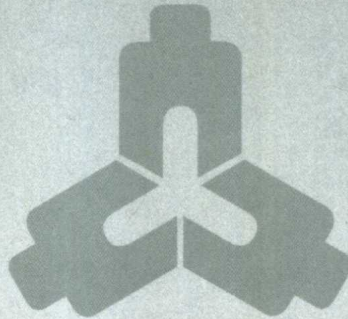


2002

**CHINA MONETARY POLICY
REPORT**

**Monetary Policy Analysis Group of
The People's Bank of China**



China Financial Publishing House

2002

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CONTRIBUTORS TO THIS REPORT

CHIEF EDITORS

DAI Genyou YI Gang

EDITORS

WANG Yu ZHANG Bei

AUTHORS

QUARTER ONE REPORT:

XIE Duo ZHANG Hongdi XIANG Xiaolan CHEN Minqiang
JIANG Wanjin ZHANG Wenhong WANG Xiaoya JIAO Jinpu
HUANG Xiaolong GAO Cailin

QUARTER TWO REPORT:

XIE Duo WU Xianting XIANG Xiaolan CHEN Minqiang
JIANG Wanjin ZHANG Wenhong WANG Xiaoya SONG Xiaomei
GAO Cailin HUANG Xiaolong

QUARTER THREE REPORT:

WU Xianting HUANG Xiaolong WANG Yi WANG Xiaoya
ZHU Xiaomei ZHANG Wenhong ZHANG Hongdi GAO Cailin
CAI Jianbo

QUARTER FOUR REPORT:

XIE Duo WU Xianting GAO Yuze ZHANG Cuiwei
ZHANG Wenhong CAO Haizhen WANG Yi WANG Xiaoya
KONG Yan CHEN Minqiang ZHANG Hongdi

APPENDIX:

JIN Mei

OTHER CONTRIBUTORS:

ZHOU Rongfang GAO Cailin LIU Bin WANG Xiuli
SUN Guofeng SHENG Mei ZHANG Jing YU Ming
GUAN Bingfei

ENGLISH EDITION

CHIEF EDITOR AND ENGLISH LANGUAGE REVISER

HE Jianxiong

EDITORS

BAO Mingyou CAO Zhihong

TRANSLATORS

ZHU Jun BAO Mingyou CAO Zhihong ZHANG Lixing YANG Fang
CHEN Qiaoe SHI Changjun WANG Lijie

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CHINA MONETARY POLICY REPORT

Monetary Policy Analysis Group of
the People's Bank of China

Q4, 2002

Executive Summary

In 2002, the Chinese economy performed far better than expected. Real GDP grew by 8 percent, and prices remained at a low level (CPI declining by 0.8 percent). Consumer demands, rapid growth of fixed asset investment and export were the driving forces for economic growth. The first, second and tertiary industries registered synchronized expansion, agriculture performed fairly well and industrial output increased quickly. China became the largest recipient of foreign direct investment in 2002.

The People's Bank of China(PBC) continued to implement the sound monetary policy. First of all, open market operation was more actively used to timely adjust base money. Secondly, interest rates were used flexibly and market-based interest rate reform was pursued prudently. Thirdly, credit policy was used to promote economic restructuring, support small and medium-sized enterprises and agricultural development. Consumer credit also expanded. Fourthly, efforts were made to promote institution building in the money market. Fifthly, the role of monetary policy was boosted in promoting reform and safeguarding financial and social stability. Sixthly, transparency in monetary policy implementation further improved.

In 2002, growth of money supply was accelerated to support economic development. M2 increased by 16.8 percent to RMB18.5 trillion yuan and M1 by 16.8 percent to RMB7.1 trillion yuan. Lending by financial institutions expanded rapidly and loan quality improved. Local currency lending by all financial institutions increased by RMB1.8475 trillion yuan, 603.6 billion yuan more than the increment of 2001. NPLs in financial institutions declined by RMB95.1 billion yuan and the NPLs ratio dropped by 4.5 percentage points. Corporate and household savings deposits increased rapidly. Renminbi and foreign currency deposits increased by RMB2.87 billion yuan to RMB18.3 trillion yuan.

RMB deposit increased by RMB1.3233 trillion yuan to RMB8.7 trillion yuan. Balance of payments was in a strong position with the foreign exchange reserves reaching US\$286.4 billion and exchange rate remained stable, being at RMB8.2773 yuan for one US dollar at the year end.

The Central Government Economic Work Conference has identified the major targets for economic development in 2003, including a GDP growth of 7 percent, CPI by 1 percent, growth of M2 and M1 by 16 percent, cash injection at RMB150 billion yuan and lending by financial institutions at RMB1.8 trillion yuan.

The sound monetary policy will be continued in 2003, and preemptive-adjustment and fine tuning will be made if necessary. Financial sector will be given a full play to support economic expansion. First of all, monetary policy instruments of various kinds will be flexibly used to keep appropriate increase of money supply. Secondly, the interest rate and exchange rate policy will be kept stable in the process of market-based interest rate reform. Thirdly, credit policy will be applied to support economic restructuring. Fourthly, credit management will be strengthened to prevent financial risks brought by excessive growth in real estate investment; regulations concerning real estate credit will be strictly followed to manage potential risks. Fifthly, great efforts will be made to develop the money market and improve financial resource allocation.

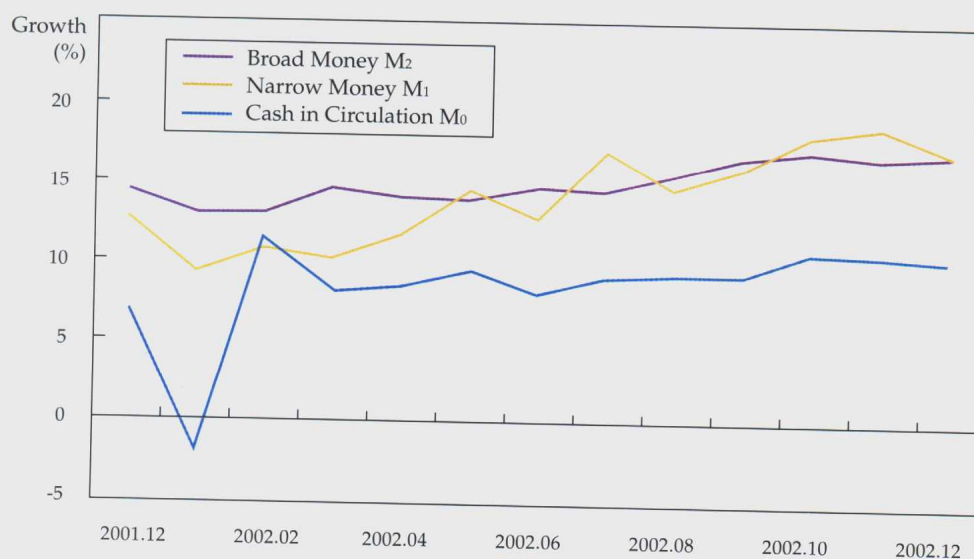
Part One: Monetary and Credit Performance

In 2002, the Chinese economy performed well. The People's Bank of China continued to implement the sound monetary policy in line with the principles stipulated by the Party and the State Council and encouraged commercial banks to strengthen loan marketing, improve financial services, intensify financial support to economic growth, creating a favorable condition for the sustained, rapid and healthy development of the economy.

I. Accelerated growth of money supply and steady improvement in monetary liquidity

In 2002, broad money M2 grew by 16.8 percent to RMB18.5 trillion yuan, representing a 2.4 percentage points acceleration over the previous year. Narrow money M1 grew by 16.8 percent to RMB7.1 trillion yuan, representing an acceleration of 4.1 percentage points. The liquidity ratio

Figure 1 Movement of Money Supply in 2002



Source: PBC Quarterly Statistical Bulletin.

of M1/ M2 was 0.38, 0.49 base points higher than that of the end of the previous year and 2.06 base points higher than the record low at the end of March 2002.

As a reflection of greater money demand and strengthening of financial support to economic growth, the acceleration of M2 and M1 growth since 2002 indicated that the monetary and credit supply was basically commensurate with the trend of economic growth. In 2002, growth of M2 was 9.6 percentage points higher than the sum of GDP growth and CPI increase, 3 percentage points higher than the average during the Eighth and Ninth Five-Year Plan periods.

At the end of 2002, cash in circulation M0 reached RMB1.7 trillion yuan, growing year-on-year by 10.1 percent. Net cash injection was RMB158.9 billion yuan, up RMB55.3 billion yuan. Growth of M0 in recent two years was below 10 percent (8.9 percent in 2000 and 7.1 percent in 2001), far below that of broad money and narrow money, indicating that with the development of the economy and rapid growth of settlement instruments such as credit cards and commercial bills, the significance of cash as an intermediate monetary policy target has decreased, and the focus of cash management has shifted to anti-money laundering and anti tax fraud.

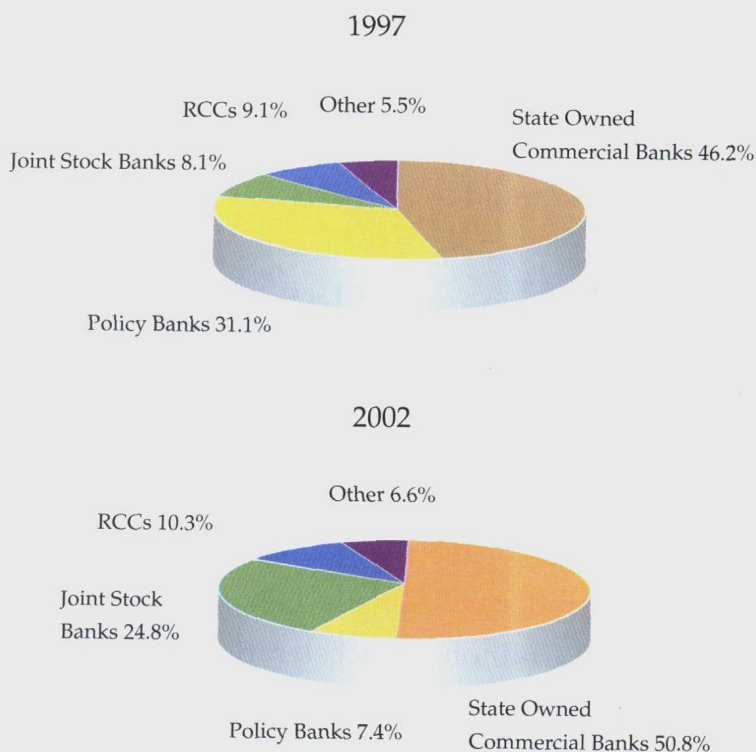
II. Significant increase of loans by financial institutions and further improvement in the quality of new loans

In 2002, renminbi loans by financial institutions increased by RMB1.8475 trillion yuan, an acceleration of RMB603.6 billion yuan. Foreign currency loans grew by USD9.1 billion, an acceleration of USD15 billion (in contrast with the decrease of USD5.9 billion in the previous year). Total loans in renminbi and foreign currencies of financial institutions reached RMB14 trillion yuan, up RMB1.9228 trillion yuan, representing an

acceleration of RMB727.7 billion yuan. The marked increase of renminbi loans by financial institutions in 2002 was mainly attributable to the acceleration of RMB479.6 billion yuan of loans in the second half of the year, which accounted for 79 percent of the whole acceleration of loans in the year.

As for contribution of various categories of financial institutions to the increase of loans, wholly state-owned commercial banks accounted for a larger part, with lending increased by RMB939.8 billion yuan, an acceleration of RMB298.5 billion yuan. Loans by joint-stock commercial banks grew by RMB458.6 billion yuan, representing an acceleration of RMB155.1 billion yuan. Loans by policy banks increased by RMB137.4 billion yuan, representing an acceleration of RMB46.4 billion yuan. Loans by rural credit cooperatives (RCCs) grew by RMB190.6 billion yuan, accelerating by RMB51.1 billion yuan.

Figure 2 Newly Increased Local Currency Lending by Financial Institutions



Source: PBC Sources and Use of Fund Monthly Statistical Bulletin.