results. Based on the scale of external net assets, China is the third largest net creditor country in the world.



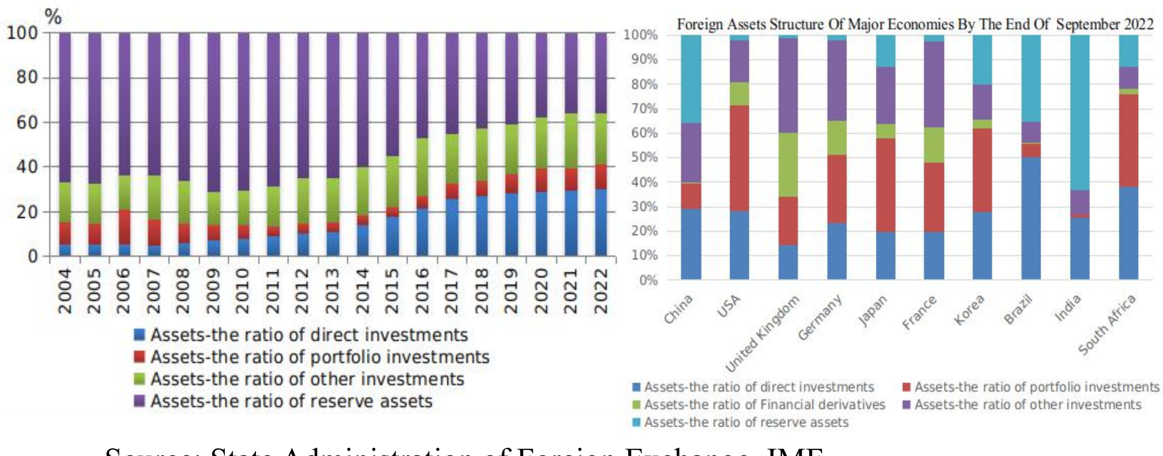
Source: State Administration of Foreign Exchange

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

The proportion of private-sector holdings in external assets has steadily increased. Among China's foreign financial assets, at end-2022

[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 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 have a considerable 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.

China’s reserve assets amounted to USD 3306.5 billion, accounting for 36 percent of China's total foreign financial assets, slightly down by 0.3 percentage point from end-2021. China's international reserve assets continued to rank first in the world, playing the role of a "ballast stone" in stabilizing the macro economy. Direct-investment assets amounted to USD 2795.0 billion, accounting for 30 percent of the total assets, up 0.9 percentage point from end-2021. Securities-investment assets amounted to USD 1033.5 billion, accounting for 11 percent, up 0.9 percentage point from end-2021. Financial derivative instrument assets amounted to USD 30.4 billion, accounting for 0.3 percent. Other investment assets, such as deposits and loans, trade credits, etc., amounted to USD 2092.5 billion, accounting for 23 percent, down 1.7 percentage points from end-2021 (see Figure 3-2). In recent years, China's foreign direct investments and foreign securities investments have increased steadily, and their share of foreign assets has continued to rise. At the same time, China's current-account surplus has been stable, and the demand for foreign investment by domestic entities has been released steadily. A growth potential still exists for the future.

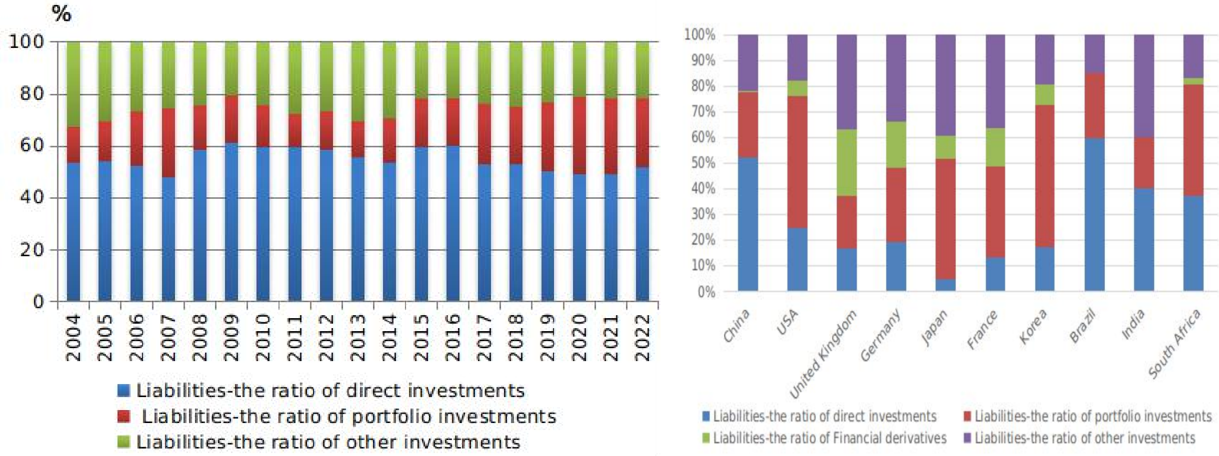


Source: State Administration of Foreign Exchange, IMF

Figure 3-2 Changes in the Structure of China’s External Financial Assets Compared to that of Other Economies

China’s external liability structure remained generally stable,

with foreign direct investments remaining the major item. Among China's foreign liabilities, at end-2022 foreign direct investments amounted to USD 3495.6 billion and remained the major item, accounting for 52 percent of total external liabilities and up 2.8 percentage points from end-2021. China's proportion of foreign direct investment ranked among the top of the G20 economies, indicating foreign investors' strong willingness to make long-term investments in China. Foreign portfolio investment liabilities amounted to USD 1781.0 billion, accounting for 28 percent and down 1.6 percentage points from end-2021. At the end of 2022, foreign investors' holdings of China's domestic securities reached approximately USD 995.7 billion. Among these, foreign holdings of stocks accounted for 4.8 percent of the total market value of A-shares, and holdings of bonds accounted for 2.4 percent of the total domestic bonds under custody. A growth potential still exists for the future. Other investment liabilities, such as deposits and loans, amounted to USD 1431.8 billion, accounting for 21 percent, and down slightly by 0.2 percentage point from end-2021 (see Figure 3-3).



Source: State Administration of Foreign Exchange

Figure 3-3 The Structure of China's External Liabilities Compared to that of Other Economies

Table 3-1 China's International Investment Position at the End of 2022

Unit: 100 million

	Line No.	end of 2022
Net International Investment Position[9]	**1**	**25313**
Assets	**2**	**92580**
1 Direct investments	**3**	**27950**
1.1 Equity and investment fund shares	**4**	24307
1.2 Debt instruments	**5**	3643
1.a Financial sector	**6**	3912
1.1.a Equity and investment fund shares	**7**	3692
1.2.a Debt instruments	**8**	220
1.b Non-financial sector	**9**	24039
1.1.b Equity and investment fund shares	**10**	20615
1.2.b Debt instruments	**11**	3423
2 Portfolio investments	**12**	**10335**
2.1 Equity and investment fund shares	**13**	5902
2.2 Debt securities	**14**	4433
3 Financial derivatives (other than reserves) and employee stock options	**15**	**304**
4 Other investments	**16**	**20925**
4.1 Other equity	**17**	97
4.2 Currency and deposits	**18**	5140
4.3 Loans	**19**	8397
4.4 Insurance, pensions, and standardized guarantee schemes	**20**	261
4.5 Trade credits and advances	**21**	6176
4.6 Other accounts receivable	**22**	854
5 Reserve assets	**23**	**33065**
5.1 Monetary gold	**24**	1172
5.2 Special drawing rights	**25**	512
5.3 Reserve position in the IMF	**26**	108
5.4 Foreign currency reserves	**27**	31277
5.5 Other reserve assets	**28**	-4
Liabilities	**29**	**67267**
1 Direct investments	**30**	**34956**
1.1 Equity and investment fund shares	**31**	31686
1.2 Debt instruments	**32**	3270
1.a Financial sector	**33**	1986

[9] 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.

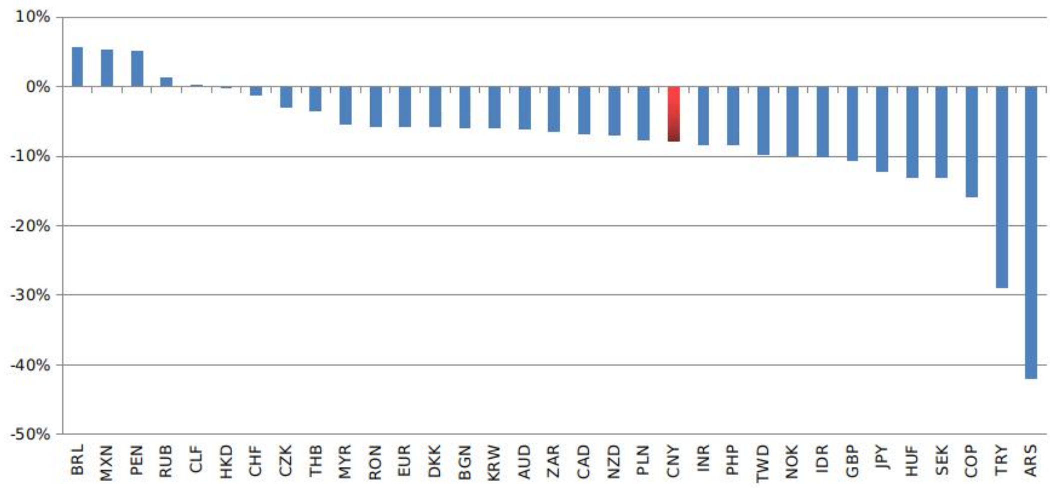
1.1.a Equity and investment fund shares	**34**	1739
1.2.a Debt instruments	**35**	247
1.b Non-financial sector	**36**	32970
1.1.b Equity and investment fund shares	**37**	29947
1.2.b Debt instruments	**38**	3023
2 Portfolio investments	**39**	**17810**
2.1 Equity and investment fund shares	**40**	11243
2.2 Debt securities	**41**	6567
3 Financial derivatives (other than reserves) and employee stock options	**42**	**183**
4 Other investments	**43**	**14318**
4.1 Other equity	**44**	0
4.2 Currency and deposits	**45**	5269
4.3 Loans	**46**	4031
4.4 Insurance, pensions, and standardized guarantee schemes	**47**	267
4.5 Trade credits and advances	**48**	3826
4.6 Other accounts payable	**49**	443
4.7 Special drawing rights	**50**	482

Source: State Administration of Foreign Exchange

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

(I) Trends in the RMB Exchange Rate

Among the global currencies, the RMB exchange rate is relatively stable. In 2022, the US Dollar Index rose sharply and the non-US dollar currencies of the developed and emerging economies generally depreciated (see Figure 4-1). The central parity rate of the RMB against the US dollar fell by 8.5 percent, and the central parity rate of the RMB against the euro, yen, and the pound basket of currencies of Special Drawing Rights (SDR) fell by 2.7 percent, rose by 5.8 percent, and rose by 2.5 percent, respectively. The overall performance of the renminbi has been solid.



Source: Bloomberg

Figure 4-1 Changes in the Bilateral Exchange Rates of the Major Currencies Against the USD During the First Half of 2022

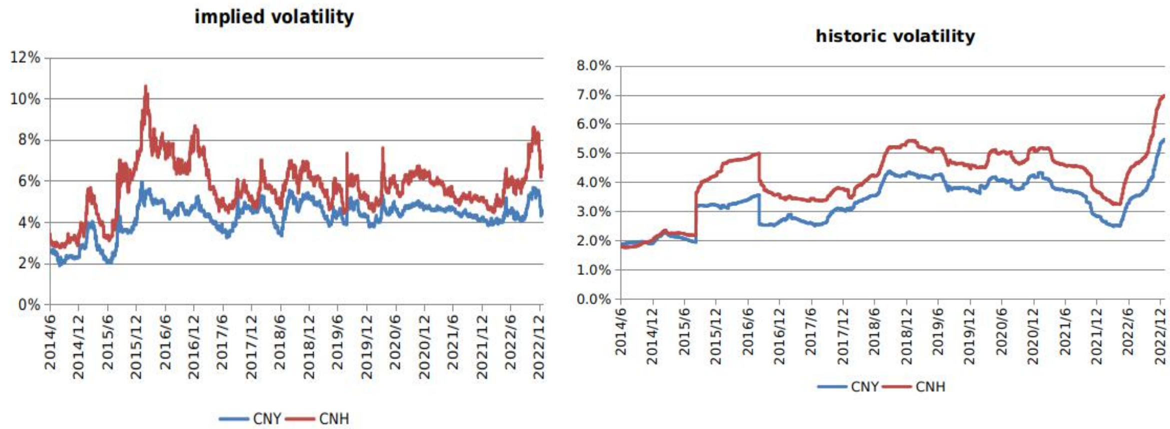
The RMB exchange rate was more stable against a basket of currencies. During 2022, the exchange rate of the RMB against a basket of currencies depreciated based on market supply and demand. According to CFETS data, at the end of 2022 the RMB exchange-rate indexes of the CFETS, the BIS basket of currencies, and the SDR basket of currencies were 98.67, 103.67, and 96.08, respectively, a depreciation of 2.8 percent, 2.8 percent, and 4.3 percent, respectively, compared with the end of 2021. According to the BIS, the nominal effective exchange rate of the RMB depreciated by 2.9 percent in 2022 (see Figure 4-2).

Source: BIS

Figure 4-2 Trends in the Effective RMB Exchange Rate (according to the BIS)

The RMB exchange rate has become more flexible amid

two-way fluctuations. During 2022, the central parity rate of the RMB against the USD at its highest was 6.3014 RMB and at its lowest was 7.2555 RMB. Out of the 242 trading days, the RMB appreciated on 114 trading days and depreciated on 128 trading days, showing two-way fluctuations. By the end of December, the one-year historical volatility of the RMB against the USD in domestic and overseas markets was 5.4 percent and 7.0 percent, respectively, up 2.7 and 3.4 percentage points from the end of 2021.The implied volatility in the options market was 4.5 percent and 6.7 percent, respectively (see Figure 4-3). The RMB exchange rate was flexible while remaining basically stable.

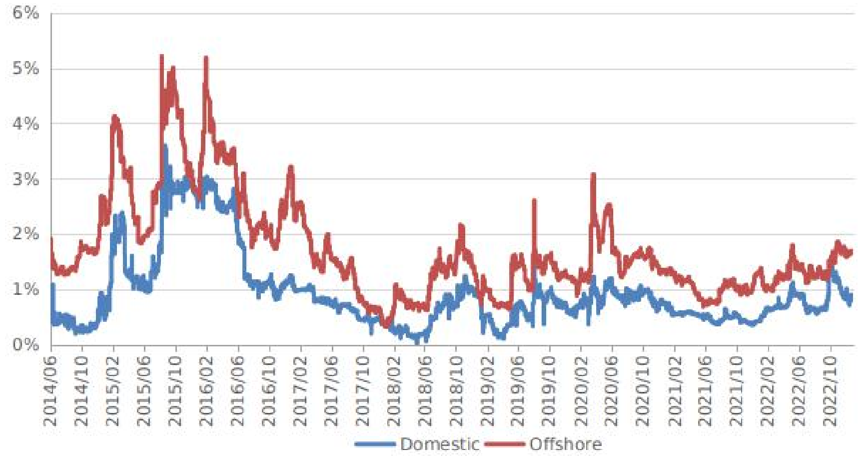


Source: Bloomberg

Figure 4-3 One-Year Volatility of the RMB against the USD Exchange Rate in the Domestic and Foreign Markets

RMB exchange-rate expectations were stable. At the end of 2022, domestic and offshore risk reversals (the difference between the volatility of the USD call / RMB put options and the USD put / RMB call options) were 0.9 percent and 1.7 percent, with slight fluctuations, and the highest point was far below the historical high, indicating relatively stable exchange-rate expectations (Figure 4.4). Against the backdrop of a more flexible exchange rate, the tight price spread in the domestic and overseas markets also reflects the overall stability of market sentiment.

Note: Domestic and foreign risk reversals represent the difference between the volatility of the USD call / RMB put options and the USD put / RMB call options, and they are measures of exchange-rate expectations in the foreign-exchange market.



Source: Bloomberg

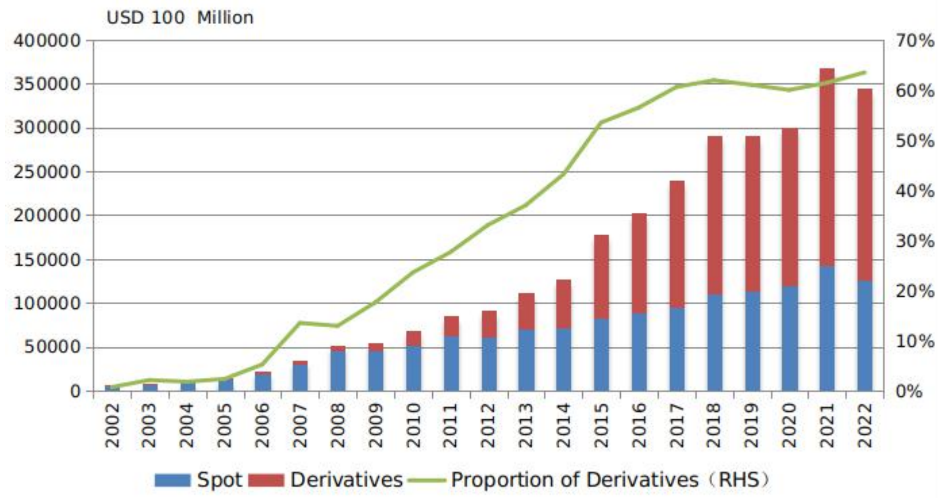
Figure 4-4 One-Year Risk Reversals of the RMB Against the USD in the Domestic and Offshore Options Markets

(II) Transactions in the Foreign-Exchange Market

During 2022, the cumulative trading volume in the RMB/foreign-currency market totaled USD 34.5 trillion, with an average daily trading volume of USD 142.6 billion. The total trading volume in the client market and the inter-bank market was USD 5.8 trillion and USD 28.7 trillion, respectively.[10] Spot and derivative transactions witnessed a trading volume of USD 12.6 trillion and USD 21.9 trillion, respectively. Derivatives accounted for 64 percent of the total transactions in the foreign-exchange market (see Figure 4-5). According to a report on the global foreign-exchange market in 2022 released by the BIS, the trading product structure of China's foreign-exchange market is basically similar to that of the global foreign-exchange market (see Figure 4-6). The average daily trading volume of the RMB in global foreign-exchange transactions rose by 3 places to become 5th place in the

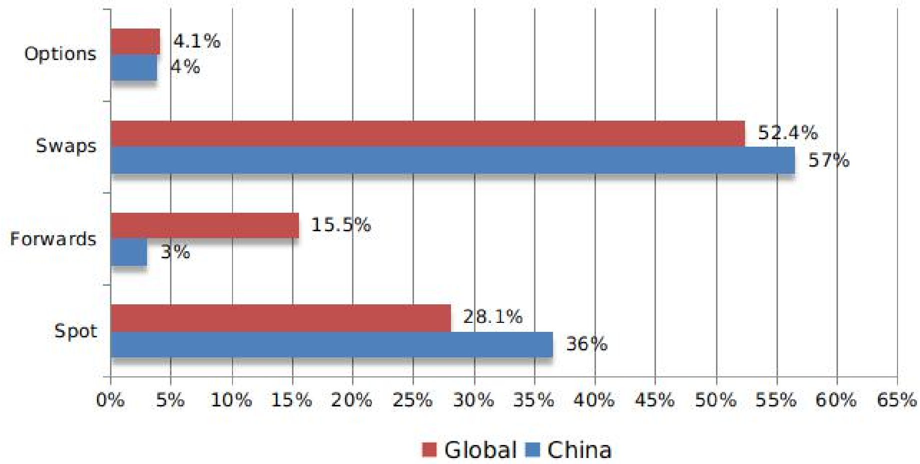
[10] The total amount of foreign exchange bought and sold by clients is adopted by banks in the client market, while the unilateral trading volume is adopted in the inter-bank foreign-exchange market, the same below.

world and the RMB has become a major currency in global transactions.



Sources: SAFE, CFETS

Figure 4-5 Trading Volume of China's Foreign-exchange Market



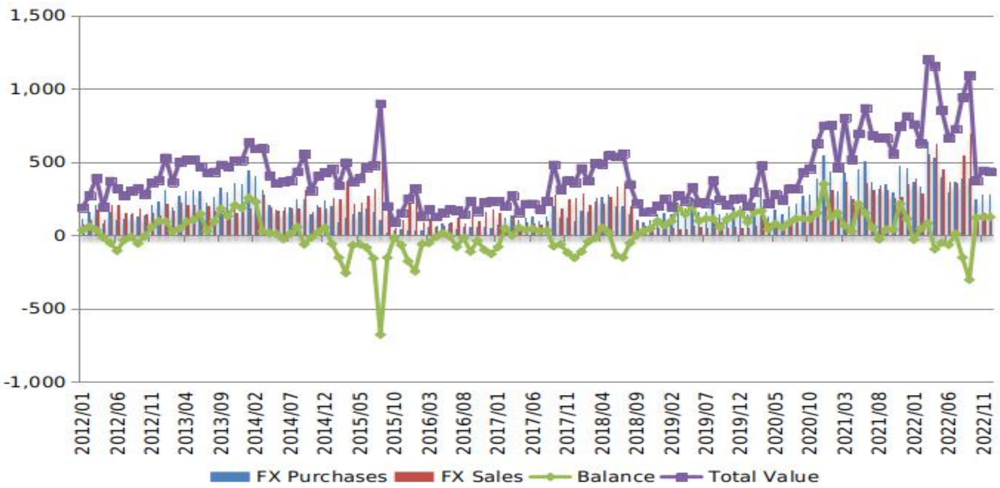
Note: Data for China are for 2022; global data are from the BIS survey in April 2022.

Sources: SAFE, CFETS, BIS

Figure 4-6 Comparison of the Structure of Products in the Domestic and Global Foreign-Exchange Markets

Spot foreign-exchange transactions declined. During 2022, the spot market saw a trading volume of USD 12.6 trillion, down 11 percent year on year. In terms of market distribution, spot purchases and sales of foreign exchange in the client market totaled USD 4.2 trillion (including the banks’ proprietary trading but excluding the performance of forwards), up 0.7 percent year on year. The spot inter-bank foreign-exchange market saw a trading volume of USD 8.3 trillion, down 17 percent.

Foreign-exchange forward transactions increased. During 2022, the forward market saw a cumulative trading volume of USD 1.1 trillion, up 14 percent year on year. In terms of market distribution, in the client market purchases and sales of forwards in foreign exchange totaled USD 927.5 billion, up 13 percent (see Figure 4-7). The inter-bank forward market saw a cumulative trading volume of USD 129.9 billion, up 19 percent year on year.



Source: SAFE

Figure 4-7 Forward Settlement and Sale of Foreign Exchange by Banks to Customers

Swap trading fell slightly. During 2022, cumulative foreign-exchange and currency-swap transactions totaled USD 19.5 trillion, down 5 percent year on year. In terms of market distribution, cumulative foreign-exchange and currency-swap transactions in the client market reached USD 171.9 billion, up 27 percent year on year. Spot purchases/forward sales and spot sales/forward purchases reached USD 144.4 billion and USD 27.5 billion, respectively, up 35 percent and down 3 percent, respectively. The inter-bank foreign-exchange and currency-swap markets saw cumulative transactions of USD 19.3 trillion, down 5 percent.

Options transactions increased. During 2022, the SAFE further enriched the trading instruments and launched American options and Asian options. The total transaction volume in the options market reached 1.3 trillion US dollars, an increase of 8 percent over 2021. In terms of market distribution, the client market saw a total trading volume of USD 415.3 billion, up 21 percent. The inter-bank market saw a total trading volume of USD 926.4 billion, up 4 percent.

Enterprises are more aware of exchange-rate risk management. During 2022, domestic enterprises actively used foreign-exchange derivatives to avoid exchange-rate risks. The amount of foreign-exchange derivatives, such as forwards and options, used by enterprises to manage exchange-rate risks reached USD 1.3 trillion, up 15 percent year on year. The hedging rate[11] of enterprises increased by 2.4 percentage points from 2021 to reach 24 percent.

The structure of the foreign-exchange market participants remained basically stable. Proprietary transactions by banks continued to dominate. During 2022, inter-bank transactions accounted for 83 percent of the total foreign-exchange market, a decrease of 1.8 percentage points compared to that in 2021. The share of non-financial client transactions rose from 14 percent to 16 percent. Non-bank financial institutions accounted for 1.5 percent of the total transactions, basically unchanged from 2021 (see Figure 4-8). The foreign-exchange market continued to open up. By the end of 2022, there were 143 overseas institutions in the inter-bank foreign-exchange market, and the proportion of transactions in the inter-bank foreign-exchange market increased

[11] Hedging rate = (contract amount of forward settlement and sale of foreign exchange for customers + contract amount of RMB foreign-exchange options for customers) / (total amount of foreign-exchange settlement and sales for proprietary trading and for customers + contract amount of forward settlement and sales of foreign exchange for customers + contract amount of RMB foreign-exchange options for customers).

slightly to 2 percent.

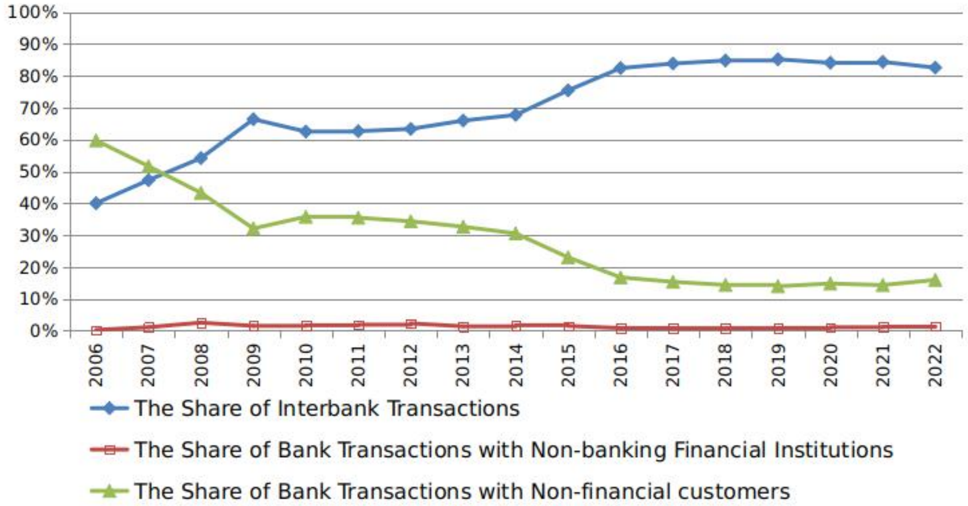


Figure 4-8 Structure of Participants in China's Foreign-Exchange Market

Table 4-1 Overview of Transactions in China's Foreign-Exchange Market during 2022

Product	**Trading Volume (100 million USD)**
Spot	**125,924**
Client Market	**42,490**
Interbank Foreign Exchange Market	**83434**
Forward	**10,574**
Client Market	**9,275**
Less than 3 months (including 3 months)	4,732
3 months to 1 year (including 1 year)	3,855
More than 1 year	688
Interbank Foreign Exchange Market	**1,299**
Less than 3 months (including 3 months)	892
3 months to 1 year (including 1 year)	302
More than 1 year	105
Foreign Exchange and Currency Swaps	**195,086**
Client Market	**1,719**
Interbank Foreign Exchange Market	**193,367**
Less than 3 months (including 3 months)	178,810
3 months to 1 year (including 1 year)	14,153
More than 1 year	404
Options	**13,417**
Client Market	**4,153**
Foreign Exchange Call Options/RMB Put Options	2,062
Foreign Exchange Put Options/RMB Call Options	2,092
Less than 3 months (including 3 months)	2,209

3 months to 1 year (including 1 year)	1,657
More than 1 year	288
Interbank Foreign Exchange Market	**9,264**
Less than 3 months (including 3 months)	5,072
3 months to 1 year (including 1 year)	4,183
More than 1 year	8
Total	**345,001**
Client Market	57,637
Interbank Foreign Exchange Market	287,364
Including: Spots	125,924
Forwards	10,574
Foreign Exchange and Currency Swaps	195,086
Options	13,417

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

Sources: SAFE, CFETS

V. Outlook for the Balance of Payments

In 2023, the external environment will remain complex and volatile, the momentum for global economic growth will weaken, and unstable and uncertain factors will remain in the international financial markets. China will better coordinate epidemic prevention and control and economic and social development, accelerate the construction of a new development pattern, focus on promoting high-quality development, adhere to promoting the high-level opening-up, and fully promote an overall improvement in economic operations. There will be a better foundation and better conditions to maintain a basic balance in the international balance of payments.

In recent years, the overall performance of the Chinese economy has shown a rebounding trend, thus strengthening its role to support a basic balance in international payments. As the effects of various policies to optimize epidemic prevention and control and stabilize economic growth continued to appear, China's level of economic prosperity rebounded significantly in 2023. The price of sovereign credit default swaps (5-year CDS, the lower the value means the lower the risk of default) measured by the international market against China's economic expectations has fallen by more than 40 percent from the peak in October 2022, and market expectations for China's economic growth are positive. The latest forecast from the International Monetary Fund shows that China's economic growth rate will be 5.2 percent in 2023, an increase of 2.2 percentage points compared to 2022 and becoming the main engine driving global economic growth. At the same time, China will adhere to promoting a two-way opening of the financial market, continuously improving facilitation of cross-border investments and financing, maintaining the basic stability of the RMB exchange rate at a reasonable and balanced level, steadily improving the maturity and rationality of the foreign-exchange market, and creating a good policy environment for cross-border investment and financing. In addition, due to a range of factors, the overall pace of monetary-policy tightening in the major developed economies has slowed down, and the impact of the spillover may weaken.

The current account is expected to maintain a reasonable surplus. First, the surplus in trade in goods will remain relatively high. Global economic fluctuations and changes in demand are cyclical factors that affect international trade, but in recent years, China's foreign-trade structure has continued with optimization ,and it will play a key role in stabilizing exports. For example, the transformation and upgrading of the manufacturing industry continue to advance and new trade growth points, such as new energy vehicles and high-tech products, continue to emerge. Regional trade cooperation will continue to advance, exports to ASEAN and Africa will steadily expand, and positive progress will be made in diversifying China’s trade partners. The flourishing development of new forms of trade has become an important area for promoting export growth. At the same time, China has increased its support for stabilizing foreign-trade policies, ensured the stability and smooth flow of industrial and supply chains, cultivated new drivers of foreign trade, helped enterprises benefit enterprises, and ensured the vitality of market entities, all of which contribute to the stable development of foreign trade. Second, the high-quality development of the services trade is gradually showing its effectiveness, which helps to promote the balanced development of imports and exports of services trade. With the orderly recovery of cross-border travel, a demand for travel expenses will gradually be released. Meanwhile, in recent years, China's trade in goods and services has become deeply integrated, and productive services trade has been upgraded. In particular, emerging services trade, such as commercial services and computer information services, has developed well and will continue to expand the export revenue of related services trade.

The overall stability of cross-border investments is expected to improve in the future. First, direct investments will continue a pattern of an overall surplus. The long-term positive trend in China's economy has not changed. The enormous potential of the consumption market and the continuously optimized business environment have a strong attraction for foreign investment. At the same time, the structure of China's utilization of foreign investment has been optimized, and foreign direct investments in China will maintain steady development. With the orderly release of the demand for Chinese enterprises to "go global" and the more rational investment behavior by market entities, outward direct investments will maintain overall stability. Second, foreign investors will continue to steadily allocate RMB assets. Supported by factors such as the stabilizing and recovering economic growth and the investment value and hedging properties of RMB assets, China's securities market will remain attractive to foreign capital for the long term. Third, foreign debt will continue to maintain a stable trend. In recent years, China's foreign-debt types, currencies, and term structures have been optimized. As of the end of 2022, the proportion of local currency foreign debt and medium- to long-term foreign debt in the total foreign debt increased by more than 10 percentage points to about 45 percent compared to that five years earlier. The proportion of traditional financing–based foreign debt, such as deposits and loans, has significantly decreased, and the relevant adjustments have become more stable.

In 2023, the foreign-exchange management departments will fully implement the spirit of the 20th National Congress of the Communist Party of China and the spirit of the Central Economic Work Conference. They will adhere to the principle of seeking progress while maintaining stability, 8 、 uphold integrity and innovation, comprehensively implement the new development concept, accelerate the establishment of a new development pattern, and better coordinate development and security, deepen the reform and opening up of the foreign exchange field, promote high-quality development, prevent external shock risks, maintain a safe bottom line, maintain the stable operation of the foreign exchange market and the basic equilibrium of balance of payments, to provide strong support for the comprehensive construction of a socialist modernized country and take a good step forward.

Deepen the reform and opening-up of the foreign-exchange field, promote the steady development of foreign trade and foreign investment, and consolidate the basic foundation for maintaining an equilibrium in the balance of payments. First, promote optimization and innovation in current-account foreign-exchange management. Expand the coverage of policies to facilitate foreign-exchange receipts and payments for high-quality enterprises, improve the quality and efficiency of innovative services and management in new trade formats, and actively support a stable scale and optimized structure of foreign trade. Second, steadily and orderly promote a high-level opening-up of the capital account. We will support enterprises in their "going global" and "bringing in" investment activities, continue to deepen the pilot program for the integration of domestic and foreign currency funds of multinational corporations, expand the pilot program for cross-border financing facilitation of high-tech and "specialized, refined, unique, and innovative" enterprises nationwide, and make greater efforts to stabilize and increase both existing and new foreign investment. Third, provide support for regional openness and innovation. We will promote the high-level opening-up of pilot projects for cross-border trade and investment and explore a "more open and secure" foreign-exchange management model. We will promote the opening-up and innovation in important regions such as the Hainan Free Trade Port and the Guangdong Hong Kong Macao Greater Bay Area. Fourth, optimize foreign-exchange services for small and medium-sized enterprises. We will widely carry out publicity and training on enterprise exchange-rate hedging through multichannel and cross-departmental cooperation, guide financial institutions to optimize exchange-rate hedging services, and take multiple measures to reduce the costs of exchange-rate hedging for small and micro enterprises. We will promote the construction of cross-border financial service platforms and explore diverse applications for these platforms.

Improve the marketization and counter-cyclical adjustment mechanism, prudently respond to external shocks and challenges, and maintain smooth operation of the foreign-exchange market and stable cross-border capital flows. First, strengthen monitoring and analysis of foreign-exchange market fluctuations. We will track and monitor the development and evolution of the global economic and financial situations, timely evaluate the impact on China's balance of payments and foreign-exchange market, and conduct forward-looking analysis and judgments. Second, maintain the flexibility of the RMB exchange rate, give play to the role of the exchange rate as an "automatic stabilizer" for macroeconomic adjustments and the balance of payments, and stabilize market expectations. Third, improve macro prudential management and micro supervision of the foreign-exchange market. We will enrich the macro prudential policy toolbox and counter-cyclical regulation on cross-border capital flows, accelerate the establishment of an authenticity management mechanism that is substantial, diverse, dutiful, and safe and efficient, strengthen off-site capacity building, crack down on illegal and irregular foreign-exchange activities, and maintain healthy market order. Fourth, improve the management of foreign-exchange reserve operations by enhancing our capabilities in professional investment, technological operations, and market-oriented institutional governance. This will ensure the safety, liquidity, and preservation of the value of our foreign-exchange reserves.