China Monetary Policy Report

Q4 2023

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

The year 2023 marked a turning point in economic recovery and development following three years of COVID-19 prevention and control, and it was also the first year of the new administration. Under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China strengthened macroeconomic regulation and control against external pressures and internal difficulties. The national economy showed signs of recovery, with GDP growing 5.2 percent year on year. The year also witnessed remarkable achievements in transformation and upgrading as well as solid progress in high-quality development. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) fully implemented the spirit of the 20th CPC National Congress and conscientiously implemented the decisions and arrangements of the CPC Central Committee and the State Council. It pursued a prudent monetary policy in a targeted and effective manner, strengthened counter-cyclical adjustments as appropriate, and coordinated the relationships between aggregate and structure, quantity and price, as well as internal and external equilibria, thereby providing solid support for development of the real economy.

First, money and credit support was strengthened to bolster the economy. The required reserve ratio (RRR) was cut twice in 2023, releasing over RMB1 trillion of long-term funds. The maturing medium-term lending facility (MLF) loans were rolled over with a higher injection of liquidity, and the operations injected a total of RMB2.5 trillion into the market. With flexible open market operations (OMOs), the PBOC kept a reasonable and sufficient liquidity level. It also held meetings with financial institutions to guide them in maintaining a moderate credit aggregate and a steady pace of credit disbursement so as to enhance the stability and the sustainability of credit growth. **Second,** financing costs were lowered to stimulate effective demand. The policy rate was lowered twice, and the cuts brought down market rates such as the loan prime rate (LPR). The mechanism for market-oriented adjustments of deposit rates continued to play a role, and bank liability costs were stabilized. Housing credit policies were adjusted and improved, and commercial banks were guided to lower rates on existing first-home loans in an orderly manner. **Third,** the supply of funds was improved to promote a structural transformation. The PBOC rolled out guidance documents to encourage financial support for private enterprises and it also implemented the action plan to support the financing of technology-based enterprises. In addition, it increased central bank lending quotas for agricultural development and for micro and small businesses (MSBs) by RMB250 billion, continued implementation of inclusive MSB loan facilities and the carbon emission reduction facility (CERF), and increased the quotas for pledged supplementary lending (PSL) by RMB500 billion, thereby channeling more financial resources into major strategies, key areas, and weak links. **Fourth,** the RMB exchange rate was stabilized while internal and external equilibria were maintained. While deepening the market-oriented reform of the exchange rate, the PBOC raised the macro-prudential adjustment parameter for cross-border financing and cut the RRR for foreign currency deposits as appropriate. Giving play to the role of the foreign exchange market self-disciplinary mechanism, it strengthened expectation guidance and adjusted supply and demand in the foreign exchange market, thus keeping the RMB exchange rate basically stable at a reasonable and balanced level. **Fifth,** financial risks in key areas were handled to safeguard financial stability. The PBOC intensified financial risk monitoring and assessment and appropriately handled risks in key areas and with key institutions. The work of providing financial support to help resolve the debt risks of financing platforms was promoted in an orderly way, and development of a financial stability guarantee system was stepped up.

Overall, pursuing the principle of seeking progress while giving top priority to stability, the monetary policy created a prudent monetary and financial environment for economic recovery in 2023. Money and credit maintained reasonable growth. At end-2023, outstanding RMB loans reached RMB237.6 trillion, and broad money (M2) and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 9.7 percent and 9.5 percent, respectively. In 2023, new RMB loans registered RMB22.7 trillion, RMB1.3 trillion more than the amount in 2022. The credit structure continued to improve. At end-2023, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 23.5 percent and 31.9 percent year on year, respectively. Loans to private enterprises grew by 12.6 percent year on year, an acceleration of 1.6 percentage points from end-2022. Social financing costs were stable with a downward trend. In December, the weighted average rate on new corporate loans registered 3.75 percent, down 0.22 percentage points year on year and continuing to hit a record low; the weighted average rate on personal housing loans registered 3.97 percent, down 0.29 percentage points year on year. Over RMB23 trillion of existing first-home mortgages witnessed a rate decline averaging 0.73 percentage points, which resulted in a reduction in interest payments by RMB170 billion for borrowers. Floating in both directions with more convergent expectations, the RMB exchange rate remained basically stable. It closed at 7.0920 against the US dollar at end-2023, an appreciation of over 3 percent from the trough during this round of fluctuations.

China is still in an important period of strategic opportunity for development. Economic development is well underpinned by a broad market, a fairly complete industrial system, a strong material and technological foundation, and increasing dividends from talent. However, it should also be noted that further economic recovery will require efforts to overcome some difficulties and challenges, in light of the uneven global economic recovery momentum as well as the rising uncertainties, such as the policy adjustments in the developed economies and geopolitical conflicts.

From a holistic perspective, the favorable conditions for China's development outweigh the unfavorable ones, and the overall trend of economic recovery and long-term improvement remains unchanged. Confidence and determination must be boosted. During the next stage, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will apply the new development philosophy fully, faithfully, and comprehensively, and it will adhere to the general principle of seeking progress while maintaining stability, promoting stability through progress, and establishing the new before abolishing the old. It will speed up efforts to build China into a financial powerhouse, improve financial services, firmly follow the path of financial development with Chinese characteristics, and promote high-quality development of the financial sector. The PBOC will develop a modern central banking system and strengthen counter-cyclical and inter-temporal adjustments to macro policies, with serving the real economy as the fundamental purpose of the financial sector. Maintaining prudence of monetary policies and enhancing consistency in the macroeconomic policy orientation, it will continue to effectively upgrade and appropriately expand economic output.

Prudent monetary policies will be flexible,moderate, precise, and effective. Based on a rational understanding of the relationship between the two largest financing markets, namely, the bond market and the credit market, as well as an appropriate grasp of the patterns and new features of money and credit supply and demand, the PBOC will guide a reasonable growth and a balanced provision of credit. By doing so, it will keep a reasonable and sufficient liquidity level that matches the growth of AFRE and the money supply with the expected targets for economic growth and price levels. It will enhance policy coordination and effectively support the initiative to boost consumption, stabilize investment, and expand domestic demand so as to keep prices at a reasonable level. By continuing to deepen the market-oriented interest rate reform, further improving the LPR formation mechanism, and leveraging the role of the mechanism for market-oriented deposit rate adjustments, it will promote overall social financing costs to remain stable with a downward trend. The PBOC will give play to the role of the monetary policy toolkit in adjusting both the aggregate and the structure. It will support the use of debt restructuring and other methods to activate existing stocks so as to improve efficiency in using existing loans. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will work to develop technology finance, green finance, inclusive finance, pension finance, and digital finance. The 25 measures encouraging financial support for the private economy will continue to be implemented, and more financial support will be provided for the development of government-subsidized housing projects, the construction of public infrastructures for both daily and emergency uses, and the rebuilding of run-down urban areas. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will take a holistic approach in policy implementation and stabilize expectations, and it will prevent risks arising from exchange rate overshooting and prevent expectations from becoming unanimously one-sided and self-reinforced so as to keep the RMB exchange rate basically stable at a reasonable and balanced level. The PBOC will continue its efforts to effectively prevent and resolve risks in key areas, thereby firmly defending the bottom line whereby no systemic financial risks will occur.

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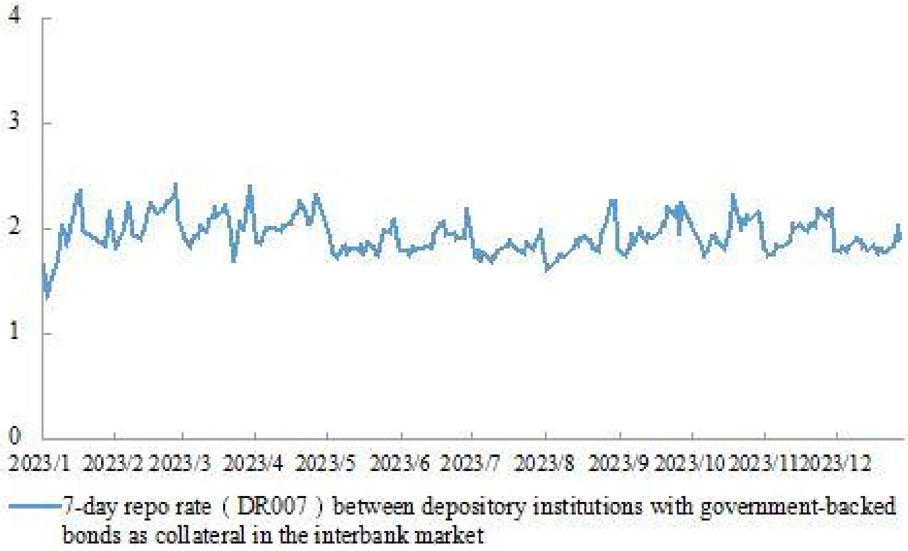
Part 1 Money and Credit Analysis

The year 2023 marked the beginning of full implementation of the guidelines of the 20th National Congress of the Communist Party of China (CPC), and it was also the year for economic recovery and development during the new stage of the COVID-19 response after three years of prevention and control. The People's Bank of China (PBOC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and has fully implemented the guiding principles of the 20th CPC National Congress, the Central Economic Work Conference, the Central Financial Work Conference, as well as the requirements set forth in the *Report on the Work of the Government*. Taking stability as its top priority and pursuing progress while ensuring stability, the PBOC has implemented a sound monetary policy in a targeted and effective manner and it has strengthened counter-cyclical and inter-temporal adjustments. Money, credit, and aggregate financing to the real economy (AFRE) have witnessed reasonable growth, overall financing costs have declined steadily, the credit structure has improved continuously, and the RMB exchange rate has remained basically stable at a reasonable and equilibrium level, thereby creating a favorable monetary and financial environment for the economic recovery.

I. Liquidity in the banking system was adequate and at a reasonable level

Since the beginning of 2023, adhering to a sound monetary policy, the PBOC has employed a mix of instruments, such as a cut in the required reserve ratio (RRR), central bank lending and discounts, the medium-term lending facility (MLF), and open market operations (OMOs), to inject liquidity into the economy in a targeted and effective manner. In March and September respectively, the RRR was cut by 0.25 percentage points, releasing a total of over RMB1 trillion in long-term liquidity. It has continued to guide money market rates to move smoothly around the central bank's open market reverse repo rates, thereby creating a favorable liquidity environment for promoting financial support for high-quality development of the real economy and providing a strong guarantee for the smooth issuance of additional government bonds and local government refinancing bonds in the fourth quarter. At end-2023, the excess reserve ratio for financial institutions registered 2.1 percent, 0.1 percentage points higher than that at the end of 2022, indicating that liquidity in the banking system was adequate and at a reasonable level.

Figure 1 Movement of Money-Market Interest Rates



Source: www.chinamoney.com.cn.

II. Lending by financial institutions grew reasonably, and lending rates remained at historic lows

Credit aggregates grew reasonably. In the first quarter of 2023, the supply of credit picked up pace due to factors such as the smooth shift in the COVID-19 response and the growing demand for credit at the beginning of the year. The PBOC made efforts to guide financial institutions to supply loans in a moderate and steady manner. In the second quarter, market confidence and expectations were weak, and effective demand for credit was insufficient. The PBOC strengthened counter-cyclical adjustments and placed an emphasis on guiding financial institutions to maintain a balanced supply of loans so as to enhance the sustainability of financial support for the real economy. In the fourth quarter, in a bid to maintain a well-paced supply of credit at the turn of the year, the PBOC held a symposium with financial institutions in a timely manner to smooth out loan growth. The supply of credit in the quarter was better than market expectations. At end-2023, outstanding loans issued by financial institutions in domestic and foreign currencies grew 10.1 percent year on year to RMB242.2 trillion, RMB22.2 trillion more than that at the beginning of 2023 or a year-on-year (YOY) acceleration of RMB1.5 trillion. Outstanding RMB loans grew 10.6 percent year on year to RMB237.6 trillion, RMB22.7 trillion more than that at the beginning of 2023 or a YOY acceleration of RMB1.3 trillion.

The credit structure has been improving. At end-2023, medium and long-term (MLT) loans to enterprises and public entities grew by RMB13.6 trillion from the beginning of 2023, accounting for 75.8 percent of total corporate loans. The YOY growth of

MLT loans to the manufacturing sector registered 31.9 percent, 21.3 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 23.5 percent year on year, 12.9 percentage points higher than the growth of total loans. A total of 61.66 million MSBs were supported, representing a rise of 9.1 percent year on year.

Table 1 The Structure of RMB Loans in 2023

Unit: RMB100 million

	Outstanding amount at end-December	YOY growth (%)	Increase from the beginning of the year
RMB loans to:	2375905	10.6%	227463
Households	800921	5.7%	43261
Enterprises and public entities	1554232	13.0%	179074
Non-banking financial institutions	7748	40.1%	1928
Overseas	13005	32.8%	3200

Note: Loans to enterprises and public entities refer to loans to non-financial enterprises, government departments, and organizations.

Source: The People's Bank of China.

Table 2 New RMB Loans from Financial Institutions in 2023

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	129274
Chinese-funded small and medium-sized banks②	98218
Small-sized rural financial institutions③	26363
Foreign-funded financial institutions	-244

Notes: 1. Chinese-funded large-sized banks refer to banks with assets (in both domestic and foreign currencies) of RMB2 trillion or more (according to the amount of total assets in both domestic and foreign currencies at end-2008). 2. Chinese-funded small and medium-sized banks refer to banks with total assets (in both domestic and foreign currencies) of less than RMB2 trillion (according to the amount of total assets in both domestic and foreign currencies at end-2008). 3. Small-sized rural financial institutions include rural commercial banks, rural cooperative banks, and rural credit cooperatives.

Source: The People's Bank of China.

Box 1 An Accurate Assessment of the Patterns and New Features of Money and Credit Supply and Demand

The Central Financial Work Conference clearly stated the requirement that there be an accurate assessment of the patterns and new features in the supply and demand of money and credit. During the stage of high-quality development, we should continuously deepen our understanding of the regular pattern in financial work so as to enhance the awareness, capacity, quality and efficiency of providing financial services for the real economy.

China's economic restructuring is accelerating, requiring a high-quality supply of credit. On the one hand, loans for new economic drivers continue to grow rapidly, and their proportion to total loans is rising stably. Since the beginning of 2018, the growth rates of inclusive MSB loans, of MLT loans to the manufacturing sector, and of green loans have been outpacing the growth of total loans. Currently, central bank lending instruments have covered almost all areas of sci-tech finance, green finance, inclusive finance, digital finance, and pension finance. The PBOC will continuously guide financial institutions to ramp up support for major strategies, major areas, and weak links and it will meet the proper financing demands for high-quality economic development. **On the other hand**, the growth rates of loans for traditional economic drivers, such as the real estate sector and local financing platforms, have decelerated, and their proportions in the amount of total loans have gradually decreased. Over the past few years, a very large proportion of the RMB20 trillion in new loans was channeled to the real estate sector and local financing platforms. However, with the real estate sector development mode undergoing a major transition and the risks of local debts being prevented and defused, demand from these two areas has obviously plunged. Due to the combined aforementioned two factors, the quality and efficiency of providing financial services for the real economy have been remarkably enhanced, although growth on the whole has somewhat declined.

As the relationship between outstanding and new loans is witnessing changes, we should focus on activating financial resources that are not being used efficiently. Currently, outstanding RMB loans topped RMB230 trillion, 10 times the amount of new loans in each year. Therefore, we should be more attentive to the relationship between the aggregate and the structure as well as to the relationship between outstanding and new loans. To be more specific, we should mobilize outstanding loans that are inefficiently used, write off non-performing loans (NPL), and continuously increase the proportion of direct financing in the AFRE, which will have a positive impact on credit and financing growth. For instance, activating financial resources that are inefficiently used will enhance the efficiency of entities in utilizing financial resources and will help inject a new impetus for the high-quality development of the economy, even though these resources will not be counted as new loans. Writing off more NPLs to maintain the sound functioning of commercial banks will exert downward pressures on the growth of loans. However, written-off loans which can still provide support for the real economy have been included into the

AFRE statistics. In addition, emerging industries such as advanced manufacturing, sci-tech innovation, green and low-carbon industries, and the digital economy have prospered. Direct financing is more suitable for these new economic drivers in terms of financial support modes and it serves as a virtuous alternative to loans.

We should refrain from paying too much attention to high-frequency monthly money and credit data. China's loan increment is remarkably seasonal. According to statistics over the past years, more new loans are issued in the first quarter, especially in January, compared with a trough in April, July, and October. These seasonal changes are mainly attributable to internal and external assessments by banks as well as to the variations in financing demand, which should be objectively treated. For instance, as a Chinese saying goes, "The whole year's work depends on a good start in the spring." Therefore, many business entities embark on a good start, and the construction of most major projects also kicks off at the beginning of the year. These, coupled with spring farming and preparations at the beginning of the year as well as salary payments prior to the Spring Festival, all have an impact on the seasonal variations in loan increments. Furthermore, in response to the shock of COVID-19, macro policies in recent years adopt quick measures at an early stage, contributing to a further increase in loans during the first quarter. It should be noted that economic recovery needs stable and sustained credit support, the key of which lies in managing the "intensity." Instead of changing the regular pattern of a seasonal credit supply by financial institutions, we should moderate unreasonable credit supplies resulting from illicit competition and the rush to increase loan issuance at month ends, quarter ends, or at other crucial timings to accomplish assessment goals so as to better match the pace of credit supply with actual demand for developing the real economy.

On the whole, to accurately assess the pattern and new features in the supply and demand of money and credit and to properly evaluate the intensity of financial support, we should address the problem of locating a focus. In the stage of high-quality development, economic growth should not be the only index for evaluating economic development, and credit growth should not be the only index for evaluating financial support. First, **we should focus more on** the effects of interest rate cuts. Social financing costs remain stable with a slight decline, indicating that the credit demands of the real economy are reasonably met. Second, **we should focus more on** financial support for major areas, such as sci-tech innovation, green development, and MSMEs, which better reflect how much effective demand of the real economy has been met by financial resources. Third, **we should focus more on** the AFRE which covers direct financing and observe the cumulative increment/balance in the growth of credit over a longer term so as to have a comprehensive view of monetary and financial conditions. Going forward, we will pursue the sound monetary policy in a flexible, appropriate, targeted, and effective manner, enhance counter-cyclical and inter-temporal adjustments, and continue to press ahead with the market-based reform of deposit rates so as to bring down the overall interest rates and maintain the reasonable growth and balanced supply of credit. Meanwhile, we will focus on enhancing the efficiency of utilizing loans, channeling funds from maturing loans to more efficient business entities, improving the allocation of new loans, and promoting necessary market-based clearances so as to provide stronger support for sustainable economic development.

The weighted average interest rate on loans remained at a historic low. The PBOC has continuously advanced the market-oriented reform of interest rates, effectively tapping into the loan prime rate (LPR) reform and bringing into play the key role of the market-based adjustment mechanism for deposit interest rates so as to promote a steady decline in actual lending rates. In December 2023, the one-year LPR and the over-five-year LPR stood at 3.45 percent and 4.20 percent, respectively, down 0.2 and 0.1 percentage points from December 2022, respectively. In December, the weighted average interest rate on loans recorded 3.83 percent, down 0.31 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.35 percent, down 0.22 percentage points year on year, and the weighted average interest rate on corporate loans was 3.75 percent, down 0.22 percentage points year on year, both of which represent a continuous increase in financial support for the real economy. In December, the share of ordinary loans with rates above, at, or below the LPR registered 52.48 percent, 5.64 percent, and 41.89 percent, respectively.

Table 3 Weighted Average Interest Rates on New Loans Issued in December 2023

Unit: %

	December	Change from September	YOY Change
Weighted average interest rate on new loans	3.83	-0.31	-0.31
on ordinary loans	4.35	-0.16	-0.22
of which: on corporate loans	3.75	-0.07	-0.22
on bill financing	1.47	-0.33	-0.13
on mortgage loans	3.97	-0.05	-0.29

Source: The People’s Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to December 2023

Unit: %

Month	LPR-bps	LPR	LPR+bps					
			Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	[LPR+3%, LPR+5%)	LPR+5% and above
January	37.38	6.28	56.34	16.65	19.06	10.22	5.70	4.72

February	37.60	6.02	56.38	16.32	16.84	10.28	6.54	6.40
March	36.96	6.88	56.16	17.10	17.57	10.57	6.18	4.74
April	36.62	6.20	57.18	15.54	17.18	11.14	7.08	6.24
May	36.28	5.52	58.20	13.98	16.79	11.71	7.98	7.74
June	37.74	5.59	56.67	17.79	17.31	10.81	6.09	4.68
July	37.05	5.13	57.82	16.60	16.43	10.44	7.12	7.23
August	35.76	4.92	59.32	17.08	16.40	10.75	7.57	7.51
September	37.37	5.62	57.11	16.70	16.88	10.62	6.71	6.19
October	37.34	5.15	57.51	14.92	15.83	11.43	7.43	7.90
November	38.43	5.77	55.80	14.60	16.39	11.37	7.01	6.44
December	41.89	5.64	52.48	13.70	16.15	10.97	6.34	5.33

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In December 2023, the weighted average interest rates on demand large-value USD-denominated deposits and on large-value USD-denominated deposits with maturities within three months registered 2.23 percent and 4.70 percent, respectively, up 1.03 and 1.04 percentage points from December 2022, respectively. The weighted average interest rates on USD-denominated loans with maturities within three months and with maturities between three months (including three months) and six months registered 5.81 percent and 5.80 percent, up 0.78 and 0.81 percentage points from December 2022, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to December 2023

Unit:%

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year
January	1.25	3.99	4.62	5.34	5.46	4.96	4.91	5.12	5.10	5.53	5.99
February	1.42	4.18	5.10	5.51	5.50	5.44	5.08	5.23	5.39	5.46	5.58
March	1.64	4.23	5.02	5.53	5.67	5.54	5.25	5.33	5.11	5.34	5.86
April	1.76	4.50	5.29	5.49	4.91	5.72	5.39	5.47	5.49	5.64	5.62
May	1.78	4.63	4.65	5.68	5.63	5.64	5.55	5.46	5.52	5.39	5.98
June	1.65	4.46	5.29	5.63	5.47	5.75	5.68	5.63	5.46	5.41	5.71
July	2.13	4.44	5.12	5.50	5.52	5.28	5.68	5.66	5.59	5.31	5.65
August	2.19	4.37	4.57	5.45	5.45	5.25	5.72	5.14	5.30	5.34	5.46
September	2.26	4.50	5.20	5.34	5.58	5.39	5.88	5.49	5.45	5.42	6.34

October	2.29	4.56	5.34	5.42	4.76	5.46	5.99	5.73	5.60	5.44	5.79
November	2.19	4.61	4.69	4.75	4.85	5.37	5.85	5.80	5.59	5.51	6.34
December	2.23	4.70	5.33	5.49	5.39	5.30	5.81	5.80	5.51	5.82	6.36

Source: The People’s Bank of China.

Deposits grew significantly. At end-2023, outstanding deposits in domestic and foreign currencies at all financial institutions had increased 9.6 percent year on year to RMB289.9 trillion, up RMB25.4 trillion from the beginning of 2023 and a deceleration of RMB397.8 billion year on year. Outstanding RMB deposits grew 10.0 percent year on year to RMB284.3 trillion, an increase of RMB25.7 trillion from the beginning of 2023 and a deceleration of RMB510.1 billion year on year. Outstanding deposits in foreign currencies stood at USD797.8 billion, USD56.1 billion less than that at the beginning of 2023. The decrease was USD86.9 billion less than that in the previous year.

Table 6 The Structure of RMB Deposits in 2023

Unit: RMB100 million

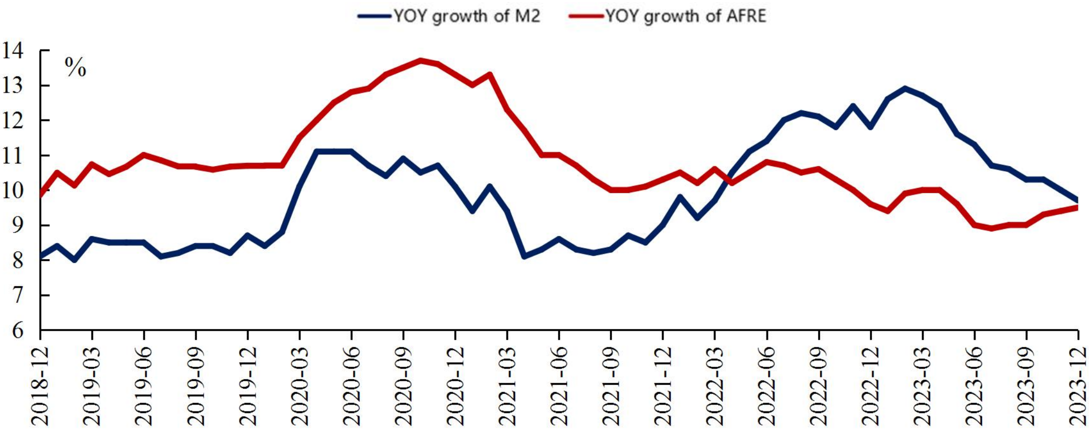
	Outstanding deposits at end-December	YOY growth (%)	Increase from the beginning of the year
RMB deposits:	2842623	10.0%	257416
Households	1369895	13.8%	166655
Non-financial enterprises	787756	5.5%	42235
Public entities	353261	7.1%	22836
Fiscal entities	57937	15.8%	7924
Non-banking financial institutions	255244	7.2%	16386
Overseas	18531	9.1%	1380

Source: The People’s Bank of China.

III. Money supply and the AFRE grew at a reasonable pace

The monetary aggregate grew at a reasonable pace. At end-2023, outstanding broad money M2 registered RMB292.3 trillion, up 9.7 percent year on year; narrow money M1 and currency in circulation M0 registered RMB68.1 trillion and RMB11.3 trillion, respectively, up 1.3 percent and 8.3 percent year on year, respectively. In total, 2023 witnessed a net cash injection of RMB881.5 billion, down 504.7 billion year on year.

Figure 2 YOY Growth of Outstanding Broad Money (M2) and the AFRE



Source: The People's Bank of China.

The AFRE grew stably. According to preliminary statistics, the outstanding AFRE reached RMB378.1 trillion at end-2023 and its YOY growth registered 9.5 percent. In 2023, the AFRE increment totaled RMB35.6 trillion, RMB3.4 trillion more than that during the same period in 2022. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In 2023, new RMB loans issued by financial institutions to the real economy grew by RMB1.2 trillion year on year to RMB22.2 trillion, accounting for 62.4 percent of the AFRE increment during the same period. Second, new government bond financing increased year on year, while new corporate bond financing and domestic equity financing by non-financial enterprises decreased year on year. In 2023, the net financing amount of government bonds and corporate bonds posted RMB9.6 trillion and RMB1.6 trillion, respectively, and domestic equity financing by non-financial enterprises reached RMB793.1 billion. Third, there was a recovery in off-balance-sheet financing. In 2023, new entrusted loans decreased by RMB338 billion, new trust loans increased by RMB757.9 billion, and undiscounted bankers' acceptances decreased by a smaller margin of RMB162.7 billion. Fourth, loans were written off at a relatively rapid pace. In 2023, the increment of written-off loans stood at RMB1.1 trillion, up RMB29.1 billion year on year.

Table 7 Aggregate Financing to the Real Economy in 2023

	End-December 2023		2023	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
The AFRE	378.09	9.5	355875	34080
Of which: RMB loans	235.48	10.4	222240	11803

	End-December 2023		2023	
Foreign currency loans (RMB equivalent)	1.66	-10.2	-2206	3048
Entrusted loans	11.27	0.2	199	-3380
Trust loans	3.9	4.2	1576	7579
Undiscounted bankers' acceptances	2.49	-6.7	-1784	1627
Corporate bonds	31.11	0.3	16254	-4254
Government bonds	69.79	16	96045	24817
Domestic equity financing by non-financial enterprises	11.43	7.5	7931	-3826
Other financing	10.73	3.1	3211	-5257
Of which: Asset-backed securities of depository institutions	1.36	-31.6	-6277	-4415
Loans written off	8.61	14.6	10967	291

Notes: ① The AFRE (stock) refers to outstanding funds provided by the financial system to the real economy at the end of a period. The AFRE (flow) refers to the volume of funds provided by the financial system to the real economy within a certain period of time. ②Since January 2023, the PBOC has included three types of non-deposit financial institutions in the banking industry, namely, consumer finance companies, wealth management companies, and financial asset investment companies, into the scope of the financial statistics. Therefore, adjustments will be made to the data on "RMB loans issued by the real economy" and "loans written off" in the scale of social financing. ③YOY statistics in the table are on a comparable basis.

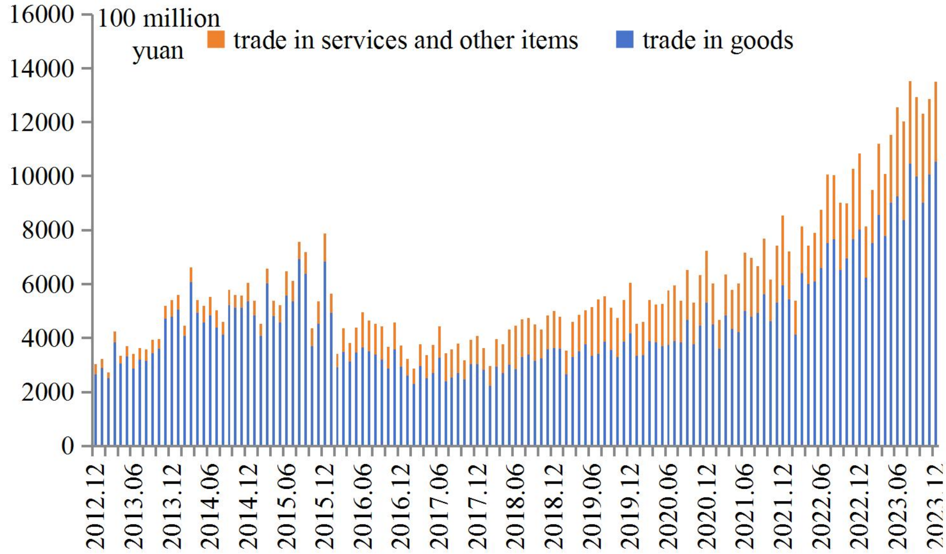
Sources: The People's Bank of China, National Administration of Financial Regulation, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

IV. The RMB exchange rate remained basically stable at an adaptive and equilibrium level

In 2023, cross-border capital flows were stable and orderly, supply and demand in the foreign exchange market was basically in equilibrium, and RMB exchange rate expectations were generally stable. The international situation has been complex and serious, with interest rates in the major developed economies remaining at a high level. The RMB exchange rate has been relatively sound among the world's major currencies, fluctuating in both directions and playing its role as an auto stabilizer in macroeconomic management and the balance of payments. In 2023, based on market supply and demand, the RMB exchange rate remained basically stable against a basket of currencies. At end-2023, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 97.42, appreciating 0.7 percent from end-June 2023 and depreciating 1.3 percent from end-2022, respectively. According to calculations by the Bank for International Settlements (BIS), from 2005, when the reform of the RMB exchange-rate formation regime began, to end-2023, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 42.3 percent and 37.5 percent, respectively. At end-2023, the central parity of the RMB against the US dollar was 7.0827, appreciating 2 percent from end-June 2023 while depreciating 1.7 percent from end-2022. Since the beginning of the reform of the exchange-rate formation regime in 2005, the central parity of the RMB against the US dollar has appreciated 16.9 percent in total. In 2023, the annualized volatility rate of the RMB against the US dollar was 4.9 percent.

Cross-border RMB businesses have maintained growth, with receipts and payments basically reaching a balance. In 2023, cross-border RMB settlements increased 24 percent year on year to RMB52.3 trillion, accounting for 58 percent of the total cross-border settlements denominated in domestic and foreign currencies over the same period. Specifically, cross-border RMB receipts and payments registered RMB25.4 trillion and RMB26.9 trillion, respectively. Cross-border RMB settlements under the current account increased 33 percent year on year to RMB14 trillion. In particular, RMB settlements under trade in goods registered RMB10.7 trillion and RMB settlements under trade in services and under other current items registered RMB3.3 trillion. Cross-border RMB settlements under the capital account grew by 21 percent year on year to RMB38.3 trillion. In 2023, 25 percent of cross-border receipts and payments under trade in goods were settled in RMB.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In 2023, with resolute implementation of the decisions and arrangements made by the CPC Central Committee and the State Council, the PBOC pursued a sound monetary policy in a targeted and effective manner. It comprehensively utilized financial tools, such as the reserve requirement ratio (RRR) cut, medium-term lending facility (MLF) operations, and open market operations (OMOs), to keep liquidity adequate and at a reasonable level and to guide financial institutions to maintain appropriate aggregates and a steady pace in the supply of money and credit. Meanwhile, it adjusted and optimized the interest rate policy for home mortgage loans, facilitating a steady decline in corporate financing costs and resident credit. It also made good use of the existing special central bank lending, issued guiding documents on financial support for the private economy, and stepped up support for key areas and weak links, such as financial inclusion, sci-tech innovation, and green development. These efforts continuously consolidated the momentum for the recovery of the national economy.

I. Conducting open market operations in a flexible manner

The interest rates on reverse repo operations declined on two occasions in 2023. In June and in August, the rates on the open market 7-day reverse repos dropped by 10 basis points each time, registering 1.80 percent at end-2023 and down 20 basis points from end-2022. Corporate financing costs were reduced through financial market transmissions. The quality and efficiency of financial support for the development of the real economy were improved. In Q4, given that the short-term factors affecting liquidity supply and demand in the banking system increased, the PBOC followed closely the economic and financial conditions, strengthened monitoring and analysis of liquidity, conducted reverse repo operations in a flexible and forward-looking manner, and intensified open market operations in a timely and appropriate manner so as to keep liquidity in the banking system adequate and at a reasonable level and to guide money market interest rates to move smoothly around the interest rate on open market operations.

Supporting intensive large-scale issuances of government bonds. In Q4, the issuance of local government bonds accelerated, and newly increased central government bonds were issued in a concentrated manner, so the net financing of government bonds hit a record high. The PBOC further strengthened coordination with fiscal policies through active communication with fiscal departments and increased the operational intensity of policy instruments, such as reverse repo operations, precisely offsetting the short-term influence of financial issuances, keeping liquidity and market rate movements stable, and providing strong support for the successful issuance of government bonds.

Stabilizing year-end liquidity supply in a forward-looking way. The PBOC conducted 14-day reverse repo operations on December 18 and gradually increased their intensity in light of market demand, with a view to keeping market liquidity adequate at a reasonable level at year-end and ensuring the stable operation of all kinds of market institutions at the turn of the year. At end-2023, outstanding reverse repo operations registered RMB2.8 trillion, up RMB1.1 trillion from end-2022. On the last working day of 2023, the weighted average 7-day repo rate between deposit institutions in the interbank market (DR007) was 1.91 percent, a drop of 45 basis points year on year.

In addition, the PBOC continued to conduct central bank bills swap (CBS) operations on a monthly basis in Q4 to improve the liquidity of bank-issued perpetual bonds in the secondary market. Meanwhile, the PBOC has been issuing central bank bills in Hong Kong on a regular basis and has been scaling up some types of central bank bills based on the demand of global investors. In 2023, the PBOC issued in Hong Kong 12 batches of central bank bills worth a total of RMB160 billion, up RMB40 billion over the previous year, which was conducive to the sound development of the offshore RMB money market and the bond market.

II. Conducting medium-term lending facility (MLF) operations to roll over maturing loans with a higher injection of liquidity

Boosting liquidity support with MLF Loans. In 2023, the PBOC ramped up liquidity injections as it rolled over maturing MLF loans for the twelfth consecutive month. Among these, the December operations resulted in a net fresh fund injection of RMB800 billion, booking the biggest monthly increase on record. In particular, the amount of MLF operations posted RMB1.759 trillion, RMB0.532 trillion, RMB1.095 trillion, and RMB3.689 trillion in Q1, Q2, Q3, and Q4, respectively, all of which were with a maturity of one year. At end-2023, outstanding MLFs registered RMB7.075 trillion, an increase of RMB2.525 trillion from the beginning of 2023. The MLF rate was lowered by 10 basis points in June and by 15 basis points in August, and it registered 2.50 percent at end-2023. The continuous excess provision of MLF operations effectively ensured a reasonable supply of medium to long-term liquidity.

Conducting standing lending facility (SLF) operations in a timely manner. In 2023, the PBOC conducted a total of RMB45.6 billion of SLF operations, among which those in the four quarters reached RMB7.7 billion, RMB4.3 billion, RMB6.9 billion, and RMB26.7 billion, respectively. At end-2023, outstanding SLF operations registered RMB15.7 billion. At end-2023, the overnight, 7-day, and 1-month SLF rates stood at 2.65 percent, 2.80 percent, and 3.15 percent, respectively. SLF operations provided locally-incorporated financial institutions with a sufficient amount of short-term liquidity support as needed so that market expectations were stabilized and the stability of liquidity in the banking system was strengthened.

III. Lowering the RRR for financial institutions

Lowering the RRR for financial institutions. On March 27 and September 15, 2023, the PBOC reduced the RRR for financial institutions by 0.25 percentage points each time, freeing up over RMB1 trillion in medium and long-term liquidity. On February 5, 2024, the PBOC again cut the RRR for financial institutions by 0.5 percentage points. This move released over RMB1 trillion in medium and long-term liquidity, which was conducive to ensuring the supply of money before the Spring Festival, delivering policy signals to strengthen macro-policy adjustments to boost confidence, optimizing the structure of the PBOC's supply of liquidity to the banking system, and reducing fund costs in the banking system. After this RRR cut, the weighted average RRR for financial institutions fell from 7.4 percent to 7 percent.

Lowering the foreign exchange RRR for financial institutions. Since the establishment of the foreign exchange RRR system in 1993, the foreign exchange RRR for financial institutions has remained relatively stable. In recent years, to effectively respond to external shocks brought about by monetary policy adjustments in the advanced economies, the foreign exchange RRR for financial institutions has been adjusted on several occasions. Since 2022, the PBOC has reduced the foreign exchange RRR for financial institutions three times, by a total of 5 percentage points, which has effectively enhanced the capacity of financial institutions to utilize foreign exchange funds and safeguarded smooth operations in the foreign exchange market.

Among these cuts, on September 15, 2023, the foreign exchange RRR was cut by 2 percentage points, from 6 percent to 4 percent, freeing up foreign exchange liquidity in the amount of about USD15 billion.

IV. Further improving the macro-prudential system and the management framework

Giving full play to the guiding role of the macro-prudential assessment (MPA). In 2023, the PBOC further optimized the MPA framework and guided financial institutions to moderately flatten credit fluctuations during "low and peak seasons," thereby maintaining appropriate and well-paced credit supply as well as sustained credit support for inclusive MSB loans and medium and long-term financing to the manufacturing sector.

Refining the regulatory framework for systemically important financial institutions. On September 22, the PBOC and the National Financial Regulatory Administration (NFRA) released a list of China's systemically important banks (SIBs) in 2023. A total of 20 domestic SIBs were identified based on 2022 data assessments, one more than the total in 2022, including 6 state-owned commercial banks, 9 joint-stock commercial banks, and 5 city commercial banks. In Q4, the PBOC, together with the NFRA and the Ministry of Finance, reviewed the 2023 recovery plans and resolution plan proposals submitted by the SIBs and urged them to enhance their risk response capabilities. On October 20, the PBOC and the NFRA jointly issued the *Measures for the Assessment of Systemically Important Insurers*, which expanded the assessment of systemically important financial institutions to cover not only the banking sector but also the insurance industry, marking a new step in macro-prudential management. In accordance with the *Measures*, China's top ten insurance groups, life insurance companies, property and casualty insurance companies, and reinsurance companies in terms of asset size, were mainly evaluated based on four dimensions, namely, size, interconnectedness, asset liquidity, and substitutability, and those with a score of 1000 or higher are to be identified as systematically important issuers (SIIs).

Adjusting the macro-prudential adjustment parameter for cross-border financing. On July 20, 2023, in order to further improve the macro-prudential management of unified cross-border financing and to continue to expand the sources of cross-border funds for enterprises and financial institutions and to guide them in optimizing their asset-liability structure, the PBOC and the State Administration of Foreign Exchange (SAFE) decided to raise the macro-prudential adjustment parameter for cross-border financing of enterprises and financial institutions from 1.25 to 1.5.

V. Giving full play to the role of monetary policies to optimize the structure

Focusing on technology finance, green finance, inclusive finance, pension finance, and digital finance, and leveraging the role of monetary instruments to adjust both the aggregate and the structure. In terms of inclusive finance, central bank lending for rural development and for MSBs, as well as central bank discounts, were utilized to guide locally-incorporated financial institutions to expand their credit supply for agro-linked businesses, MSBs, and private enterprises. On January 25, 2024, the PBOC cut the interest rate on central bank lending for rural development and MSBs and central bank discounts for all terms by 25 basis points. Central bank lending for poverty alleviation was rolled over according to current regulations so as to consolidate the achievements in poverty alleviation and support for rural revitalization. The PBOC promoted coordinated regional development by continuously guiding locally-incorporated financial institutions in ten provinces to effectively use central bank lending and other policy instruments. At end-2023, outstanding central bank lending in support of rural development, in support of MSBs, and for poverty alleviation posted RMB656.2 billion, RMB1.7 trillion, and RMB122.2 billion, respectively, and outstanding central bank discounts registered RMB592.0 billion. The inclusive MSB loan facility continued. At end-2023, RMB55.4 billion in incentive funding was provided through these instruments, an increase of RMB27.9 billion from the beginning of the year. With such support, locally-incorporated financial institutions boosted the issuance of inclusive MSB loans by RMB3.3222 trillion, up RMB1.7168 trillion from the beginning of the year. **Concerning green finance,** the carbon emission reduction facility was extended to the end of 2024, and some locally-incorporated and overseas-funded financial institutions were covered by the facility. Special central bank lending for the clean and efficient use of coal was extended to the end of 2023. By the end of 2023, the outstanding amount of these two instruments registered RMB541.0 billion and RMB274.8 billion, respectively, an increase of RMB231.4 billion and RMB193.7 billion, respectively, from the beginning of the year. **With regard to technology finance,** central bank lending for sci-tech innovation and special central bank lending for equipment upgrading and renovation expired, but with the outstanding funds continuing to serve these purposes. At end-2023, the outstanding amount of these two instruments registered RMB255.6 billion and RMB156.7 billion, respectively, up RMB55.6 billion and RMB75.8 billion, respectively, from the beginning of the year. **With respect to pension finance,** the PBOC continued to carry out the pilot program of special central bank lending for inclusive elderly care services in five provinces, including Zhejiang and Jiangsu. At end-2023, the outstanding amount of the instrument posted RMB1.8 billion, an increase of RMB1.1 billion from the beginning of the year.

Supporting the resolution of risks in the real estate sector and forging a new real estate development model. The PBOC continued to implement instruments, such as the guaranteed residential building delivery loan program, the loan support scheme for rental housing, and the special central bank lending for troubled property developers. At end-2023, the outstanding amount in the guaranteed residential building delivery loan program posted RMB5.6 billion, up RMB5.6 billion from the beginning of the year. The quota for the pledged supplementary lending (PSL) facility increased by RMB500 billion in December, supporting policy-backed and development-oriented financial institutions to grant loans for the development of government-subsidized housing projects, the rebuilding of run-down urban areas, and the construction of public infrastructure for both daily and emergency uses. At end-2023, the outstanding amount of the PSL posted RMB3.3 trillion, an increase of RMB99.4 billion from the beginning of the year.

VI. Enhancing the efficiency and the role of credit policy in structural guidance

Constantly improving financial services for private enterprises and MSBs.
In November 2023, the PBOC took the lead in issuing the *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy*. The *Notice* specifies the financial support requirements for development of the private economy, in terms of continuously increasing the input of credit resources, deepening the development of the bond market system, giving full play to the role of the multi-tiered capital market, and increasing the supply of foreign exchange facilitation policies and services. The PBOC continued to carry out the project to enhance financial services for micro, small, and medium-sized enterprises, and it guided financial institutions to improve the implementation of policy arrangements, including funds transfer pricing, performance appraisals, and due diligence exemptions, so as to accelerate the establishment of a long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to issue loans. By the end of 2023, outstanding inclusive MSB loans registered RMB29.4 trillion, increasing 23.5 percent year on year and benefiting 61.66 million MSBs, an increase of 9.1 percent year on year. The weighted average interest rate on newly issued inclusive MSB loans in December posted 4.68 percent.

Increasing financial support for rural revitalization. The PBOC continuously promoted the implementation of the *Guiding Opinions on Providing Financial Support for Advancing Rural Revitalization Across the Board and Stepping Up Efforts to Build Up China's Strength in Agriculture*. It guided financial institutions to optimize resource allocations by continuously increasing the supply of financial resources for key areas, such as stable production and secure supplies of grain and key agricultural products, sci-tech equipment innovation and green development in agriculture, and the high-quality development of rural industries. By the end of 2023, outstanding agro-related loans registered a YOY increase of 14.9 percent, reaching RMB56.6 trillion.

Coordinating credit support for green development and energy transformation. The PBOC strengthened macro credit policy, guiding credit funds to provide targeted support for key areas, such as clean energy, energy conservation, and emission reductions. It adhered to the principle of "establishing before breaking" and guided banks to satisfy the reasonable financing needs of the traditional energy sector in a steady manner. Acting in accordance with the principle that "speed should be subordinate to quality," the PBOC promoted the high-quality development of green credits. By the end of 2023, the outstanding amount of green credit in China posted about RMB30.1 trillion, an increase of 36.5 percent year on year.

Strengthening financial support for the pension sector. The PBOC encouraged financial institutions to innovate the organizations and production systems for pension finance, to increase the supply of credit to elderly-care facilities and industry, and to upgrade financial services that cater to the needs of senior citizens, contributing to the national strategy of responding to the aging population. At end-2023, all types of outstanding loans issued to the pension sector by seven banks, namely, the China Development Bank, the Agricultural Development Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, and the Bank of Communications, amounted to a total of about RMB100 billion, up 26.4 percent year on year.

Improving financial support and services for the transportation and logistics industry. The PBOC continuously executed effective implementation of the *Notice on Further Enhancing Financial Support and Services for the Transportation and Logistics Industries* in a sustained manner. It encouraged banks to focus on the goal of building up China's strength in transportation and responding to the needs of business entities by stepping up credit support. By the end of 2023, the outstanding medium and long-term loans to the transport, logistics, warehousing, and postal industries registered RMB18.0 trillion, a YOY increase of 12.1 percent.

Continuously delivering financial services to the manufacturing sector and to sci-tech innovation. The PBOC improved the policy framework for financial support to sci-tech innovation, promoted the establishment of a diversified relay-style financial service system for sci-tech innovation, and organized special actions to improve financial service capabilities for science and technology. Together with the administrative agencies of the relevant industries, the PBOC improved matchmaking between key investment projects and enterprises in need of funds for the manufacturing sector and for sci-tech innovation purposes so as to alleviate the informational asymmetries between banks and enterprises. The PBOC periodically circulated reports on loans issued to the manufacturing sector and for sci-tech innovation by banks licensed to operate nationwide so as to motivate financial institutions to increase credit support in these areas. By the end of 2023, outstanding medium and long-term loans to the manufacturing sector had grown by 31.9 percent year on year to RMB12.5 trillion, and those to the high-tech manufacturing sector had grown by 34.0 percent year on year to RMB2.7 trillion. The YOY growth rate of loans granted to sci-tech small and medium enterprises and to "specialized, sophisticated, distinctive, and innovative" enterprises was recorded at 21.9 percent and 18.6 percent, respectively, both significantly outpacing the growth rate of all loans.

VII. Improving the formation and transmission mechanism of the market-based interest rate

Deepening the market-based interest rate reform. The benefits of the LPR reform have been unleashed continuously to significantly drive down actual loan interest rates. In 2023, the PBOC guided the one-year and over-five-year LPR to drop by 0.2 and 0.1 percentage points, respectively. Actual loans rates were guided to decline more substantially through the market-based interest rate transmission mechanism. In 2023, the weighted average interest rate on corporate loans registered 3.88 percent, the lowest level ever and falling by 0.29 percentage points year on year, The PBOC tapped into the role of the market-based adjustment mechanism for deposit interest rates to guide their decline. In June, September, and December of 2023, major banks voluntarily lowered deposit rates in light of their own operating needs and market supply and demand. Specifically, the medium- and long-term deposit rates fell at a more rapid pace. The above efforts further improved the term structure of deposit rates, made the deposit rates more market-based, enhanced the sustainability and capacity of financial support serving the real economy, and effectively promoted investment and consumption.

Adjusting and refining the interest rate policy for individual mortgage loans. Existing first-home mortgage rates were reduced. On August 31, the PBOC and the National Administration of Financial Regulation jointly released the *Notice on Issues related to Reducing Existing First-home Mortgage Rates* to guide both the lenders and the borrowers to reduce existing first-home mortgage rates in an orderly manner, thus effectively reducing the interest burden on residents and boosting consumption. Meanwhile, major banks were urged to place this rate reduction policy in place as soon as possible to reduce the borrowers' operational costs. Existing mortgages worth more than RMB23 trillion have witnessed interest rate reductions. After the adjustment, the weighted average mortgage rate registered 4.27 percent, with the average decline standing at 73 basis points. The annual interest expenses for borrowers dropped by about RMB170 billion, benefiting 53.25 million households or about 160 million people. This policy has been well received by all parties. The

PBOC guided continued interest rate declines for newly issued mortgage loans, lowered the interest rate floor on second-home mortgages to the LPR plus 20 basis points, and gave play to the dynamic adjustment mechanism for newly-issued first-home mortgage rates to guide their decline. As of December 2023, of 343 cities at or above the prefectural level across the country, 101 cities had adjusted the first-home interest rate floor and 26 cities had scraped the first-home interest rate floor. In 2023, the interest rate on newly issued individual mortgage loans registered 4.1 percent, a year-on-year decline of 0.75 percentage points.

Box 2 The Ten-year Interest Rate Self-regulatory Mechanism: An Important Guarantee for Market-based Reforms

Since its establishment in 2013, the interest rate self-regulatory mechanism has followed the direction of the market-based reforms, effectively served the requirements of macro regulation and financial management, conducted effective self-regulation on interest rate pricing for deposits and loans worth over RMB400 trillion in total via a pragmatic and streamlined organizational structure and an efficient and orderly working mechanism, and generated significant effects in management via limited resources, thus providing a vivid practice to pursue a path of financial development with Chinese characteristics.

The interest rate self-regulatory mechanism is an important institutional arrangement for deepening the market-based interest rate reforms. Since the 18th CPC National Congress, the PBOC has made continuous efforts to deepen the market-based interest rate reforms. In 2012, deposit interest rates were allowed to float upward to a certain extent. In July 2013, the controls on loan interest rates were lifted completely, and the reform entered a critical phase fraught with tough challenges. As China's financial institutions and market environment require further improvements, the reform target of a smooth liberalization process, a proper formation mechanism, and an appropriate adjustment system cannot be attained without efficiently safeguarding market competition order. In September 2013, by drawing on the experience of mature markets such as the U.S. and Germany as much as possible, and by safeguarding competition order through market self-regulation, the PBOC established the interest rate self-regulatory mechanism, which also conformed to China's own market-based interest rate reforms.

Promoting the regulated and healthy development of the market through enhanced self-regulation. In terms of the organizational structure, the interest rate self-regulatory mechanism is headed by the commercial banks with strong pricing capabilities, and this arrangement fully reflects the market-oriented feature of this self-regulatory mechanism. As for the consultation mechanism, irregular working meetings are convened to strengthen self-regulation and coordination, safeguard market competition order, and advance the market-oriented reforms in an orderly manner. The self-regulatory mechanism enables its members to have more rights in pricing and product innovation, pushes financial institutions to enhance their corporate governance and improve their services, fosters the formation of reasonable and balanced interest rates in a market-oriented environment, and guides the efficient allocation of financial resources, thus supporting high-quality economic development and enhancing the well-being of the people.

The interest rate self-regulatory mechanism has made remarkable achievements. First, advancing the LPR reform in a coordinated manner. In August 2019, the PBOC facilitated the LPR reform, with the LPR panel banks all being members of the interest rate self-regulatory mechanism. This mechanism is empowered to organize LPR quotations and to urge panel banks to offer reasonable rates so as to effectively reflect market interest rate movements and the monetary policy stance. Meanwhile, the PBOC also urged various lending institutions to post annualized loan interest rates to safeguard the legitimate rights of financial consumers. **Second**, fostering more market-based deposit interest rates. In October 2015, the PBOC lifted the administrative controls over bank deposit interest rates. The interest rate self-regulatory mechanism strengthened self-regulation on irrational pricing conduct, which allured depositors with high interest rates and helped to rectify non-compliant innovative deposit products. In June 2021, the self-regulatory ceiling for deposit interest rates was adjusted as the benchmark interest rate plus basis points to combat any leveraging effects. In April 2022, the market-based adjustment mechanism for deposit interest rates was established to guide members to make reasonable adjustments to deposit interest rates with reference to the changes in market interest rates. **Third**, effectively leveraging the role of conformity and prudential assessments. Financial institutions with better corporate governance and stronger pricing capabilities have been selected through the assessments to reinforce the micro foundations of the market-based interest rate reform. The PBOC continued to optimize the assessment metrics and to improve the incentive and constraint mechanism. As of 2023, 2055 banks, or about half of the commercial banks, had been members of the interest rate self-regulatory mechanism. **Fourth,** guiding interest rate self-regulatory mechanisms at the provincial levels to fulfill their responsibilities efficiently. The PBOC branches at the provincial levels have all established corresponding mechanisms for interest rate self-regulation. A preliminary pattern for coordination, consisting of self-regulatory mechanisms at the national and provincial levels, took shape to guarantee prompt transmission of the interest rate self-regulatory requirements to financial institutions at various levels, thus forming a collective force. In addition, the interest rate self-regulatory mechanism played a key role in guaranteeing the efficient operation of the Certificate of Deposit market and in facilitating participation in the reform of international benchmark interest rates.

During the next stage, the PBOC will guide the interest rate self-regulatory mechanism to improve its management methods for interest rate self-regulation, thus making a new contribution to an enhanced mechanism for the formation, adjustment. and transmission of market-based interest rates and for the financial sector to better serve the real economy. **First**, strengthening regulation and evaluation of LPR quotations to enhance their quality, thus providing strong support for a steady decline in overall social financing costs. Members are guided to make reasonable adjustments to deposit interest rates in light of the changes in market interest rates. **Second**, urging banks to improve the interest rate pricing mechanism for deposits and loans on a continuous basis. The interest rate relationship between the credit market and the bond market, as well as between large banks and small and medium-sized banks, will be overhauled based on a risk pricing mechanism. **Third**, establishing and improving the mechanism for regulatory talks and notifications to enhance the seriousness and authority of the interest rate self-regulation, to improve the organizational framework of the interest rate self-regulatory mechanism, and to promote the efficient fulfillment of its responsibilities.

VIII. Deepening the market-based reform of the RMB exchange rate

The PBOC continued to improve the managed floating exchange-rate regime based on market supply and demand with reference to a basket of currencies. It ensured that the market plays a decisive role in determining the exchange rate. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. The PBOC gave play to the role of the exchange rate as an auto stabilizer and as a shock absorber for macroeconomic management and for the balance of payments. Responding to relatively high external pressures on the RMB exchange rate in 2023, the PBOC took comprehensive measures and strengthened expectation guidance to prevent big ups and downs. In July, the PBOC raised the macro-prudential adjustment parameter for cross-border financing. In September, the PBOC cut the reserve requirement ratio for foreign exchange deposits. In addition, it held a meeting on the foreign exchange market self-regulatory framework, issued additional offshore central bank bills, balanced supply with demand in the foreign exchange market, and prevented the risks of exchange rate overshooting. As a result, the RMB exchange rate remained basically stable at an adaptive and equilibrium level. In 2023, the highest and lowest RMB central parities against the US dollar were 6.7130 and 7.2258, respectively. During the 242 trading days, the RMB appreciated on 142 days, depreciated on 98 days, and remained flat on 2 days. The biggest intraday appreciation and depreciation was 1.0 percent (654 bps) and 0.9 percent (630 bps), respectively. As of end-September, the central parity of the RMB against the US dollar, the euro, the pound sterling, and the Japanese yen had appreciated 2 percent, 0.2 percent, 1.1 percent, and had depreciated 0.2 percent from end-June, respectively. From the beginning of the reform of the

RMB exchange-rate formation regime in 2005 to the end of 2023, the RMB appreciated by a cumulative 16.9 percent, 27.4 percent, 59.4 percent, and 45.5 percent, respectively, against the US dollar, the euro, the pound sterling, and the Japanese yen. Direct RMB trading was rather buoyant in the interbank foreign exchange market with stable liquidity so that the exchange costs for enterprises were reduced and bilateral trade and investment was promoted.

IX. Forestalling and defusing financial risks

Strengthening the monitoring and assessment of systemic risks. The PBOC continued to strengthen its monitoring and assessment of systemic financial risks and to improve its framework for the monitoring and assessment of financial stability. It continued to improve risk monitoring in the banking sector, securities sector, insurance sector, and financial markets. The PBOC also conducted stress tests for banking financial institutions and provided them with timely risk warnings, thus guiding financial institutions to operate in a sound manner.

Making new progress in the prevention and resolution of financial risks. The PBOC further improved the financial risk monitoring, assessment, prevention, and control system, and established an early corrective mechanism with hard constraints on emerging high-risk banking institutions to make an early rectification more normative and authoritative. It conducted Central Bank Ratings on financial institutions on a regular basis, covering over 4,000 banking financial institutions, and it continuously reduced the number of high-risk institutions. The PBOC rectified emerging bank problems through early warnings so as to identify and resolve risks at an early stage.

Providing financial support for defusing debt risks of Local Government Financing Vehicles (LGFV) in an orderly manner. Local governments and LGFV were encouraged to raise resources to repay their debts by revitalizing or selling assets. Financial institutions were guided to consult with LGFV equally based on the marketization principle and the rule of law, to adopt category-based measures to defuse outstanding debts as well as to impose strict controls on incremental debts through extensions, refinancing, restructuring, etc. Regular mechanisms for monitoring the financial debts of LGFV were also set up. Local governments were supported in gradually divesting the government financing function of LGFV through mergers and acquisitions and capital injections.

X. Improving the capability to serve cross-border trade, investment, and financing

Advancing the improvement and coverage of cross-border trade facilitation

policies. The PBOC continuously moved forward with the reforms to facilitate cross-border trade, issued relevant measures to further facilitate cross-border trade settlement, streamlined the procedures for foreign exchange payments and settlements, and supported the handling of foreign exchange business. These actions have upgraded and expanded the coverage of the pilot policies in support of high-quality development, and they have helped enterprises lower costs and hedge risks.

Continuously optimizing foreign exchange services. The PBOC has further facilitated mobile payment services for overseas visitors to China and has provided high-quality foreign exchange services for the Hangzhou Asian Games and the Chengdu Universiade. Work has been done to promote the construction of cross-border financial service platforms and to expand diverse application scenarios.

Promoting construction of the foreign exchange market. The PBOC has improved services for enterprises to hedge against exchange rate risks, and it has conducted a special evaluation of banks licensed for nationwide operations in terms of their management of exchange rate risks. The PBOC guided the China Foreign Exchange Trade System (CFETS) to waive foreign exchange risk hedging fees for micro, small, and medium-sized enterprises (MSMEs) in 2023, and it extended the trading hours of the foreign exchange money market and the currency pair market. The PBOC released a list of market makers for 2023 and 2024 to optimize the structure of market makers. Work has also been done to ensure smooth implementation of the listing of the Macau patacas on the interbank foreign exchange market.

Supporting regional opening-up and innovation. The PBOC introduced innovation policies for foreign exchange management on a trial basis in key areas such as Hengqin-Guangdong-Macau, Qianhai-Shenzhen-Hong Kong, and Xiong'an New Area, so as to serve the country's major regional development strategies. Pilot programs regarding high-level opening-up policies for cross-border trade and investment have also been expanded in Shanghai, Jiangsu, Guangdong (including Shenzhen), Beijing, Zhejiang (including Ningbo), and Hainan, thereby facilitating the conduct of foreign exchange transactions by business entities in compliance with the regulations.

Deepening international monetary and financial cooperation. The PBOC continued to steadily advance its progress in bilateral currency swap arrangements, improved the currency swap framework, and gave play to the role of currency swaps in supporting development of the offshore RMB market and facilitating trade and investment. With a focus on neighboring countries and countries along the Belt and Road, the PBOC strengthened currency settlement cooperation with its counterparts and fostered a better environment for overseas use of the RMB. As of end-2023, based on the bilateral currency swap agreements between the PBOC and overseas monetary authorities, the overseas monetary authorities had drawn RMB114.886 billion and the

PBOC had drawn foreign currencies equivalent to USD246 million. These operations have played an active role in promoting bilateral trade and investment.

Table 8 Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in 2023

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	600511.35	8320.50	4994.78	2082.93	364.38	557.25	123.97
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	131.31	159.88	448.76	22.97	85.68	5.57	47.51
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	7.16	28.48	5.60	4.53	8.83	53.01	6.19
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	1.38	24.34	57.60	0	0.06	0	26.19

Source: China Foreign Exchange Trade System.

Box 3 Steadily Advancing Bilateral Currency Swaps Between Central Banks

Bilateral currency swaps between central banks (currency swap lines) are a financing arrangement in which a central bank can swap its own currency for the provision of liquidity in the counterparty central bank's currency. It is generally used to maintain financial market stability, and it can be swapped back upon maturity. Entering into currency swap agreements is a mature worldwide central bank practice. In the 1960s, the Federal Reserve began to engage in currency swap cooperations with some European central banks. At present, bilateral currency swap agreements among six central banks, i.e., the Federal Reserve, the Bank of Canada, the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank, have been signed. In addition to signing currency swap agreements with the PBOC, the European Central Bank has also signed currency swap agreements with the National Bank of Denmark, the Swedish Central Bank, and the National Bank of Poland. As for the Bank of Japan, it has signed currency swap agreements with the Bank of Thailand, the Monetary Authority of Singapore, and the Reserve Bank of Australia. In addition, during the subprime crisis and the COVID-19 pandemic, the Federal Reserve also established temporary currency swap lines with some other central banks.

The PBOC began to sign currency swap agreements with overseas central banks or monetary authorities in the wake of the 2008 global financial crisis when the liquidity conditions of the major international currencies were tight, pushing up demand among some countries to use local currencies for settlement. The PBOC has signed bilateral currency swap agreements with over 40 overseas central banks or monetary authorities. Since 2022, the PBOC has upgraded its currency swap agreement with the Hong Kong Monetary Authority to a long-standing arrangement, signed a currency swap agreement with the Central Bank of Saudi Arabia, and renewed its swap agreements with some central banks or monetary authorities, such as the Bank of Indonesia, the Monetary Authority of Singapore, the European Central Bank, and the Central Bank of the United Arab Emirates. At present, a total of 31 currency swap lines are in force, covering the major economies in key regions across six continents worldwide. The total size of the swap lines is approximately RMB 4.16 trillion. The size is the upper limit of funds available to be drawn on the swap lines and it is not equivalent to the actual amount of fund use. At the end of 2023, the balance of the actual draws by overseas central banks or monetary authorities posted RMB 114.9 billion, accounting for less than 3 percent of the total size of the currency swap lines. To guard against the potential impact of exchange rate fluctuations, an exchange rate protection mechanism has been set up in the swap lines based on which the amount of the swap currencies will be timely adjusted according to a new exchange rate if the fluctuations in the exchange rate exceed a certain range during use of the swap funds.

Bilateral currency swaps play a positive role in various respects. First, the RMB liquidity swap lines have been an important part of the global financial safety net, playing an active part in boosting market confidence and maintaining regional and global financial stability. For instance, in response to COVID-19, the PBOC signed or renewed currency swap agreements, or expanded the size of existing swap lines, with a number of its foreign counterparts, which helped the relevant countries and regions tide over the impact of the pandemic and maintain financial stability. Second, the swap funds can be used to support bilateral trade and investment and they can help to save exchange costs and to reduce exchange rate risks. For example, when a foreign company wants to pay for goods it has imported in RMB, it can apply for currency swaps to obtain RMB funds for the bilateral trade payments. Third, currency swap lines can provide necessary liquidity for the offshore market and help improve the environment for the use of local currencies. For instance, the long-standing swap agreement between the PBOC and the Hong Kong Monetary Authority is expected to provide the Hong Kong market with more stable and long-term liquidity, which will help better leverage the role of Hong Kong as an offshore RMB business hub and promote the development of Hong Kong's financial industry.

Going forward, the PBOC will continue to provide liquidity support and maintain financial stability through RMB liquidity swap lines, and it will improve the layout of the swap network so as to bring into full play the role of bilateral currency swaps as a component in the global financial safety network. In addition, the PBOC will step up efforts to improve the management mechanism for swap transactions, raise the efficiency of swap fund use, safeguard the security of swap funds, and support the counterparty central banks in making reasonable use of RMB swap funds in a bid to further facilitate bilateral trade and investment.

Part 3 Financial Market Conditions

In 2023, the performance of the financial market was generally stable. Money market interest rates edged down, with active market transactions. The trading volume of interbank derivatives market maintained growth. The bond market grew steadily in size with an overall decline in interest rate levels. The securities and insurance markets maintained an overall stable performance.

I. Financial market overview

1. Money market interest rates dropped slightly, with active market transactions

Money market interest rates dropped. In December 2023, the monthly weighted average interest rate for interbank lending was 1.78 percent, and the monthly weighted average interest rate for pledged repos posted 1.9 percent, 9 basis points, and 6 basis points lower than those in September 2023, respectively. The monthly weighted average interest rate for government-backed bond pledged repos among depository institutions posted 1.64 percent, 26 basis points lower than the monthly weighted average interest rate for pledged repos. At end-2023, the overnight and 7-day Shibor posted 1.75 percent and 1.87 percent, respectively, down 21 basis points and 36 basis points from end-2022, respectively.

Repos transactions on the money market were active. In 2023, the cumulative volume of bond repos trading on the interbank market registered RMB1674.2 trillion, representing an average daily turnover of RMB6.7 trillion and an increase of 21.3 percent year on year. The cumulative volume of trading for interbank lending registered RMB143 trillion, representing an average daily turnover of RMB571.9 billion and a decrease of 2.6 percent year on year. In terms of the maturity structure, overnight repos accounted for 87.5 percent of the total turnover in bond repos, up 1.1 percentage points year on year, and overnight lending constituted 89.5 percent of the total turnover in interbank lending, up 0.3 percentage points year on year. The volume of bond repos trading on the exchange markets increased 13.4 percent year on year to RMB457.6 trillion.

Table 9 Fund Flows Among Financial Institutions in 2023

Unit: RMB100 million

	Repos	Interbank lending

	2023	2022	2023	2022
Chinese-funded large banks①	-7,547,504	-5,159,892	-559,860	-461,874
Chinese-funded medium-sized banks②	-1,080,044	-1,505,272	-33,055	-173,370
Chinese-funded small-sized banks③	605,794	156,731	101,333	86,211
Securities institutions④	2,282,209	1,754,480	424,875	443,887
Insurance institutions⑤	249,533	229,671	1,952	2,803
Foreign-funded banks	63,531	55,363	-14,810	-20,464
Other financial institutions and vehicles⑥	5,426,481	4,468,919	79,566	122,807

Notes： ①Chinese-funded large banks include the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, China Development Bank, Bank of Communications, and Postal Savings Bank of China. ②Chinese-funded medium-sized banks refer to policy banks, China Merchants Bank, and eight other joint-equity commercial banks, Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu. ③Chinese-funded small-sized banks refer to the Hengfeng Bank, China Zheshang Bank, China Bohai Bank, other city commercial banks, rural commercial banks, rural cooperative banks, private banks, and village and township banks. ④Securities institutions include securities firms, fund management companies, and futures companies. ⑤Insurance institutions include insurance firms and corporate annuities. ⑥Other financial institutions and vehicles include urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies, asset management companies, social security funds, mutual funds, wealth management products, trust plans, and other investment vehicles. Some of these financial institutions and vehicles do not participate in the interbank lending market. ⑦A negative sign indicates net lending and a positive sign indicates net borrowing.
Source: China Foreign Exchange Trade System.

Interbank Certificates of Deposits (CDs) and negotiable CD businesses operated in an orderly manner. In 2023, about 27,000 interbank CDs were issued on the interbank market, raising RMB25.7 trillion. The total volume of trading on the secondary market registered RMB253.6 trillion. At end-2023, outstanding interbank CDs reached RMB14.8 trillion. The weighted average interest rate of 3-month interbank CDs was 2.4 percent, 8 basis points higher than that of the 3-month Shibor. About 63,000 negotiable CDs were issued by financial institutions throughout the year, raising RMB14.2 trillion, an increase of RMB1.6 trillion year on year.

Interest rate swap transactions remained stable. In 2023, the RMB interest rate swap market witnessed 352,000 transactions, increasing 44.1 percent year on year, with the volume of the notional principal totaling RMB31.7 trillion, an increase of 50.8 percent year on year. In terms of the maturity structure, contracts with maturities of up to one year traded most briskly, and the volume of the notional principal posted RMB21.7 trillion, accounting for 68.5 percent of the principal of all maturities. The

7-day fixing repo rate (FR) and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 91.5 percent and 7.4 percent, respectively, of the total notional principal of the interest rate swaps. Interest rate swaps anchored to the loan prime rate (LPR) witnessed 1,256 transactions, with RMB231.93 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in 2023

	Transactions	Notional principal (RMB100 million)
2023	352,279	317,071.9
2022	244,397	210,295.6

Source: China Foreign Exchange Trade System.

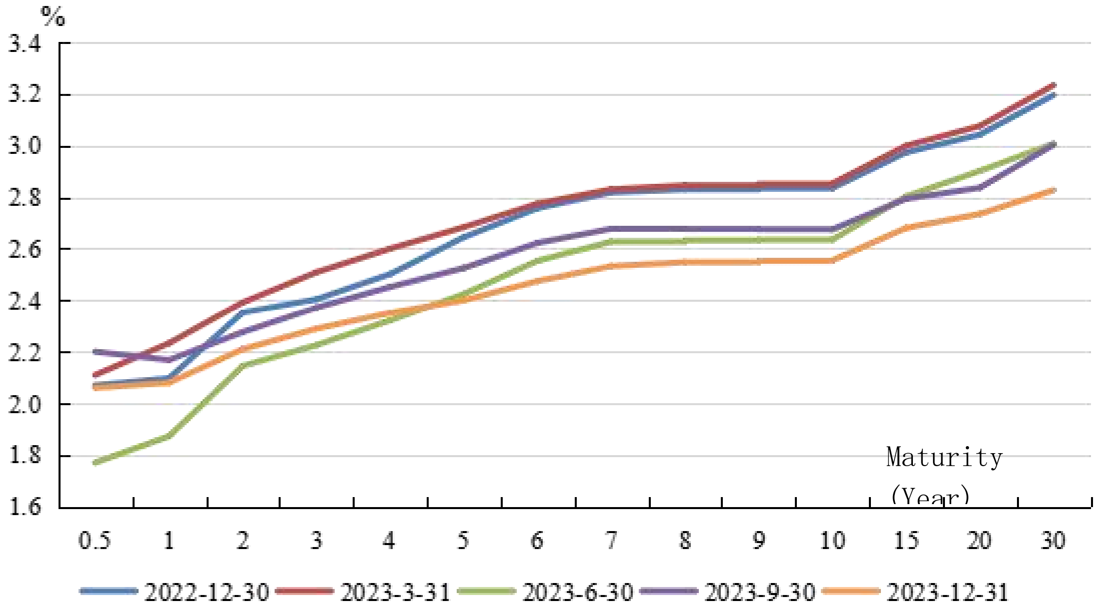
The interest rate options business developed at a steady pace. In 2023, a total of 1,007 interest rate options transactions were concluded, totaling RMB160.68 billion, all of which were LPR interest rate options transactions. Specifically, interest rate cap/floor transactions amounted to RMB158.68 billion, and interest rate swap transactions amounted to RMB2 billion.

2. The coupon rates of bonds witnessed an overall decline, while its market size maintained stable growth

Bond issuance rates fell. In December 2023, the yield on 10-year government bonds issued by the Ministry of Finance was 2.59 percent, 5 basis points lower than the rate in September and 24 basis points lower than the rate in the same period of the previous year; the average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 3.09 percent, down 76 basis points from the same period of the previous year. The China Development Bank (CDB) did not issue bonds in December, and the yield on 10-year financial bonds issued in November was 2.66 percent, 3 basis points lower than the rate in September.

The yields on government bonds marked a downward trend, and the term spreads narrowed slightly. At end-2023, the yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds were 2.08 percent, 2.29 percent, 2.40 percent, 2.53 percent, and 2.56 percent, respectively, down 9 basis points, 8 basis points, 13 basis points, 14 basis points, and 12 basis points, respectively, compared with those of end-September; and the term spread on 1-year and 10-year government bonds was 48 basis points, which narrowed by 3 basis points from end-September.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



Source: China Central Depository & Clearing Co., Ltd.

Bond issuances increased year on year. The cumulative value of bonds issued in 2023 grew by 15.3 percent year on year to RMB70.8 trillion, RMB9.4 trillion more than that in the same period of last year mainly due to the large increase in government bonds, local government bonds, and interbank certificates of deposits. At end-December, outstanding bonds held in custody amounted to RMB157.9 trillion, representing an increase of 9.1 percent year on year. Specifically, the balance of domestic bonds held by foreign institutions stood at RMB3.7 trillion, accounting for 2.4 percent of the total volume in custody, on par with that at the end of the previous year.

The trading volume of spot bonds grew. In 2023, the value of cash bonds traded on the bond market posted RMB353.9 trillion, registering an increase of 14.5 percent year on year. Specifically, the value of cash bonds traded on the interbank market was RMB307.3 trillion, representing an increase of 13.3 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB46.6 trillion, an increase of 23 percent year on year.

Table 11 Bond Issuances in 2023

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	110956	13793
Local government bonds	93254	19698
Central bank bills	0	0
Financial bonds①	364417	58222
Of which: Financial bonds issued by the CDB and policy financial bonds	58760	327

Interbank certificates of deposits	257815	52694
Corporate credit bonds②	138206	1487
Of which: Debt-financing instruments of non-financial enterprises	86979	-4355
Enterprise bonds	3808	-2384
Corporate bonds	36458	8248
Bonds issued by international institutions	1430	605
Total	708263	93804

Notes: ①Including financial bonds issued by the CDB, policy financial bonds, bonds issued by commercial banks (including ordinary bonds, subordinated bonds, and hybrid bonds), bonds issued by securities firms, and interbank certificates of deposit. ②Including debt-financing instruments issued by non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, privately offered SME bonds, and asset-backed securities on the Shanghai Stock Exchange and the Shenzhen Stock Exchange issued by non-financial enterprises.

Sources: The People's Bank of China, China Securities Regulatory Commission (CSRC), and China Central Depository & Clearing Co., Ltd. Updated with the latest data from the providers.

3. The bill financing business witnessed steady growth, with interest rates for bill financing declining slightly

The bill acceptance business registered a steady increase. In 2023, commercial drafts issued by enterprises totaled RMB31.4 trillion, increasing 14.5 percent year on year. At end-2023, outstanding commercial drafts stood at RMB17.1 trillion, decreasing by 1.4 percent year on year. Outstanding commercial draft acceptances increased. At end-2023, outstanding commercial draft acceptances increased by RMB494 billion from the end of Q3, and decreased by RMB238.1 billion compared to the end-2022. Of the outstanding bankers' acceptances, 69.6 percent were issued by micro, small, and medium-sized enterprises (MSMEs), up 1.3 percentage points from the previous year.

Bill financing witnessed steady growth, with interest rates declining slightly. In 2023, total discounts by financial institutions amounted to RMB62.6 trillion, increasing by 16.2 percent year on year. At end-2023, the balance of bill financing was RMB13.2 trillion, up 2.7 percent year on year. The balance accounted for 5.5 percent of the total outstanding loans, down 0.5 percentage points year on year. At end-2023, the interest rates for bill financing went down year on year, falling after an initial rise in the year.

4. The total turnover and the amount funds raised in the stock market declined year on year

At end-2023, the Shanghai Stock Exchange Composite Index closed at 2,975 points, down 3.7 percent from end-2022. The Shenzhen Stock Exchange Component Index closed at 9,525 points, down 13.5 percent from end-2022. In terms of specific sectors, the communications sector witnessed a growth rate of over 20 percent, with electronics, automobiles, and other sectors ranking among the top performers. Trade and retail, as well as the real estate sector, experienced relatively weak performance. The total turnover and amount of funds raised in the stock market decreased year on year. In 2023, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB212.2 trillion, and the average daily turnover was RMB876.9 billion, down 5.5 percent year on year. Northbound funds maintained an inflow trend throughout 2023, achieving net buying for the 10th consecutive year. In 2023, cumulative funds in the amount of RMB917.0 billion were raised through the Shanghai Stock Exchange and the Shenzhen Stock Exchange, a decrease of 30.4 percent year on year.

5. Premium income increased year on year and the growth of assets accelerated

In 2023, total premium income in the insurance sector amounted to RMB5.1 trillion, up 9.1 percent year on year and an acceleration of 4.5 percentage points compared to that recorded in 2022. Claim and benefit payments totaled RMB1.9 trillion, representing a year-on-year increase of 21.9 percent. Specifically, total property insurance claims and benefit payments increased by 18.2 percent year on year and total life insurance claims and benefit payments increased by 25.7 percent year on year.

Table 12 Asset Allocations in the Insurance Sector at end-2023

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-2023	End-2022	End-2023	End-2022
Total assets	299573	271467	100.0	100.0
of which: Bank deposits	27243	28348	9.1	10.4
Investments	249495	222161	83.3	81.8

Source: National Administration of Financial Regulation.

The growth of assets in the insurance sector accelerated. At end-2023, total assets in the insurance sector increased by 10.4 percent year on year to RMB30 trillion, an acceleration of 1.3 percentage points from end-2022. Specifically, bank deposits decreased by 3.9 percent, while investment-linked assets increased by 12.3 percent year on year.

6. The turnover of spot and swap foreign exchange transactions increased year on year, while that of forward transactions declined

In 2023, the cumulative turnover of spot RMB/foreign exchange transactions registered USD8.7 trillion, an increase of 4.8 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD20.6 trillion, an increase of 6.8 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD13.9 trillion, accounting for 67.5 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD120 billion, decreasing by 7.7 percent year on year. The turnover of foreign currency pair transactions totaled USD1.8 trillion, increasing by 18.9 percent year on year. In particular, the USD/JPY pair registered the largest trading volume, accounting for 37.3 percent of the total market share.

7. Gold prices went up and the volume of gold trading expanded

At end-2023, international gold prices closed at USD2,078.4 per ounce, representing an increase of 14.6 percent from end-2022. The Au99.99 on the Shanghai Gold Exchange closed at RMB479.59 per gram, increasing by 16.8 percent from end-2022. In 2023, the volume of gold traded on the Shanghai Gold Exchange was 41,500 tons, an increase of 7.1 percent year on year. The turnover posted RMB18.6 trillion, up 22.3 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the money market

The regulation of important money market funds was strengthened. In February 2023, the China Securities Regulatory Commission (CSRC), together with the PBOC, released the *Interim Provisions on the Regulation of Important Money Market Funds*, improving the safety and liquidity of important fund products in the money market and effectively preventing risks. The interim provisions specified relevant definitions as well as the prerequisites, criteria and procedures for the evaluation of important money market funds. More stringent and prudent requirements were imposed on the managers, trustees, and sales institutions of such funds.

Broker quotes and data displays were regulated. In August, the PBOC, the National Administration of Financial Regulation (NAFR), the CSRC, and the State Administration of Foreign Exchange (SAFE) jointly released the *Notice on Matters Concerning Data Services for Money Brokers*, regulating data services provided by money brokers and encouraging the proper use of data in compliance with the law, so as to ensure data security, enhance the transparency of market information, and promote fair competition.

2. Institutional arrangements in the bond market

The bond evaluation business was regulated in the interbank bond market. In December 2023, the PBOC released the *Measures for the Administration of Bond Valuation Services in the Interbank Bond Market*, specifying the requirements on such aspects as the internal governance of service providers, basic principles and methods for valuation, information disclosure, and conflicts of interest. The measures served to improve the neutrality, fairness, professionalism and transparency of the bond valuation services, rendering the valuation more effective and market-based, and preventing risks.

The opening-up of the bond market at a high level was steadily promoted. Under the guidance of the PBOC, relevant financial infrastructure institutions implemented a package of measures to facilitate investment. First, foreign-funded institutions in China were included in the market makers for the Northbound Bond Connect, which could tap into their advantages in regional overseas client resources and in cross-border service capabilities to provide better services for overseas investors. Second, the function of trading a basket of bond portfolio became available. It better met the needs of index investors, reduced the cost of inquiry when multiple bonds were transferred, and improved trading efficiency. Third, the reporting procedure for settlement failures in the Northbound Bond Connect was improved. After upgrading the infrastructure system, we enabled online one-stop reporting, thus greatly improving the convenience of investments. Fourth, mutual access was enhanced between the interest rate swap markets of the mainland and Hong Kong. With connected infrastructures, overseas investors can enjoy a greater convenience in interest rate risk management.

Box 4 Further Deepening the Financial Cooperation between the Mainland and Hong Kong SAR

In recent years, the PBOC has conscientiously implemented the policy arrangements of the CPC Central Committee. According to the “one country, two systems” policy, it has been actively engaged with the Hong Kong Monetary Authority (HKMA) and other financial regulators, so as to promote financial cooperation between the Mainland and Hong Kong SAR, and to support Hong Kong to consolidate its status as an international financial center. These efforts have produced positive effects.

Hong Kong’s status as a global offshore RMB business hub has been continuously strengthened. Since 2018, the PBOC has been regularly issuing RMB-denominated central bank bills in Hong Kong, providing high credit-rating assets for Hong Kong’s offshore RMB market. Currently, the cumulative amount of central bank bill issuance totals RMB725 billion. Meanwhile, the PBOC has strongly supported Mainland government sector, financial institutions, and non-financial enterprises to issue bonds in Hong Kong, so as to constantly improve Hong Kong’s offshore RMB yield curve. Since October 2021, the government of Shenzhen municipality has issued offshore RMB-denominated local government bonds in Hong Kong for three consecutive years. Besides, the bilateral local currency swap arrangement signed between the PBOC and the HKMA has been upgraded into a standing currency swap arrangement, and the size of the swap has been expanded to RMB800 billion, providing medium- to long-term liquidity support for the development of offshore RMB business in Hong Kong. Currently, Hong Kong has become the most important global offshore RMB business hub, consistently ranking the first in cross-border RMB settlement among offshore RMB markets, with around 75 percent of global offshore RMB payments settled through Hong Kong. In the meantime, the size of offshore RMB cash pool, RMB deposit, and RMB-denominated bond issuance, as well as RMB foreign exchange trading volume in Hong Kong have all ranked the first among major offshore RMB markets.

The connectivity of financial markets between the Mainland and Hong Kong has been constantly deepened. As a bridge that connects the Mainland with international markets, Hong Kong has always been an important channel for global investors to invest in the Mainland. To strengthen Hong Kong's status as an international asset management center, the PBOC has worked closely with financial regulators from both the Mainland and Hong Kong since 2014, and have launched multiple connect programs, such as the Shanghai/Shenzhen-Hong Kong Stock Connect, Bond Connect, Cross-boundary Wealth Management Connect, and Swap Connect. Currently, around 70 percent of the A-share stocks held by global investors are invested through the Shanghai/Shenzhen-Hong Kong Stock Connect, while over half of the Mainland bonds traded by global investors are executed through the Northbound Trading under the Bond Connect. On the basis of previous progress, the PBOC and the HKMA jointly launched multiple measures to improve connect schemes in January 2024, including the announcement of implementation rules to improve the Cross-boundary Wealth Management Connect pilot program in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the inclusion of bonds under the Bond Connect in the list of eligible collateral for the HKMA's RMB liquidity arrangement, and plans to further open up the domestic bond repurchase business to overseas investors, supporting all overseas institutions that have already entered the interbank bond market, including those through the Bond Connect, to participate in bond repurchase business.

Hong Kong's participation in the development of the GBA has been further increased. In recent years, the PBOC and relevant authorities have jointly released opinions on financial support for the development of the GBA and the Qianhai Shenzhen-Hong Kong Cooperation Zone, supporting Hong Kong to give full play to the advantages of pioneer policies and pilot programs. The authorities have successively launched Qualified Domestic Limited Partners (QDLP) and Qualified Foreign Limited Partners (QFLP) pilot programs in the GBA, expanded the list of banks eligible for the pilot program of Mainland Type II and III personal bank account agency opening witness service for Hong Kong and Macao residents, and supported the Hong Kong- and Macao-version of UnionPay wallet, Alipay (Hong Kong) digital wallet, and WeChat (Hong Kong) digital wallet to expand their application across the country. Recently, the PBOC also released official papers to better serve the demands of Hong Kong and Macao residents to purchase properties in the GBA, and announced the expansion of the scope for the Shenzhen-Hong Kong cross-border credit referencing collaboration pilot program, so as to facilitate cross-border financing activities for both Mainland and Hong Kong enterprises.

Cooperation in green and sustainable finance between the Mainland and Hong Kong has been advanced in an orderly manner. In recent years, multiple collaborations in green finance areas, such as the development of green finance collaboration platform and the issuance of green bonds, have been conducted between the Mainland and Hong Kong. In September 2020, the Green Finance Alliance of the GBA was established, creating a platform for deepening cooperation in green finance between the Mainland and Hong Kong. In July 2022, the PBOC promoted the release of the first process reference for Mainland enterprises to issue green bond in Hong Kong, encouraging local government and enterprise entities to issue green bonds in Hong Kong. Currently, the government of Shenzhen municipality has issued green and sustainable development bonds in Hong Kong for three consecutive years. Hong Kong has become an important market for green financing and investment in Asia, with a cumulative green bond issuance exceeding USD80 billion, and the total asset under management of sustainable development funds (ESG funds) reaching USD160 billion.

Cooperation in fintech between the Mainland and Hong Kong has delivered fruitful results. For a long period of time, substantive collaborations in areas such as central bank digital currency and fintech supervision have been conducted between the Mainland and Hong Kong. For digital currency, the PBOC and the HKMA have launched the cross-border e-CNY payment pilot program since 2020, and further enhanced the program at the beginning of 2024, to better serve Hong Kong and Mainland residents and enterprises. Meanwhile, the multiple-central bank digital currency bridge project (Project mBridge), which both the PBOC and the HKMA have participated in, has progressed smoothly and finished the world's first pilot test based on real transaction scenarios. For fintech innovation, the PBOC and the HKMA signed a Memorandum of Understanding (MOU) on fintech innovation supervisory cooperation in October 2021, and promoted cooperation in fintech innovation in a steady and orderly manner. Base on the existing MOU, the PBOC, the HKMA, and the Monetary Authority of Macao (AMCM) jointly signed another MOU in November 2023. Under the new MOU, the three authorities agreed to link up, in the form of a network, the PBOC's Fintech Innovation Regulatory Facility, the HKMA's Fintech Regulatory Sandbox, and the AMCM's Regulatory Requirements for Innovative Fintech Trials.

Going forward, the PBOC will further deepen the financial cooperation between the Mainland and Hong Kong, support the development of Hong Kong as an international financial center, and promote Hong Kong to accelerate the integration of its own development into the overall development of the country. It will continue its regular issuance of RMB-denominated central bank bills in Hong Kong, and support eligible Mainland local governments, financial institutions, and enterprises to issue offshore RMB-denominated bonds in Hong Kong, so as to consolidate Hong Kong's status as a global offshore RMB business hub. The PBOC will further enhance the financial market connectivity between the Mainland and Hong Kong, and continue to improve connect schemes such as the Bond Connect, Cross-boundary Wealth Management Connect, and Swap Connect, supporting Hong Kong to strengthen its status as an international asset management center. It will accelerate the implementation of policies which provide financial support for the development of the GBA, creating a convenient financial environment for Hong Kong residents to live and work in the GBA. In green finance, it will improve business cooperation and alignment of rules with Hong Kong, and support Mainland financial institutions to issue all types of green finance products in Hong Kong, so as to support Hong Kong to develop into a center for green and sustainable finance. In fintech, the PBOC will strengthen its cooperation with the HKMA. The two authorities will jointly increase the synergy of regulatory cooperation on fintech innovation, and constantly improve the pilot for cross-border use of e-CNY, supporting Hong Kong to build a fintech hub for the Asia-Pacific region.

3. Institutional reform and arrangements in the securities market

The reform was advanced towards registration-based IPO systems in all market. In February 2023, the CSRC officially launched the reform towards a fully functional registration-based IPO system, and released relevant provisions and rules. The reform covered all types of public offering of stocks and was of great importance for improving the function of capital markets, implementing the innovation-driven development strategy, and better serving the high-quality development. On April 10, the first batch of registration-based IPOs started trading on main boards of the Shanghai and Shenzhen stock exchanges.

Institutional arrangements were improved in the fund industry. In July 2023, the CSRC released the *Regulations on the Supervision and Administration of Private Equity Investment Funds*, regulating fund raising, filing, investment activities and market-based withdrawal mechanism in a comprehensive manner. In the same month, the CSRC released the *Work Plan for the Reform of Mutual Fund Fee Rate*, enabling a comprehensive improvement in mutual funds fee rate in a phased manner. On December 8, the CSRC started soliciting public opinion on *Provisions for Strengthening the Administration of the Securities Transactions of Publicly Offered Securities Investment Funds* to promote the second phase of fee rate reform in the mutual fund industry. On the same day, the CSRC released the *Measures for the Supervision and Administration of Private Investments Funds (Exposure Draft)* to facilitate the regulated and sound development of the private fund industry.

The regulatory framework for securities companies and listed companies are refined. On November 3, the CSRC started soliciting public opinion on revising the *Measures for the Calculation Standards for Risk Control Indicators of Securities Companies*, for the purpose of upgrading the system of risk control indicators. On November 17, the

CSRC released the *Rules for the Asset Purchase Activities of Listed Companies Using Convertible Corporate Bonds Issued to Specific Objects*, which supported listed companies to restructure using directional convertible bonds as payment tools, so as to acquire high-quality assets and improve the quality of such companies. In December, the CSRC revised and released the *Rules for Share Repurchases by Listed Companies*, enhancing the inclusiveness and convenience of repurchase and encouraging listed companies to put more emphasis on repurchase and execute it in a regulated way.

The institutional arrangements in the capital market were improved. In February, the CSRC released the *Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies*, as well as five other supporting guidelines, to support the lawful and compliant overseas securities offering and listing by domestic companies and promote the two-way opening up of the capital market. In October, the CSRC announced optimizations to the rules of securities lending and strategic investors shares lending, for the purpose of strengthening the regulation of securities lending regulation. In the same month, the CSRC released the *Measures for the Administration of the Issuance and Trading of Corporate Bonds* and supporting documents. The Measures regulated the issuance, transaction and transfer of corporate bonds, and protected the legitimate rights and interests of investors as well as public interests.

4. Institutional arrangements in the insurance market

The services were improved in life insurance and property insurance. In January 2023, the former China Banking and Insurance Regulatory Commission (CBIRC) released the *Rules for Information Disclosure of Life Insurance Products with Terms of More Than One Year*, which required full disclosure of such products' long-term nature and risk characteristics, as well as other key information such as ways of payment and loss arising from surrender. In the same month, the former CBIRC released the *Opinions on Proactively Providing Risk Reduction Services in Property Insurance Industry* and the *Notice on Expanding the Floating Range of Independent Pricing Coefficients of Commercial Auto Insurance and Other Related Matters*. The former required property insurance companies to enrich the content and increase the supply of risk reduction services, and ensured the protection of consumers' the rights and interest. And the latter improved and guaranteed the supply of auto insurance products. In July, the NAFR released the *Notice on Matters Concerning Products Covered by the Favorable Policy of the Personal Income Tax for Commercial Health Insurance*, expanding the eligibility criteria of the preferential personal income tax and reducing medical expense burdens.

Regulation on insurance companies were strengthened. In September, the NAFR released the *Measures for the Administration of Insurance Sales*, imposing restrictions on insurance sales throughout the entire process to better protect the rights and interests of consumers. In the same month, the NAFR released the *Notice on*

Improving the Regulatory Standards for the Solvency of Insurance Companies. The Notice implemented differentiated capital regulation on insurance companies with different sizes and with different product ranges and improved capital measurement standards and risk factors, so as to guide insurance companies to provide support and services for the real economy and sci-tech innovation. In October, the PBOC and NAFR jointly released the *Measures for the Assessment of Systemically Important Insurers*, stipulating that the assessment of systemically important insurers will be conducted every two years based on the indicators and data of the insurers to be assessed. The Measures took effect on January 1, 2024.

The pension system was improved. In September, the NAFR released the *Notice on Matters Concerning the link-up of the PTDA Pilot Program with the Personal Pension,* clarifying the business adjustments, product management, and policy transfer during the process to ensure orderly link-up. In October, the NAFR released the *Notice on Matters Related to Promoting the Development of Exclusive Commercial Pension Insurance*, further expanding the scope of insurers allowed to engage in the business of exclusive commercial pension insurance. In November, the NAFR released the *Interim Rules on Pension Insurance Companies*. The Interim Rules clarified specific requirements on such aspects as institutions management, corporate governance and risk management, so as to fill in the vacuum of exclusive regulatory rules for pension insurance firms.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The global economy was resilient in 2023, but the growth momentum weakened. As inflationary pressures eased, central banks in the advanced economies have mostly paused rate hikes since the fourth quarter. But the labor market remained tight. Looking ahead, the implications of sluggish global trade, uncertain macroeconomic policies in the advanced economies, and geopolitical risks for the global economy still merit attention.

1. Economic performance and financial markets in the major economies

Economic recovery continued to diverge. The economic performance in the U.S. was broadly stable. In Q4 2023, the quarterly real GDP increased at an annual rate of 3.3 percent, lower than the 4.9 percent in Q3, but still higher than market expectations. The likelihood of a "soft landing" has increased. The economic growth in Europe faltered. The GDP grew by 0.1 percent year on year in Q4 in the euro area, and was flat quarter on quarter. The growth in Japan slowed down. The annual rate of quarterly real GDP growth contracted by 2.9 percent in Q3, a sharp contrast with the upward trend in the first half of 2023. The manufacturing PMI in the major advanced economies was mostly below 50, whereas the services PMI was higher. The services

PMI was above 50 in the U.S. and Japan, and has been under 50 in the euro area since August. This has once again pointed to diverging growth momentum.

Inflation came down quickly in the U.S. and Europe, but went up a bit towards the end of 2023. In the U.S., the year-on-year growth rate of the headline CPI fell by 3 percentage points from earlier this year to 3.4 percent in December, but was slightly higher than that in November, while the core CPI continued to fall. In December, the HICP in the euro area rose by 2.9 percent year on year, a bit higher than that in November, which snapped the eight-month falling streak. In the U.K., the CPI registered a year-on-year increase of 4.0 percent in December, up by 0.1 percentage points compared with the prior month, but it was notably lower than the growth of more than 10 percent earlier this year.

Labor market remained tight. In December, the U.S. nonfarm payrolls increased by 216 thousand, growing for two months in a row. The unemployment rate posted 3.7 percent, on a par with that in November and falling by 0.1 percentage points from October. The labor force participation rate was down by 0.3 percentage points from November to 62.5 percent. Average hourly earnings for nonfarm payrolls rose by 4.1 percent year on year compared with 4 percent in November. Job vacancies increased from 8.925 million in November to 9.026 million in December.

Global financial markets were highly volatile. Global equity markets increased. In 2023, the S&P 500, the EURO STOXX 50, and the Nikkei 225 jumped by 24.2 percent, 19.2 percent, and 28.2 percent, respectively. From August to October, global equity markets underwent sharp fluctuations, with the three major indices experiencing big corrections. However, they resumed the upward trend at the end of October. Bond yields fluctuated downwards. Market expectations for rate cuts by the major central banks have increased since November amid easing global inflationary pressures and faltering economic activities. Against this backdrop, the yields on 10-year government bonds in the major advanced economies fell sharply. The yield on the 10-year U.S. Treasury closed down by 110 bps from the peak in mid-October at 3.88 percent at the end of 2023, almost flat compared with end-2022. The yield on the 10-year German and U.K. government bonds closed at 2.02 percent and 3.62 percent respectively, down by 49 bps and 18 bps compared with end-2022. The U.S. dollar index also fluctuated downwards. It increased in the first three quarters of 2023, but has fallen significantly since Q4 and closed at 101.38 at the end of 2023, down by 4.5 percent from end-September and 2.0 percent from end-2022.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023

		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	Real GDP Growth (annualized quarterly rate, %)		2.6			2.2			2.1			4.9			3.3	
	Unemployment Rate (%)	3.6	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7
	CPI (year-on-year, %)	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4
	DJ Industrial Average (end of the period)	32733	34590	33147	34086	32657	33274	34098	32908	34408	35559	34722	33508	33053	35951	37690
Euro Area	Real GDP Growth (year-on-year, %)		1.8			1.3			0.6			0.0			0.1	
	Unemployment Rate (%)	6.6	6.7	6.7	6.7	6.6	6.5	6.5	6.5	6.4	6.5	6.5	6.5	6.5	6.4	6.4
	HICP (year-on-year, %)	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9
	EURO STOXX 50 (end of the period)	3618	3964	3793	4163	4238	4315	4359	4218	4399	4471	4297	4175	4061	4382	4522
United Kingdom	Real GDP Growth (year-on year, %)		0.6			0.4			0.3			0.3			-	
	Unemployment Rate (%)	3.7	3.7	3.7	3.8	3.9	3.8	4.0	4.2	4.2	4.2	4.2	4.2	4.2		
	CPI (year-on-year, %)	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4.0
	FTSE 100 (end of the period)	7095	7573	7452	7772	7876	7632	7871	7446	7532	7699	7439	7608	7322	7454	7733
Japan	Real GDP Growth (annualized quarterly rate, %)		1.0			5.0			3.6			-2.9			-	
	Unemployment Rate (%)	2.6	2.5	2.5	2.4	2.6	2.8	2.6	2.6	2.5	2.7	2.7	2.6	2.5	2.5	2.4
	CPI (year-on-year, %)	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	2.6

Nikkei 225 (end of the period)	27587	27969	26095	27327	27446	28041	28856	30888	33189	33172	32619	31857	30859	33487	33464

Sources: Statistical Bureaus and Central Banks of the Relevant Economies.

2. Monetary policies of the major economies

This round of rate hikes in the major advanced economies was close to an end. The Fed raised rates on four occasions by a total of 100 bps in 2023, bringing the target range for the federal funds rate to 5.25-5.5 percent from 4.25-4.5 percent earlier this year. It paused rate hikes three times between September and the end of 2023. Meanwhile, the Fed continued to shrink its balance sheet as scheduled, with the monthly cap for Treasury securities set at USD60 billion and that for agency MBS at USD35 billion. The ECB raised policy rates six times by a total of 200 bps in 2023, with the interest rate on its main refinancing operations, marginal lending facility, and deposit facility increased to 4.5 percent, 4.75 percent, and 4 percent, respectively. It stood pat on rates twice in Q4. In the mean time, the ECB started to shrink its balance sheet in March by a monthly average amount of EUR15 billion until the end of June, ended the reinvestment of the principal payments from maturing securities under the asset purchase program (APP) in July, and planned to reduce the pandemic emergency purchase programme (PEPP) portfolio by EUR7.5 billion per month on average over the second half of 2024 and discontinue reinvestments under the PEPP at the end of 2024. The Bank of England (BOE) raised its policy rate five times by a total of 175 bps to 5.25 percent in 2023, and kept interest rates on hold twice in Q4. The Monetary Policy Committee of the BOE voted to reduce the stock of gilts by GBP100 billion to GBP658 billion between October 2023 and September 2024. The Bank of Japan (BOJ) maintained its short-term policy rate at -0.1 percent and its target yield on 10-year Japanese government bond (JGB) at around zero percent, but it increased the flexibility of yield curve control, setting 1 percent as a reference upper bound for 10-year JGB yield fluctuations in its market operations. In 2023, the Reserve Bank of Australia hiked rates five times by a total of 125 bps, the Reserve Bank of New Zealand three times by 125 bps, the Bank of Canada three times by 75 bps, and the Bank of Korea once by 25 bps.

Monetary policies in the emerging economies diverged. In 2023, the central banks in Russia, South Africa, Mexico, Indonesia, India, and Malaysia raised rates five times, three times, two times, two times, one time, and one time by a total of 850 bps, 125 bps, 75 bps, 50 bps, 25 bps, and 25 bps, respectively, while the central banks of Chile and Brazil both cut rates on four occasions by a total of 300 bps and 200 bps, respectively.

3. Issues and trends that merit attention

The economic growth momentum has weakened. The global economy was resilient in 2023, and one of the major contributing factor is the cumulative effects of earlier stimulus policies. As policy effects perter out and the lagged effects of rate hikes bite, the growth momentum of the global economy may weaken further down the road. The global economy is projected to grow by 3.1 percent in 2024 according to the IMF, the same growth rate as 2023. The 2024 global growth forecasts by the World Bank and the Organization for Economic Cooperation and Development are 2.4 percent and 2.9 percent, respectively, both lower than the average growth rate of 3.8 percent between 2000 and 2019.

Inflation will continue to fall slowly. Inflation has already come down significantly from the high of over 9 percent to around 3 percent in the advanced economies. As global supply chains have normalized and consumer demand has cooled down, inflation is likely to fall further in the advanced economies. However, given that services inflation remains sticky and geopolitical tensions may once again increase the volatility of commodity prices, the fall of inflation will remain a gradual and slow process. The IMF projected the global inflation would fall steadily to 5.8 percent in 2024 from 6.9 percent in 2023 and would not return to target until 2025 in most economies.

The timing for rate cuts by central banks in the major advanced economies is uncertain. In Q4 2023, the Fed, the ECB, and the BOE all paused rate hikes, but their comments on future policy paths diverged. The Fed shifted its policy focus from taming inflation to striking a balance between stabilizing growth and controlling inflation, while the ECB and the BOE remained hawkish. According to the statement released in January 2024, the Federal Open Market Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent, which has dampened market expectations for a rate cut by the Fed in March.

Rising political and geopolitical risks weigh on economic growth. Over 70 jurisdictions will hold general elections in 2024, including the U.S., Russia, India, and Brazil. Apart from the implications of election results for global political and economic landscapes, the uncertainties in the election process may also disrupt the global economy. In the meantime, geopolitical tensions keep escalating. The Russia-Ukraine conflict, which has lasted for nearly two years, is still at a stalemate. The conflict may persist. The resurgence of Palestinian-Israeli conflict has complicated the situation in the Middle East, which may also add to the global economic uncertainty.

II. Macroeconomic developments in China

In 2023, faced with the complex and severe international environment and the arduous tasks of domestic development, reform and stability, all regions and departments had earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, increasing the intensity of macro adjustments. The national economy witnessed a continuous recovery and turned toward high-quality development, with production and supply steadily improving, transformation and upgrading actively advancing, overall employment and prices generally stable, people's livelihood effectively securing, and high-quality development solidly advancing. According to preliminary statistics, GDP in 2023 grew by 5.2 percent year on year to RMB126.1 trillion on a comparable basis. Specifically, GDP in Q4 grew by 5.2 percent year on year and 1.0 percent quarter on quarter.

1. Consumption recovered rapidly, investments continued to expand, and imports and exports were generally stable

Residents' income continued to increase and market sales recovered rapidly. In 2023, China's per capita disposable income posted RMB39218, increasing by 6.3 percent year on year in nominal terms, or 6.1 percent in real terms, 0.2 percentage points higher than the first three quarters. The structure of income distribution has been continuously improved. The nominal and real growth rates of rural residents' per capita disposable income were 2.6 percentage points and 2.8 percentage points higher than those of urban residents, respectively. In 2023, the final consumption expenditure accounted for 82.5 percent of the economic growth. Meanwhile, total retail sales of consumer goods grew by 7.2 percent year on year. Consumption of basic living items saw stable growth, with retail sales of enterprises (units) above the designated size in terms of textile products, such as clothing, shoes, and hats, increasing by 12.9 percent and those in terms of grain, oil, and food increasing by 5.2 percent year on year. Sales of upgraded products increased fairly rapidly, with retail sales of gold/silver/jewelry, sports/entertainment products and communication equipment by enterprises (units) above the designated size increasing by 13.3 percent, 11.2 percent, and 7.0 percent, respectively. The Consumer Confidence Index stabilized and rebounded, reaching 87.6 in December, up 1.3 percentage points from the middle of 2023.

Investments continued to expand and investments in the high-tech sector grew rapidly. In 2023, the total investments accounted for 28.9 percent of the economic growth. The total fixed-asset investments throughout China (those by rural households excluded) increased by 3.0 percent year on year to RMB50.3036 trillion. In terms of sectors, investments in the manufacturing sector increased by 6.5 percent, 3.5 percentage points higher than the total investment growth. Investments in infrastructure increased by 5.9 percent. Investments in real estate development decreased by 9.6 percent year on year. Investments in the high-tech sector grew by 10.3 percent year on year, 7.3 percentage points higher than the total investment growth. Specifically, investments in the high-tech manufacturing sector and high-tech services sector grew by 9.9 percent and 11.4 percent year on year, respectively. In the high-tech manufacturing sector, investments in the aviation/spacecraft/instrument manufacturing industry, computer/office equipment manufacturing industry, and electronic/communication equipment manufacturing industry increased by 18.4 percent, 14.5 percent and 11.1 percent year on year, respectively. In the high-tech services sector, investments in the service industry of the commercialization of sci-tech achievements and e-commerce service industry increased by 31.8 percent and 29.2 percent year on year, respectively.

Imports and exports were generally stable, with the trade structure continuously improving. In 2023, imports and exports of goods increased by 0.2 percent year on year to RMB41.7568 trillion. Specifically, exports grew by 0.6 percent year on year and imports fell by 0.3 percent year on year, with the trade surplus in goods posting RMB5.7884 trillion. Imports and exports of private enterprises increased by 6.3 percent, accounting for 53.5 percent of total imports and exports, an acceleration of 3.1 percentage points year on year. Imports and exports with trading partners countries along the Belt and Road grew by 2.8 percent year on year, increasing by 1.2 percentage points and accounting for 46.6 percent of total imports and exports. Exports of mechanical and electrical products increased by 2.9 percent, accounting for 58.6 percent of total exports.

Foreign direct investment (FDI) was basically stable and the quality of investments continued to improve. In 2023, actually utilized FDI decreased by 8 percent year on year to RMB1.13391 trillion. The quality of investments continued to improve. Actually utilized FDI in the high-tech manufacturing industries increased by 6.5 percent year on year. Specifically, the electronic and communications equipment manufacturing sector and medical equipment/instrument manufacturing sector grew by 12.2 percent and 32.1 percent year on year, respectively. Actually utilized FDI in construction sector and the service sector of the commercialization of sci-tech achievements increased by 43.7 percent and 8.9 percent year on year, respectively.

2. Agricultural production was generally stable, industrial production rebounded steadily, and the service industry grew rapidly

In 2023, the value-added of the primary industry totaled RMB8.9755 trillion, up 4.1 percent year on year. The value-added of the secondary industry totaled RMB48.2589 trillion, up 4.7 percent year on year. The value-added of the tertiary industry totaled RMB68.8238 trillion, up 5.8 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In 2023, the value-added of agriculture (farming) increased by 4.2 percent year on year. The output of grain totaled 695.41 million tons, an increase of 8.88 million tons or 1.3 percent year on year. In 2023, the output of pork, beef, lamb, and poultry grew by 4.5 percent year on year to 96.41 million tons. Specifically, the output of pork grew by 4.6 percent year on year to 57.94 million tons. At end-2023, the number of hogs in stock decreased by 4.1 percent year on year and the number of hogs for slaughter increased by 3.8 percent year on year.

The industrial production recovered steadily and the equipment manufacturing industry grew rapidly. In 2023, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 4.6 percent year on year, 0.6 percentage points higher than the first three quarters. In terms of sectors, the value-added of the mining sector and of the manufacturing sector increased by 2.3 percent and 5.0 percent year on year, respectively. The value-added of electricity, heat, gas, and water production and supply sector increased by 4.3 percent year on year. The value-added of equipment manufacturing sector increased by 6.8 percent, which was 2.2 percentage points higher than the growth of the value-added of IEDS. In terms of enterprises, the value-added of state-owned enterprises and private enterprises increased by 5.0 percent and 3.1 percent year on year, respectively. In terms of products, the output of solar cells, new energy vehicles and charging stations grew by 54.0 percent, 30.3 percent, and 28.5 percent year on year, respectively.

The service industry grew rapidly, with the contact-intensive service industry improving significantly. In 2023, the value-added of the service industry grew by 5.8 percent year on year. Specifically, the value-added of accommodations and catering, electronic information transmission/software/information technology services, and the financial services sector grew by 14.5 percent, 11.9 percent, and 6.8 percent year on year, respectively. In December, the Index of Service Production (ISP) increased by 8.5 percent year on year. Specifically, the ISP of accommodations and catering and electronic information transmission/software/information technology services increased by 34.8 percent and 13.8 percent year on year, respectively. From January to November, the revenue of enterprises above a designated size in the services industry registered an 8.5 percent year-on-year increase. Specifically, the revenue of culture/sports/entertainment, and information transmission/software/information technology services increased by 18.9 percent and 12.8 percent year on year, respectively.

3.Consumer prices increased slightly, and the core CPI remained generally stable

Consumer prices increased moderately. In 2023, the Consumer Price Index (CPI) increased by 0.2 percent year on year, showing an overall trend of initial increase followed by decrease and gradual slowdown. In Q4, the CPI decreased on average by 0.3 percent year on year. From the supply side, domestic production capacity was sufficient and recovering quickly. The industrial capacity utilization rate in Q4 was 75.9 percent, up 1.6 percentage points from Q1. From the demand side, the momentum of consumption recovery weakened marginally. The seasonally adjusted quarter-on-quarter growth rate of total retail sales of consumer goods in Q4 was about 0.3 percent, lower than the 0.8 percent in H1. In addition, the base effect of pork and other food prices has increased. In Q4, the decline in pork prices pulled down CPI by more than 0.5 percentage points, while the price increase of fruits and vegetables and other food items was lower than the historical average for the same period. In 2023, food prices decreased by 0.3 percent year on year, while non-food prices increased by 0.4 percent year on year, with a decrease of 3.2 and 1.4 percentage points in growth rate compared to the previous year, respectively. The core CPI, excluding food and energy, increased by 0.7 percent year on year, a deceleration of 0.2 percentage points from the previous year.

The decline in production prices has narrowed. Influenced by factors such as the fall of international commodity prices, comparatively weak demand, sufficient supply, and a high base effect from the previous year, the Producer Price Index (PPI) continued to decrease by 3.0 percent year on year in 2023, which was 7.3 percentage points lower than the previous year. Overall, the PPI showed a V-shaped trend, reaching its lowest point of -5.4 percent in June and narrowing down to -2.7 percent in December. The Purchasing Price Index of Raw Material (PPIRM) decreased by 3.6 percent year on year, 9.9 percentage points lower compared to the previous year. The Corporate Goods Price Index (CGPI), monitored by the PBOC, decreased by 2.1 percent year on year, 5.6 percentage points lower from the same period last year.

4. Fiscal revenue rose steadily and fiscal expenditures remained stable

In 2023, revenue in the national general public budget posted RMB21.7 trillion, increasing by 6.4 percent year on year. Specifically, central and local fiscal revenue increased by 4.9 percent and 7.8 percent, respectively. National tax revenue amounted to RMB18.1 trillion, increasing by 8.7 percent year on year. Specifically, the domestic value-added tax (VAT) increased by 42.3 percent year on year, mainly due to the large amount of VAT credit refunds and the low base over the same period of 2022.

In 2023, expenditures in the national general public budget posted RMB27.5 trillion, increasing by 5.4 percent year on year. Specifically, expenditures in the central level general public budget and the local level general public budget increased by 7.4 percent and 5.1 percent year on year, respectively. In terms of the expenditure structure, expenditures related to social security and employment, science and technology, and education grew rapidly, witnessing a year-on-year increase of 8.9 percent, 7.9 percent, and 4.5 percent, respectively.

5. The employment situation remained generally stable

The surveyed urban unemployment rate decreased. In 2023, the surveyed urban unemployment rate averaged 5.2 percent, decreasing 0.4 percentage points compared to the previous year. In December, the surveyed urban unemployment rate averaged 5.1 percent, decreasing by 0.4 percentage points year on year. The employment situation of key groups continued to improve. In 2023, the total number of migrant workers reached 298 million, increasing 1.91 million compared to the previous year. The annual average of the surveyed urban unemployment rate for rural registered labor force in urban areas decreased by 0.7 percentage points compared to the previous year.

6. The balance of payments and the external debt

In Q1-Q3 2023, China's current account surplus registered USD209.0 billion, equivalent to 1.6 percent of GDP over the same period. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD454.4 billion, while trade in services recorded a deficit of USD168.4 billion. Domestic residents' cross-border tourism and overseas studies have resumed in an orderly manner but are still below pre-pandemic levels. According to preliminary statistics, the annual current account surplus remained relatively high and stayed within a reasonably balanced range. Cross-border investment activities under the capital account were carried out in an orderly manner, showing an overall trend of stability and improvement. Specifically, foreign inbound equity direct investment maintained a net inflow, with a significant rebound in Q4. China's outbound equity direct investment grew stably. Securities investment gradually recovered to net inflows, with foreign investors increasing their holdings of domestic bonds by over USD62 billion in Q4. As of end-2023, outstanding foreign currency reserves stood at USD3.238 trillion, increasing USD110.3 billion from end-2022, mainly influenced by factors such as changes in exchange rates and asset prices. As of end-September 2023, the balance of full-caliber foreign debt (denominated in both domestic and foreign currencies) posted USD2.3829 trillion.

7. Analysis by sector

7.1 The machinery sector

The machinery sector is a basic and strategic sector that provides technical and equipment support for the national economic development. In 2023, the overall machinery sector showed an overall recovery trend, and steady progress was made in terms of high-quality development. **First,** the sector operated smoothly with improved profitability. Operating revenue and total profits in the machinery sector accounted for more than 20 percent of those industries above a designated size, increasing by 6.8 percent and 4.1 percent year on year in 2023, respectively, which were significantly higher than the overall growth of industries above a designated size. **Second,** innovation and development led to the continuous growth of fixed asset investments. Annual investment growth in the automobile and electric machinery sectors registered 19.4 percent and 32.2 percent, respectively, which played an important role in driving investment in the manufacturing sector. **Third,** there was an obvious trend of upgrading in the structure of export products. Annual exports of the "new three," namely, electric passenger vehicles, lithium batteries, and solar cells, exceeded the ceiling of RMB1 trillion, with a year-on-year growth of 29.9 percent.

It should also be noted that the foundation for the recovery of China's machinery sector is yet not solid. **First,** the pressure on the demand side is rather prominent. In recent years, the demand for medium- and low-end products in the machinery sector has slowed down significantly, and the traditional downstream industries such as steel and coal industries have been undergoing industrial transformation, increasing the operating pressure of the machinery sector. **Second,** the transformation and upgrading of the machinery sector has a long way to go. China's machinery sector boasts of complete categories and prominent scale advantages. However, the resilience of the industrial chain is not strong, as it relies on imports of some key parts and is lagging behind the international advanced level in terms of some basic materials. **Third,** differentiation exists within the sector. Although the overall development of the machinery sector is positive and stable, with the automobile sector witnessing fast growth, yet some industries are faced with greater downward pressure.

Looking ahead, the high-quality development of China's machinery sector will be steadily promoted. **First,** focusing more on the capability of independent innovation. China will accelerate the development of strategic emerging industries, give full play to the role of enterprises in technological innovation, strengthen the build-up of a multi-layered talent team structured with echelons, further establish and improve the industrial technological innovation system, and cultivate premium brand products. **Second,** continuously strengthening the industrial foundation. Taking the green and low-carbon transformation of the manufacturing sector as an opportunity, China will continuously promote the industrial optimization and upgrading, promote equipment renewal, process optimization, and product upgrading, drive investment in the manufacturing sector, and promote innovation and transformation of the development pattern. **Third,** continuously ensuring the security of industrial and supply chains. China will concentrate the industry's superior forces on removing the "bottlenecks", accelerate the catching-up of key frontier technologies, change the situation of "insufficient" high-end supply, and help the coordinated development of the upstream and downstream industrial chains.

7.2 The elderly care sector

The report of the 20th CPC National Congress points out that it is necessary to implement the national strategy of actively coping with the aging of the population and to develop the elderly care sector. Currently, China has entered the period of an aged society. At end-2023, the proportion of people aged 60 and above, and those aged 65 and above, accounted for 21.1 percent and 15.4 percent of the total population, respectively, which are both over 5 percentage points higher than those of a decade ago. In recent years, the central government and various regions and departments have issued a series of policies to support the development of the elderly care sector, covering land, taxation, fiscal support, finance, talents and other aspects, which have driven the accelerated development of the elderly care sector in China. As of end-September 2023, there were a total of 400,000 elderly care service institutions and facilities around the country, with 8.206 million beds which has nearly doubled over the past decade. According to market estimates, the scale of China's elderly care sector in 2023 stood at about RMB10 trillion, and is expected to reach RMB20 trillion by 2030, accounting for one-tenth of GDP.

The financial sector has taken proactive measures to support the high-quality development of the elderly care sector. In April 2022, the special central bank lending tool for inclusive elderly care was launched in a timely manner to encourage financial institutions to provide loans to inclusive elderly care service institutions at preferential rates to promote the increase of inclusive elderly care service supply. Since the implementation of the policy, financial institutions have provided a total financing of RMB2.16 billion yuan to 69 inclusive elderly care service projects in five pilot provinces, including Zhejiang and Jiangsu, effectively supporting the construction of inclusive elderly care projects. Recently, the General Office of the State Council issued *the Opinions on Developing the Silver Economy to Enhance the Well-being of the Elderly*, which also emphasized on effective use of the special central bank lending facility for inclusive elderly care, so as to support the operation of public welfare and inclusive elderly care institutions, the construction of home and community elderly care systems, and the enterprises manufacturing products for the elderly. In addition, the PBOC has been actively guiding financial institutions to launch exclusive credit products for the elderly care sector. Through strengthening cooperation with government industrial funds and financing guarantee institutions, it provides targeted financial services for the elderly care sector.

Going forward, with the continuous deepening of the aging problem, there is huge potential for development of the elderly care sector, with elderly financial services, elderly care services, and elderly care products as the core. It should also be noted that China's high-quality development of the elderly care sector still faces challenges, such as insufficient elderly care institutions, uneven quality, high costs of elderly care services, etc. The financial support for the development of the elderly care sector also faces objective difficulties, such as low returns, long cycles, and high risks. There is an urgent need to further improve the policy system supporting development of the elderly care sector. At the Central Financial Work Conference in 2023, "the elderly care finance" was included in the five key areas. In the next stage, more targeted efforts will be made to enrich the supply of elderly financial products, to broaden the financing channels for elderly care service institutions, so as to better meet the increasingly diverse financial needs for elderly care. Besides, China will strengthen the coordination and cooperation of fiscal, taxation and industrial policies. It is necessary to fully mobilize the social forces to participate in this enterprise, promote the construction of an elderly care service system for the general public, and better meet the elderly care needs of the ordinary elderly people.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In 2023, China's economy was recovering and it achieved solid progress in pursuing high-quality development. With its full-year GDP registering a year-on-year growth rate of 5.2 percent, China successfully reached the growth target set for 2023 at the beginning of the year, and it is projected to contribute more than 30 percent of global economic growth. Meanwhile, per capita disposable income in China saw a year-on-year increase of 6.1 percent in real terms; the urban-rural income gap continued to narrow; and people's lives were further improved.

Looking ahead to 2024, China's economy is on track for further recovery. First, investment will continue to gain steam. The funds carried over from the additional RMB1 trillion worth of treasury bonds issued in Q4 2023, together with the newly added quota of RMB500 billion for pledged supplementary lending (PSL), will play an effective role in boosting investments in flood prevention and disaster relief projects, government-subsidized housing projects, the construction of public infrastructures for both daily and emergency use, and the rebuilding of run-down urban areas, thereby further stimulating private investment. Second, consumption is steadily improving. Amid the waning impact of the pandemic, corporate revenue and household income are picking up, so is people's willingness to consume. In light of the huge numbers of automobiles and home appliances currently in use in China, both demand and potential demand for upgraded products are sufficient. Moreover, as there are about 300 million new urban residents in China, to improve the supporting institutional arrangements and consumer financial services for them will help enhance market depth in such fields as education, medical care, and elderly care and speed up cultivation of new types of consumption. Third, China's foreign trade is highly resilient. The start of a new round of economic and trade talks between China and the U.S. will contribute to the sound and stable development of bilateral economic and trade relations. In addition, with the strengthening of economic and trade ties between China and the countries participating in the Belt and Road Initiative, China's foreign trade will have increasingly wider space for development. Furthermore, as it has been clearly laid down at the Central Economic Work Conference that we focus on the central task of economic development and the overarching mission of high-quality development, this requirement will give a strong boost to the enthusiasm of all parties.

To sustain the economic recovery, China still has to overcome some difficulties and challenges. Globally, although this cycle of interest rate hikes by the advanced economies may have come to an end, the lag effect of the high interest rates will continue to linger. Moreover, as 2024 is a year of global elections, we will likely see rising uncertainties in political and economic situations around the world. Domestically, there are blockages to economic circulation; the consumer confidence index and the growth rate of private investment remain low; and insufficient demand contrasts with excess capacity. With the manufacturing PMI having remained in contraction territory for four consecutive months, social expectations are still weak. That said, we should not only face up to the difficulties but also strengthen confidence and belief in ourselves. The fundamentals for China's sound economic growth over the long run remain unchanged, and the favorable conditions outweigh the unfavorable ones. It is important to follow the general principle of seeking progress while maintaining stability, promoting stability through progress, and establishing the new before abolishing the old to advance high-quality development with solid efforts and to solve the problems in the process of development.

Prices are expected to rise mildly. China's year-on-year CPI growth remained in negative territory in Q4 2023 due to weak rises in the prices of durable goods and services as well as due to the high base caused by the previous surges in the prices of pork and other food items. Meanwhile, year-on-year core CPI growth slowed from 0.8 percent to 0.6 percent. Given that inflation fundamentally depends on the balance between supply and demand in the real economy, behind the current low prices is the lack of effective demand in the economy and the fact that total supply and total demand are recovering at different paces. With the base effect diminishing and the demand for goods and services continuing to rebound in the future, prices are expected on the whole to see a mild uptick. The decline in the PPI is also expected to narrow further. From a medium- to long-term perspective, as China is undergoing a critical period of economic recovery as well as industrial transformation and upgrading, supply and demand are poised to improve continually, monetary conditions will be appropriate, and people's expectations will remain stable. Therefore, there is no basis for long-term deflation or inflation in China.

II. Outlook for monetary policy in the next stage

Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully implement the spirit of the 20th CPC National Congress and apply the new development philosophy fully, faithfully, and comprehensively. It will adhere to the general principle of seeking progress while maintaining stability, promoting stability through progress, and establishing the new before abolishing the old. It will speed up efforts to build China into a financial powerhouse, improve financial services, firmly follow the path of financial development with Chinese characteristics, and promote high-quality development of the financial sector. The PBOC will develop a modern central banking system and strengthen counter-cyclical and inter-temporal adjustments to macro policies, with serving the real economy as the fundamental purpose of the financial sector. Maintaining prudence of monetary policies and enhancing consistency in the macroeconomic policy orientation, it will continue to effectively upgrade and appropriately expand economic output.

Prudent monetary policies will be flexible,moderate, precise, and effective. Based on a rational understanding of the relationship between the two largest financing markets, namely, the bond market and the credit market, as well as an appropriate grasp of the patterns and new features of money and credit supply and demand, the PBOC will guide a reasonable growth and a balanced provision of credit. By doing so, it will keep a reasonable and sufficient liquidity level that matches the growth of AFRE and the money supply with the expected targets for economic growth and price levels. It will enhance policy coordination and effectively support the initiative to boost consumption, stabilize investment, and expand domestic demand so as to keep prices at a reasonable level. By continuing to deepen the market-oriented interest rate reform, further improving the LPR formation mechanism, and leveraging the role of the mechanism for market-oriented deposit rate adjustments, it will promote overall social financing costs to remain stable with a downward trend. The PBOC will give play to the role of the monetary policy toolkit in adjusting both the aggregate and the structure. It will support the use of debt restructuring and other methods to activate existing stocks so as to improve efficiency in using existing loans. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will work to develop technology finance, green finance, inclusive finance, pension finance, and digital finance. The 25 measures encouraging financial support for the private economy will continue to be implemented, and more financial support will be provided for the development of government-subsidized housing projects, the construction of public infrastructures for both daily and emergency uses, and the rebuilding of run-down urban areas. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will take a holistic approach in policy implementation and stabilize expectations, and it will prevent risks arising from exchange rate overshooting and prevent expectations from becoming unanimously one-sided and self-reinforced so as to keep the RMB exchange rate basically stable at a reasonable and balanced level. The PBOC will continue its efforts to effectively prevent and resolve risks in key areas including small and medium-sized financial institutions, local debts and the real estate sector, thereby firmly defending the bottom line whereby no systemic financial risks will occur.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. In line with the requirements to promote direct financing with vigorous efforts, the PBOC will appropriately manage the relationship between the two largest financing markets, i.e., the bond market and the credit market. Further work will be done to develop the corporate credit bond and financial bond markets. Continuing to strengthen monitoring and analysis of financial market movements as well as liquidity supply and demand in the banking system, the PBOC will keep a close watch on the monetary policy shifts of the major central banks. It will conduct open market operations (OMOs) in a flexible and effective manner while using a mix of monetary policy tools. It will also do its part to ensure successful issuance of government bonds. Guiding financial institutions to enhance liquidity risk management, it will keep liquidity in the banking system at a reasonable and sufficient level and it will maintain the stable movement of money market rates. Moreover, the PBOC will support efforts by financial institutions to actively explore credit demand and tap into the projects in reserve, working to promote reasonable loan growth, to reinforce a balanced supply of loans, and to make the growth of loans more stable and sustainable. By doing so, it will ensure that the AFRE and the money supply are aligned with economic growth and the expected target level of prices. The PBOC will put efforts into improving the efficiency of loan utilization. It will channel funds from maturing loans to entities operating with higher efficiency, optimize the use of new loans, and promote market clearing as necessary, thereby providing better support for sustainable development of the economy.

Second, the PBOC will give full play to the guiding role of monetary and credit policies. Conducting the policies in a targeted, appropriate, and flexible manner, the PBOC will keep central bank lending and discount policies stable, make effective use of the inclusive lending facility for micro and small businesses (MSBs), and duly implement the different types of special central bank lending facilities still in effect. It will integrate the schemes for facilities supporting sci-tech innovation and those in the digital financial field, and it will further step up support for key fields and weak links, such as inclusive services for MSBs, the manufacturing sector, green development, and sci-tech innovation. The PBOC will move ahead with solid implementation of the *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy*. It will continue the project for improving the capacity of providing financial services for micro, small, and medium-sized enterprises (MSMEs) in order to increase the availability of financing to private enterprises and MSBs and to make the process more convenient. Moreover, it will guide financial institutions to continue stepping up financial support for rural revitalization to better meet the diverse financing needs of the agro-related sectors. The PBOC will adopt city-specific measures to implement differentiated housing credit policies in a targeted manner, providing better support for people's rigid demands for housing and their needs to improve living conditions. It will meet the reasonable financing needs of property enterprises, regardless of their ownership types, to promote the stable and sound development of the real estate market. In addition, it will make effective use of the newly added PSL quota to intensify financial support for the development of affordable housing, the construction of public infrastructure for both normal and emergency use, and the renovation of urban villages. These efforts are aimed at accelerating the establishment of a new development model for the real estate sector.

Third, the PBOC will properly manage internal and external equilibria regarding the interest rate and the exchange rate. Continuing to advance the market-oriented interest rate reform, the PBOC will smooth the channels for monetary policy transmission. It will improve the market-oriented interest rate formation and transmission mechanism, optimize the central bank policy rate system, and guide market rates to move around the policy rates. It will implement the mechanism for market-oriented deposit rate adjustments in an effort to stabilize bank liability costs. At the same time, it will tap into the LPR reform and enhance self-regulatory coordination and management in the industry. Urging financial institutions to adhere to risk-based pricing and to straighten out the relationship between loan rates and market rates such as bond yields, it will maintain a level playing field in the market so as to stabilize and bring down overall social financing costs. Taking steady steps to deepen the market-oriented exchange rate reform, the PBOC will improve the managed floating exchange rate regime that is based on market supply and demand with reference to a basket of currencies. Letting the market play a decisive role in the formation of exchange rates, it will give play to the role of the exchange rate as an automatic stabilizer for the macro economy and the balance of payments. Furthermore, it will strengthen expectation management, duly conduct monitoring and analysis of cross-border capital flows, and uphold bottom-line thinking to prevent the risks of exchange rate overshooting. Additionally, it will prevent the formation and self-reinforcement of one-sided, unanimous expectations to keep the RMB exchange rate basically stable at a reasonable and balanced level. Meanwhile, the PBOC will strengthen management of the foreign exchange market. Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing services of exchange rate risk hedging for MSMEs with authentic needs based on a risk-neutral concept, thereby maintaining the stable and sound development of the foreign exchange market.

Fourth, the PBOC will make continued efforts to deepen the financial reforms and opening-up. It will improve the legal system for the bond market and consolidate the legal basis for corporate credit bonds. By establishing a mechanism linking up market-makers and OMO primary dealers, it will improve management of businesses, such as bond underwriting, valuation, and market-making, in order to enhance the pricing function and robustness of the bond market. It will also expand the over-the-counter (OTC) bond business and make OTC investments in government bonds more convenient and efficient for individuals, businesses, and small and medium-sized financial institutions. At the same time, the PBOC will strengthen macro-prudential management of the money market and improve the mechanism for money market liquidity monitoring. Adhering to market principles and the rule of law, it will continue to adopt a zero-tolerance approach and step up efforts to crack down on illegal and irregular conduct in the bond market. It will remain firmly committed to advancing the opening-up of the bond market. Moreover, the PBOC will advance the internationalization of the RMB in an orderly manner. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary cooperation, and develop offshore RMB markets. It will further liberalize and facilitate cross-border trade and investment by carrying out pilot programs for high-standard opening-up in the field, and it will steadily move ahead with the convertibility of the RMB under the capital account.

Fifth, the PBOC will work proactively and prudently to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning and to enrich the macro-prudential policy tools. The PBOC will improve regulation of systemically important financial institutions. It will urge systemically important banks to meet the additional regulatory requirements as scheduled. Meanwhile, it will pick up pace in pushing China's global systemically important banks to establish and improve their total loss-absorbing capacity so as to effectively enhance their risk prevention ability. Moreover, the PBOC will actively advance the resolution of risks in key regions, key institutions, and key fields and it will push ahead with reforms to defuse their risks. It will guide financial institutions to support, based on market principles and the rule of law, the mitigation of the debt risks of local financing platforms through reasonable use of such means as debt restructuring and replacement. It will also strengthen monitoring and analysis of real estate market movements. The PBOC will advance the mitigation of risks in small and medium-sized financial institutions and it will improve the mechanism that presses for early rectification with hard constraints. It will work to accelerate the launch of the *Law on Financial Stability*. In addition, the PBOC will improve the accountability mechanism for risk resolution that matches power with responsibility and ensures compatibility between incentives and constraints. It will leverage the role of deposit insurance in resolving risks professionally, reinforce the building of the financial stability guarantee system, and prevent the buildup and spread of financial risks, thereby firmly defending the bottom line whereby no systemic financial risks will occur.