

**EXECUTIVE  
BOARD  
MEETING**

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Supplement 1

December 3, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **People's Republic of China—Staff Report for the 2020 Article IV Consultation—Informational Annex**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Thursday, December 17, 2020</b>
Publication:	Not yet decided*
Questions:	Mr. Berger, APD (ext. 39053) Mr. Kang, APD (ext. 37067) Mr. Kang, APD (ext. 38911)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Friday, December 4, 2020—European Central Bank, European Commission After Board Consideration—ASEAN+3 Macroeconomic Research Office, Asian Development Bank, Asian Infrastructure Investment Bank, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme, World Food Programme, World Trade Organization

**\*At the time of circulation of this paper to the Board, the authorities have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent.**





# PEOPLE'S REPUBLIC OF CHINA

## STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

December 2, 2020

Prepared By

Asia and Pacific Department  
(In consultation with other departments)

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## FUND RELATIONS

(As of October 31<sup>st</sup>, 2020)

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

### General Resources Account:

	SDR Million	% Quota
Quota	30,482.90	100.00
Fund holdings of currency	24,287.99	79.68
Reserve position in Fund	6,194.95	20.32
Lending to the Fund		
New Arrangements to Borrow	679.66	

### SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	6,989.67	100.00
Holdings	7,937.72	113.56

**Outstanding Purchases and Loans:** None

### Financial Arrangements:

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

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

	Forthcoming				
	2020	2021	2022	2023	2024
Principal		0.00	0.00	0.00	0.00
Charges/interest		0.09	0.09	0.09	0.09
Total		0.09	0.09	0.09	0.09

### Exchange Arrangements:

China's de facto exchange rate regime has been classified as other managed arrangement, effective June 22, 2018. The previous classification was crawl-like against the basket of currencies in the CFETS index since June 1, 2017. The de jure exchange rate arrangement is managed floating with a view to keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese

economy and financial markets. The floating band of the RMB's trading prices is 2 percent against the U.S. dollar in the interbank foreign exchange market: on each business day, the trading prices of the RMB against the U.S. dollar in the market may fluctuate within a band of  $\pm 2$  percent around the midrate released that day by China's Foreign Exchange Trading System (CFETS). The People's Bank of China (PBC) indicated that the RMB's floating range would be changed in an orderly manner, based on the developments of the foreign exchange market and economic and financial situation. Within the trading band, banks may determine their RMB exchange rates to the U.S. dollar with their clients without any limit on the spread, based on market supply and demand (PBC No. 2014/188). On August 11, 2015, the PBC decided to further increase the flexibility of the RMB-to-USD exchange rate midrate quoting mechanism, thereby enhancing the market determination of RMB exchange rates, and giving market supply and demand an even greater role in exchange rate formation.

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

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

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

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

# STATISTICAL ISSUES

(As of November 20, 2020)

## I. Assessment of Data Adequacy for Surveillance

**General:** While data are broadly adequate for surveillance, they are only barely so. Efforts at strengthening the statistical system and enhancing data transparency led to China's subscription to the SDDS in October 2015. Nevertheless, China's statistics continue to have gaps that hamper surveillance. The areas of concern relate mainly to national accounts data and government finance statistics. China has endorsed and is in the process of implementing the recommendations of the Data Gaps Initiative of the G-20.

**National Accounts:** The National Bureau of Statistics (NBS) compiles and disseminates annual GDP by activity and by expenditure in current prices, by activity at constant prices (2015), and quarterly estimates of GDP by activity at current and constant prices. The NBS is in a transition period from 1993 SNA to 2008 SNA. The 2008 SNA has been implemented in the calculation of financial intermediation services indirectly measured and in the capitalization of research and development. The techniques for deriving volume measures of some GDP components are not sound and need to be improved. Annual and quarterly GDP by expenditure is compiled at constant prices but is not published. Quarterly estimates of GDP are cumulative. Limited expenditure components' contributions to GDP are available on a quarterly basis. The NBS has made several improvements to the range and quality of national accounts data, the most important being improving the exhaustiveness of the GDP estimates by activity. Further improvements are intended for both the annual and quarterly accounts; however, no target dates have been set. As in other countries, rapid economic change, including the expansion of the private sector, presents new problems for data collection and compilation. The ability to change the data collection systems is restricted by the decentralized nature of the statistical system. Monthly index of services production, and fixed investment indices are disseminated as ratios with respect to the corresponding month of the previous year, but no chain-linked indices are produced. Data revisions tend to be made without publishing the entire revised series.

**Price Statistics:** The CPI covers approximately 500 areas throughout the country, including around 200 counties and around 300 cities. The current CPI is a chained Laspeyres price index, which is compiled and disseminated since 2001. The index is compiled using weights derived from 2015 household expenditures. However, the weights are not published. The PPI is aggregated according to the structure of the economy in 2015 but would benefit from expansion of coverage to include services activities.

The NBS publishes residential property price indices (RPPIs) for selected cities. The indices are compiled following a basic mix-adjustment methodology (by size). A national composite index covering new and second-hand properties is not compiled.

**Government Finance Statistics:** Serious data shortcomings continue to hamper fiscal analysis. Comprehensive data on the social security and extra budgetary funds are only provided annually and with a long lag. China currently reports GFS for general government with no breakdown of expenditure by economic type except interest, but including data under the Classification of Functions of Government for the GFS yearbook. Expenditure classification remains in need of improvement, mainly because expenditures by economic type are not published. The authorities have indicated an

intention to begin collecting these data and to develop accrual based measures of fiscal performance over the medium term while also strengthening the compilation of cash based GFS. China has made a commitment under the G20 Data Gaps Initiative to develop quarterly general government data, although no specific timeframe has been communicated. General Government coverage excludes the operations of the local government financing vehicles (LGFVs) which are substantial.

**Monetary and Financial Statistics:** In recent years, few improvements have been made in monetary and financial statistics. The monetary and banking surveys lack sufficient detail with regard to bank claims on the government, hampering the estimation of the fiscal deficit from the financing side. The reported net foreign assets position of PBC does not include exchange rate valuation effects and interest earnings on foreign reserves. The PBC has also ceased to report separate data on central government deposits in its balance sheet since April 2005 because the MOF no longer distinguishes between central and other government deposit accounts. The monetary and financial statistics missions in March 2015 made several recommendations for improvements in monetary data compilation with a view to accelerating PBC's implementation of the standardized report forms (SRFs). The PBC is currently technically capable of compiling and reporting monetary statistics in the IMF-recommended format of SRFs at least for the central bank and other depository corporations. Nonetheless, reporting of SRFs has not yet begun pending internal review and approval processes. China reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

**Financial sector surveillance:** China reports financial soundness indicators (FSIs) to the Fund for dissemination on the IMF's website. In addition to the 12 core FSIs, the authorities included in early 2015 two encouraged FSIs for deposit takers in their regular reporting to the Fund. The periodicity of data was also improved in May 2015 from annual to semi-annual frequency, and from semi-annual to quarterly frequency from the first quarter of 2019.

**External sector statistics:** The historic data series (balance of payments starting with data for 2005:Q1 and international investment position (IIP) starting with data for 2011:Q1) are compiled (in U.S. dollars) largely in accordance with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and are disseminated in the IFS. Similar information is also available on the website of the State Administration of Foreign Exchange (SAFE). The authorities continue their efforts to improve the coverage of balance of payments (BOP) and IIP statistics, and progress is being made in developing these statistics. However, with the transition to BPM6, data gaps remain in the BOP pertaining to the relevant series of workers remittances, merchanting, and primary income data (portfolio investment income). Regular training programs for staff in the provincial offices of SAFE have been recommended, aiming at improving the granularity of the primary and secondary income accounts.

China has made considerable efforts to improve the coverage of external sector statistics, including by (i) commencing participation in the Coordinated Direct Investment Survey (CDIS) in 2011, although only inward direct investment positions are currently recorded and no breakdown is available between equity and debt instruments; (ii) initiating reporting data for the Coordinated Portfolio Investment Survey (CPIS) at the end of 2015; (iii) reporting data to the Currency Composition of Foreign Exchange Reserves (COFER) since 2015; and (iv) compiling and disseminating the International Reserves and Foreign Currency Liquidity Template starting September 2015. The latter does not include the coverage on currency composition of reserves by groups of currencies at least once a year.

There remains a need to strengthen external debt monitoring and compilation, including dissemination of granular data for the CDIS. In 2010, China started submitting total and public external debt data for the Quarterly External Debt Statistics (QEDS) database, a notable step forward.

## **II. Data Standards and Quality**

China began subscription to the Special Data Dissemination Standard in October 2015.

No data ROSC has been conducted.

**Table 1. China: Common Indicators Required for Surveillance**  
(As of November 20, 2020)

	Date of Latest Observation	Date Received	Frequency of Data <sup>9</sup>	Frequency of Reporting <sup>9</sup>	Frequency of Publication <sup>9</sup>
Exchange rates	Oct 2020	Nov 2020	M	M	M
International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>	Sep 2020	Oct 2020	M	M	M
Reserve/base money	Sep 2020	Oct 2020	M	M	M
Broad money	Sep 2020	Oct 2020	M	M	M
Central bank balance sheet	Sep 2020	Oct 2020	M	M	M
Consolidated balance sheet of the banking system	Sep 2020	Oct 2020	M	M	M
Interest rates <sup>2</sup>	Sep 2020	Oct 2020	M	M	M
Consumer price index <sup>3</sup>	Oct 2020	Nov 2020	M	M	M
Revenue, expenditure, balance and composition of financing <sup>4</sup> —general government <sup>5</sup>	2019	May 2020	A	A	A
Revenue, expenditure, balance and composition of financing <sup>4</sup> —central government	Oct 2020	Nov 2020	M	M	M
Stocks of central government and central government-guaranteed debt <sup>6</sup>	2020Q2	Sep 2020	Q	Q	Q
External current account balance	2020Q3	Nov 2020	Q	A, Q	A, Q
Exports and imports of goods and services <sup>7</sup>	Sep 2020	Oct 2020	M	M	M
GDP/GNP <sup>8</sup>	2020Q3	Oct 2020	A, Q	A, Q	A, Q
Gross external debt	2020Q2	Sep 2020	A, Q	A, Q	A, Q
International investment position	2020Q2	Sep 2020	A, Q	A, Q	A, Q

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Only 12-month growth rates are reported (price indices are not available).

<sup>4</sup> Data on financing (foreign, domestic bank and domestic nonbank financing) and the economic classification of expenditures is not available.

<sup>5</sup> The general government consists of the central (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Including currency and maturity composition.

<sup>7</sup> Goods and services trade data are both provided monthly, with services trade data release slightly lagging goods trade data release.

<sup>8</sup> For GNP, level data are available only on an annual basis.

<sup>9</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

# CAPACITY DEVELOPMENT AND TECHNICAL ASSISTANCE

**Table 2. China: Summary of Capacity Development and Technical Assistance, 2011–20 1/**

Department	Purpose	Date
<b>Tax System Reform</b>		
FAD	Mission on Tax Gap Analysis	September 2011
FAD	Micro-Simulation Models	December 2013
FAD	Analysis of the Macroeconomic Impact of Tax Policy	March 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	The Future Design of Value-added Tax	September 2016
FAD	Tax Policy for promoting entrepreneurship and employment	September 2017
FAD	Social security contributions	March 2018
FAD	VAT policy	September 2018
<b>Tax Administration Reform</b>		
FAD	Tax Policy And Administration	September 2011
FAD	Tax Administration (Peripatetic Expert Visit 4 Of 5)	October 2011
FAD	Tax Administration (Peripatetic Expert Visit 5 Of 5)	October 2011
FAD	Large Taxpayer Compliance	October 2011
FAD	Workshop on Practical Tax Analysis For Tax Officials	December 2012
FAD	Large Taxpayer Administration	January 2013
FAD	Tax Administration Follow-Up	April 2014
FAD	Tax Collection Law Revision	May 2014
FAD	Tax Collection Law Revision	July 2015
LEG	Mission on Reforming Tax Collection Law	July 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	Improving Tax Compliance on ODI by Chinese Enterprises	October 2016
FAD	Tax administration—outbound investment and Taxpayer services	October 2017
FAD	Evaluate implementation of multi-year tax administration modernization	January 2018
FAD	Tax administration—performance measurement	March 2018
FAD	Tax administration--PIT	November 2018
FAD	Workshop and report on tax modeling and analysis	April 2019
<b>Public Financial Management</b>		
FAD	High-level Dialogue on PFM Institutions	June 2011
FAD	Medium-Term Expenditure Framework Seminar	November 2011
FAD	Medium-Term Revenue Administration Program And Policies Discussion	June 2012
FAD	High-Level Dialogue on PFM Institutions	November 2012
FAD	Mission on Introducing Advanced Treasury Reforms	February 2013
FAD	High-level Seminar on Fiscal Reforms	January 2014
FAD	Mission on Modernization of Government Accounting	April 2014
FAD	Mission on Medium Term Expenditure Frameworks	July 2014
FAD	Expert visit on Treasury management (accounting)	September 2014

**Table 2. China: Summary of Capacity Development and Technical Assistance, 2011–20**  
(continued)

FAD	Expert visit on Chart of Accounts Improvements	March 2015
FAD	Expert visit on Treasury Management (cash management)	March 2015
FAD	Mission on Strengthening Local Government Borrowing Reform	April 2015
FAD	Mission on Accounting Modernization	November 2015
FAD	Workshop on Medium-Term Expenditure Frameworks	April 2016
FAD	Seminar and Case Study on Local Government Borrowing and Bond Market Development	April 2016
FAD	Expert visit on Treasury – Central Bank Coordination	June 2016
FAD	Workshop on Medium-term Expenditure Frameworks	April 2017
FAD	Government accounting and financial reporting	April 2018
FAD	Performance Budgeting	April 2019
FAD		
<b>Statistics</b>		
STA	Workshop On Special Data Dissemination Standard	April 2011
STA	Government Finance Statistics	May 2011
STA	Data Work: SRFS Data Development for OFCs/ FSI Data Reporting	April 2012
STA	Quarterly National Accounts	November 2013
STA	Total Social Financing(TSF) Indicators/Monetary and Financial Statistics	March 2014
STA	SDDS Assessment	August 2014
STA	Data Work: Monetary Data Reported in SRF	September 2014
STA	SDDS Assessment	December 2014
STA	TSF/Monetary Data Reported in SRFs	March 2015
STA	Multi-sector Mission: SDDS Metadata Development and Topical TA	June 2015
STA	Quarterly National Accounts	March 2019
<b>Monetary Policy, Bank and financial Supervision, and AML/CFT</b>		
LEG	AML/CFT Legislative Drafting	March 2011
LEG	Bank Resolution	May 2012
MCM	Seminar on Article VIII of IMF's Articles of Agreement	July 2017
MCM	Securities Markets Supervision Workshop	September 2017
MCM	Mission on Securities Market Supervision	March 2018
MCM	Regulatory and Prudential Framework	August 2018
MCM	Financial Sector Technical Assistance	September 2018
MCM	Financial Sector Technical Assistance	November 2018
MCM	Monetary Policy Implementation and Operations	January 2019
MCM	Financial Sector Technical Assistance	January 2019
MCM	Financial Sector Technical Assistance	April 2019
MCM	Workshop on Sovereign Bond Futures Market	April 2019
MCM	Indicator-based Framework for Systemic Risks Monitoring	May 2019
<b>Training</b>		
LEG	AML/CFT Legislative Drafting Mission	March 2011
INS	Course on Macroeconomic Management and Financial Sector Issues	March 2011
INS	Course on Macroeconomic Forecasting	April 2011
INS	Government Finance Statistics Course at CTP	May 2011
STA	Course on Government Finance Statistics	May 2011

**Table 2. China: Summary of Capacity Development and Technical Assistance, 2011–20**  
(continued)

STA	Course on Government Finance Statistics	June 2011
INS	BOP and IIP Course at CTP	June 2011
STA	Course on Balance of Payments Statistics	October 2011
INS	Monetary and Financial Statistics Course at CTP	November 2011
STA	Participate in OECD-NBS Workshop on National Accounts	March 2012
INS	FSI Course at CTP	September 2012
MCM	Medium Term Debt Management Workshop	November 2012
INS	BOP/IIP Course at CTP	April 2013
MCM	Workshop on Capital Account Convertibility and Exchange Rate Policy	June 2013
STA	SDDS Seminar	July 2013
INS	Introductory Course on Monetary and Financial Statistics in CTP	September 2013
STA	Quarterly National Accounts Seminar organized by NBS	November 2013
ICD	Macroeconomic Management & Financial Sector Issues	January 2014
MCM	Financial Statistics	March 2014
MCM	Workshop on Financial Regulation and Supervision	March 2014
ICD	Macroeconomic Management & Financial Sector Issues	March 2014
MCM	Course on External and Systematic Financial Risks	July 2017
ICD	Macroeconomic Diagnostics	September 2014
INS	Financial Soundness Indications in CTP	September 2014
STA	Seminar at Fund HQ for SAFE Officials on Experiences and Challenges in the Implementation of BPM6	September 2014
ICD	Macroeconomic Forecasting	October 2014
STA	OECD/NBS Workshop on Sectoral Accounts (with STA participation)	December 2014
ICD	Macroeconomic Management and Financial Sector Issues	March 2015
MCM/STA	Total Social Financing Indicator	March 2015
STA	Meeting: ECB Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
STA	Meeting: BIS Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
MCM	SDR Review/Operational Issues	June 2015
ICD	Macroeconomic Forecasting	June/July 2015
INS	Advanced Course on Monetary and Financial Statistics in CTP	August 2015
STA	SAFE-Course on Compilation of Balance of Payments Statistics	September 2015
ICD	Macroeconomic Diagnostics	September 2015
STA	Balance of Payments Statistics	September 2015
ICD/FAD	Fiscal Analysis and Forecasting	November 2015
FAD/ICD	Course on Fiscal Analysis and Forecasting	December 2015
STA	Debt Securities Statistics	March 2016
STA	OECD/NBS China Workshop on National Accounts (with STA participation)	March 2016
MCM	Sub-national Debt Market Development	April 2016
MCM	Workshop on Securities Supervision	April 2016
STA	Seminar on Cross-border Position Statistics and Challenges in the Implementation of New Data Initiatives	June 2016
ICD	Macroeconomic Forecasting	June/July 2016
ICD	Macroeconomic Forecasting – Advanced	July 2016
ICD	Financial Sector Surveillance	June/July 2016
MCM	Workshop on Enforcement and Market Surveillance	September 2016
ICD	Dynamic Stochastic General Equilibrium Modeling	November 2016

**Table 2. China: Summary of Capacity Development and Technical Assistance, 2011–20  
(concluded)**

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

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