China Monetary Policy Report

Q1 2024

(May 10, 2024)

Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2024, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China strengthened macroeconomic regulation and control to consolidate and enhance the upward trend of economic recovery. Bolstered by increased positive factors, continuously enhanced momentum, and improved social expectations, high-quality development achieved solid progress and economic performance was characterized by fast growth, an improved structure as well as higher quality and efficiency. The national economy made a good start in Q1, with the GDP growing 5.3 percent year on year and the CPI rising back into positive territory on a year-on-year basis. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It strengthened counter-cyclical adjustments and pursued a prudent monetary policy in a flexible, moderate, precise, and effective manner, thereby providing a sound monetary and financial environment for economic recovery.

First, liquidity remained adequate at a reasonable level. The required reserve ratio (RRR) was cut by 0.5 percentage points at the beginning of 2024, releasing over RMB1 trillion of medium- and long-term funds. In addition, the PBOC used a mix of tools, including open market operations (OMOs), medium-term lending facility (MLF) operations, and central bank lending and discounts, to keep liquidity adequate at a reasonable level. It also guided financial institutions toward more balanced credit disbursement so as to ensure stable and sustainable financial support for the economy. **Second,** financing costs remained stable with a downward trend. The PBOC cut the interest rate on central bank lending for rural development, the interest rate on central bank lending for micro and small businesses (MSBs) and the central bank discount rate by 0.25 percentage points, respectively. It continued to promote the market-based reform of the deposit rate. In February, it guided the over-five-year loan prime rate (LPR) to move down by 0.25 percentage points. **Third,** the credit structure was improved. The PBOC launched RMB500billion of central bank lending for sci-tech innovation and technological transformation, lowered the threshold for access to inclusive MSB loans, and expanded the list of financial institutions eligible for the carbon emission reduction facility (CERF) in a bid to develop technology finance, green finance, inclusive finance, old-age finance, and digital finance. **Fourth,** the exchange rate remained basically stable. Upholding the decisive role of the market in exchange rate formation, the PBOC gave play to the role of the exchange rate in adjusting the macro economy and the balance of payments, strengthened expectation guidance, and prevented the risk of exchange rate overshooting. **Fifth,** risk prevention and resolution were strengthened. 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.

The effects of the monetary policy were gradually felt. Aggregate financing grew steadily. At end-March, outstanding aggregate financing to the real economy (AFRE) and broad money (M2) recorded year-on-year growth of 8.7 percent and 8.3 percent, respectively. New RMB loans registered RMB9.5 trillion in Q1. The credit structure continued to improve. At end-March, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 20.3 percent and 26.5 percent year on year, respectively, and loans to the private sector grew by 10.7 percent year on year, all of which outpaced overall loan growth. Financing costs were stable with a slight decline. In March, the weighted average rate on new corporate loans registered 3.73 percent, down 0.22 percentage points year on year. The RMB exchange rate fluctuated slightly against the US dollar and remained stable with an upward trend against a basket of currencies. At end-March, the China Foreign Exchange Trade System (CFETS) RMB Index rose by 2.4 percent from the end of 2023.

Currently, China's economic development faces both strategic opportunities and risks and challenges. As the economic recovery momentum diverges across the globe and uncertainties, such as monetary policy shifts in the developed economies and geopolitical conflicts, remain, China needs to overcome quite a number of challenges to achieve sustained economic recovery. However, it should also be noted that the Chinese economy boasts a solid foundation, multiple advantages, and strong resilience, and its performance features a good start and an upward trend. Therefore, we need to enhance confidence in doing a good job in economic work. During 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 National Congress of the CPC, the Central Economic Work Conference, the Central Financial Work Conference, and the National Two Sessions. It will adhere to the general principle of seeking progress while maintaining stability, and it will apply the new development philosophy fully, faithfully, and comprehensively. Firmly following the path of financial development with Chinese characteristics, the PBOC will speed up efforts to build China into a financial powerhouse, develop a modern central banking system, and work hard to promote high-quality development. Maintaining prudence of monetary policies and enhancing consistency in the macroeconomic policy orientation, the PBOC will strengthen counter-cyclical and inter-temporal adjustments, and it will enhance support for the real economy in a bid to consolidate and reinforce the upward economic recovery trend.

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, the PBOC will guide reasonable growth and a balanced provision of credit. By doing so, it will keep liquidity adequate at a reasonable level and keep aggregate financing and money supply in step with projected economic growth and CPI increase. Maintaining price stability and promoting moderate price recovery will be an important consideration for the implementation of monetary policy. The PBOC will enhance policy coordination to keep prices at a reasonable level. By continuing to deepen the market-oriented interest rate reform and giving play to the role of the LPR reform and the mechanism for market-oriented deposit rate adjustments, it will promote the costs for business financing and for consumer credit to remain stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will provide effective support for key areas and weak links, such as inclusive finance, sci-tech innovation, and green development. It will smooth the transmission mechanism of monetary policy and avoid accumulation and idle transfer of funds. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate. It will take a holistic approach in policy implementation and it will stabilize expectations. It will firmly correct pro-cyclical activities so as to prevent market expectations from becoming unanimously one-sided and self-reinforced, and it will firmly prevent risks arising from exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium 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.

Contents

Boxes

Figures

Tables

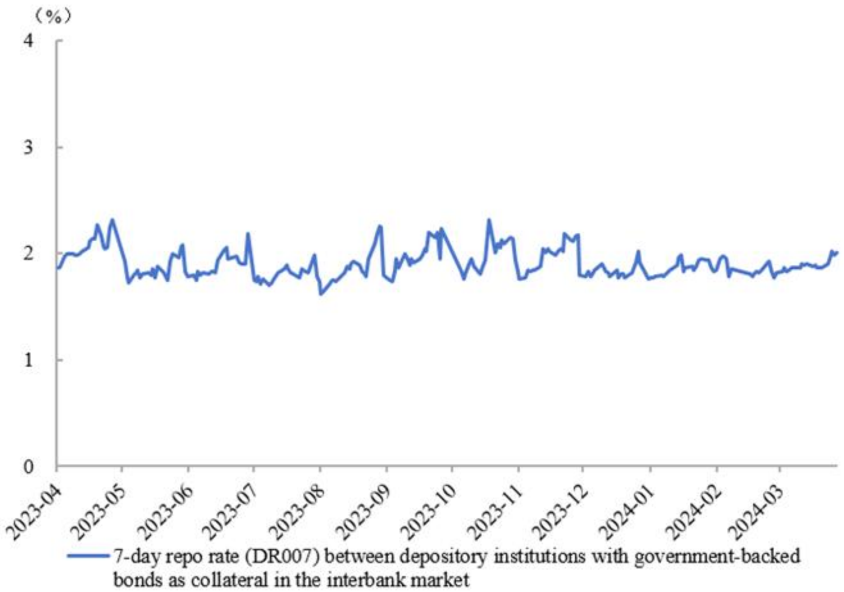
Part 1 Money and Credit Analysis

Since the beginning of 2024, 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*. It has implemented a sound monetary policy that is flexible, moderate, precise and effective, and has strengthened counter-cyclical and inter-temporal adjustments. Money, credit, and the aggregate financing to the real economy (AFRE) have witnessed reasonable growth, overall financing costs have remained stable with a slight decline, the credit structure has improved continuously, and the RMB exchange rate has remained basically stable at an adaptive and equilibrium level.

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

In Q1 2024, the PBOC employed a mix of instruments, such as the cut in the required reserve ratio (RRR), open market operations (OMOs), the medium-term lending facility (MLF), and central bank lending and discounts to inject liquidity into the economy. Specifically, the PBOC cut the RRR by 0.5 percentage points in February, releasing over RMB1 trillion in medium and long-term liquidity. It has also managed the intensity and pace of OMOs in a flexible manner so as to iron out short-term fluctuations such as cash injections during the Spring Festival, fiscal levies, and issuances of government bonds, and guided 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. At end-March, the excess reserve ratio for financial institutions registered 1.5 percent, indicating that liquidity in the banking system was adequate at a reasonable level.

Figure 1 Movement of Money-Market Interest Rates



Source: www.chinamoney.com.cn.

II. Lending by financial institutions remained stable and lending rates declined

Credit aggregates grew reasonably. The first quarter of 2023 witnessed a growth in loan issuance by financial institutions. Since the beginning of this year, the PBOC has made great efforts to guide financial institutions to strengthen the balanced supply of credit, so as to ensure sustained support for the real economy and improve the quality, efficiency and stability of credit growth. In Q1 2024, the credit surge eased. Financial institutions made a well-paced credit supply while maintaining support for the real economy. At end-March, outstanding loans issued by financial institutions in domestic and foreign currencies grew 9.2 percent year on year to RMB251.8 trillion, increasing RMB9.6 trillion from the beginning of 2024. Outstanding RMB loans grew 9.6 percent year on year to RMB247.0 trillion, up RMB9.5 trillion from the beginning of 2024.

The credit structure has been improving. At end-March, medium and long-term (MLT) loans to enterprises and public entities grew by RMB6.2 trillion from the beginning of 2024, accounting for 79.8 percent of total corporate loans. The year-on-year (YOY) growth of MLT loans to the manufacturing sector registered 26.5 percent, 16.9 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 20.3 percent year on year, 10.7 percentage points higher than the growth of total loans. A total of 62.01 million MSBs were supported, a rise of 7.5 percent year on year.

Table 1 The Structure of RMB Loans in Q1 2024

Unit: RMB100 million

	Outstanding amount at end-March	YOY growth (%)	Increase from the beginning of the year
RMB loans to:	2470493	9.6%	94620
Households	814370	5.1%	13318
Enterprises and public entities	1631791	11.4%	77735
Non-banking financial institutions	10096	100.8%	2336
Overseas	14236	48.4%	1231

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 Q1 2024

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	51664
Chinese-funded small and medium-sized banks②	42462
Small-sized rural financial institutions③	13511
Foreign-funded financial institutions	440

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 The Relationship Between Credit Growth and High-quality Economic Development

In recent years, as China has been undergoing economic restructuring and high-quality development, the correlation between credit growth and economic growth has weakened. Also, at the regional level loan growth has been not necessarily correlated to economic growth. For instance, in 2023, the average loan growth in a region was 11.4 percent while its average GDP growth was 5 percent. The average loan growth in another region was only 3.3 percent while its average GDP growth was up to 4.8 percent. The rapid loan growth in some provinces failed to effectively boost economic growth. On the contrary, some other provinces achieved rapid economic growth with low credit growth, as the efficiency of utilizing funds was enhanced. China’s credit aggregate has slowed down from above-double-digit growth to single-digit growth, but this does not imply the weakening of financial support for the real economy. The rationale is as follows.

Firstly, economic restructuring and transition is accelerating. On the one hand, the supply and demand in the real estate market has undergone major changes, and the risk prevention and control of local government debt has been enhanced. Therefore, the economic model driven by the expansion of debt in the real estate sector or via the LGFV (Local Government Financing Vehicle) is hard to sustain. On the other hand, traditional heavy industries highly reliant on credit funds have saturated the market, while the contribution of the asset-light service sector continues to increase. In this process, credit demand has "shifted gears” compared with previous years, and credit structure has also improved. Lower credit growth is sufficient to support stable economic growth.

Secondly, the marginal effect of further increasing credit supply is diminishing for an economy with a large stock of credit funds. In the past, China’s loan growth maintained an above-double-digit growth for a long time, which was in line with development stage of the corresponding period and created favorable environment for economic development. In particular, to respond to the COVID-19 and stabilize the macro economy, financial counter-cyclical adjustments were enhanced, leading to the large balance of money and credit, which will continue to play their role. Currently, the credit growth model has shifted from supply-constrained to demand-constrained. It takes time to understand and adapt to the new dynamic, and blind pursuit of credit expansion still exists. When loan supply exceeds the real and effective financing demand of the real economy, inefficient enterprises will occupy credit resources for a long period, making market clearing and survival of the fittest difficult to work. The vicious price competition will be a drag on efficient enterprises. Besides, some enterprises will make use of their advantage in obtaining low-cost loans and use these funds to purchase wealth management products, open fixed deposit accounts, or lend to other enterprises, leading to the circulation of corporate funds within the financial system and arbitrage.

Thirdly, direct financing is a virtuous alternative to credit. Credit is only one of the social financing channels, so it cannot reflect the whole picture of financial support for the real economy. As high-tech and innovative enterprises haven’t gone through a full and mature life cycle, they have a pressing demand for funds that match their characteristics of high risk, high return, strong professionalism, rapid iteration of knowledge and information. which are mainly obtained through direct financing, such as equity funds. As direct financing develops, the financing structure is more compatible with the upgraded economic structure, which will also weaken the correlation between credit and economic growth.

Going forward, we should properly assess the change in the relationship between the credit and economic growth, and maintain a reasonable financing environment to promote the restructuring of enterprises and high-quality economic development. To achieve the fundamental purpose of serving the real economy, credit supply should ultimately match the demand of high-quality economic development. We should have a scientific understanding of the relationship between credit growth and economic growth, change the traditional mentality of blindly pursuing credit expansion, and attach more importance to creating a moderate financing environment for the macro economy. As the credit structure varies, activating financial resources that are inefficiently occupied, reducing the circulation of funds within the financial system, and vigorously developing direct financing may slow down aggregate credit growth. At the same time, efficient enterprises that have real demands for funds will acquire more financing, thus boosting the efficiency of capital utilization and the quality of financial support.

The weighted average interest rate on loans remained at a historic low. The PBOC has continuously advanced the market-oriented reform of interest rates, 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 lending rates. In March, the one-year LPR stood at 3.45 percent, the same as last December, while the over-five-year LPR posted 3.95 percent, down 0.25 percentage points from December 2023. In March, the weighted average interest rate on new loans recorded 3.99 percent, down 0.35 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.27 percent, down 0.26 percentage points year on year, and the weighted average interest rate on corporate loans was 3.73 percent, down 0.22 percentage points year on year, both of which represented a continuous increase in financial support for the real economy. In March, the share of ordinary loans with rates above, at, or below the LPR registered 52.81 percent, 6.74 percent, and 40.44 percent, respectively.

Table 3 Weighted Average Interest Rates on New Loans Issued in March 2024

Unit: %

	March	Change from last December	YOY Change
Weighted average interest rate on new loans	3.99	0.16	-0.35
on ordinary loans	4.27	-0.08	-0.26
of which: on corporate loans	3.73	-0.02	-0.22

on bill financing	2.26	0.79	-0.41
on mortgage loans	3.69	-0.28	-0.45

Source: The People's Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to March 2024

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	42.37	6.34	51.28	14.69	16.74	9.82	5.47	4.57
February	41.70	6.52	51.77	14.27	15.99	10.30	6.19	5.03
March	40.44	6.74	52.81	15.64	16.72	10.26	5.53	4.66

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans increased on the whole. In March, 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 2.46 percent and 4.89 percent, respectively, up 0.23 and 0.19 percentage points from December 2023, 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 5.83 percent and 5.75 percent, an increase of 0.02 percentage points and a decrease of 0.05 percentage points compared to December 2023, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to March 2024

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	2.37	4.64	5.24	4.92	5.44	4.82	5.91	5.42	5.29	5.05	5.77
February	2.37	4.74	5.20	4.62	5.00	4.99	5.76	5.65	5.20	5.34	5.28
March	2.46	4.89	5.29	5.25	4.73	5.27	5.83	5.75	5.39	5.32	6.09

Source: The People's Bank of China.

Deposits maintained growth. At end-March, outstanding deposits in domestic and foreign currencies at all financial institutions increased 7.6 percent year on year to RMB301.4 trillion, up RMB11.5 trillion from the beginning of 2024. Outstanding RMB deposits grew 7.9 percent year on year to RMB295.5 trillion, an increase of RMB11.2 trillion from the beginning of 2024. Outstanding deposits in foreign currencies stood at USD832.6 billion, an increase of USD34.7 billion from the beginning of 2024.

Table 6 The Structure of RMB Deposits in Q1 2024

Unit: RMB100 million

	Outstanding deposits at end-March	YOY growth (%)	Increase from the beginning of the year
RMB deposits:	2955054	7.9%	112444
Households	1455456	11.8%	85561
Non-financial enterprises	788818	1.5%	2225
Public entities	364134	6.5%	10401
Fiscal entities	55082	4.0%	-2855
Non-banking financial institutions	271522	10.0%	15600
Overseas	20042	12.8%	1511

Source: The People’s Bank of China.

Box 2 Analysis of Fund Flow from the Perspective of Deposit and Loan Structure

Since the outbreak of COVID-19, China’s financial sector has provided stronger support to the real economy, with continuously rapid growth of loans and a significant increase in deposits. Outstanding loans now stand at nearly RMB250 trillion and the outstanding deposits register almost RMB300 trillion. A major social concern is “where has money gone, and where has money come from”.

There are different measures of money supply. For the question “where has money gone, and where has money come”, the most relevant definition is “what is money”. The so-called “money” is, in fact, money supply. In China, money supply measures the outstanding amount of money in the economy, encompassing all financial instruments as means of circulation and payment at a particular time. There are three measures of money in China. M0 is “cash,” as we usually call it, which is the most active and liquid type; M1 includes M0 plus slightly less liquid institution demand deposits; M2 includes M1 plus the most illiquid deposits, such as institution time deposits and household deposits. Deposits on the bank liability side can reflect “where has money come from”. The analysis on the bank asset side can answer the question “where has money gone”, as M2 is created through loans and other channels.

From the perspective of "where has money gone", loans have been extended to enterprises and to the supply side of the real economy. To know how funds flow, we should first look at the breakdown of loans. **By sectors**, loans to enterprises (including public institutions) and households registered RMB163 trillion and RMB81 trillion, respectively, accounting for 66 percent and 33 percent, respectively, of overall loans. Enterprises have received the lion's share of loans. To put it in other words, loans were mainly issued to support the expansion of investment and production by enterprises as well as housing purchasing and consumption by households. **By maturities and industries**, the proportion of medium-and long-term loans exceeds two thirds, and about 50 percent of overall loans have been extended to asset-heavy industries such as infrastructure, real estate and manufacturing. Non-housing consumption loans to households make up less than 10 percent. Therefore, financing in supply-side of the real economy has been relatively large, while the demand side, consumption, in particular, still has great growth potential.

From the perspective of "where has money come from", deposits are mostly from the household sector. In economic circulation, if banks continue to expand assets and loans continue to grow, money will neither decrease nor disappear from the real economy. Instead, deposits will be transferred among enterprises, households, governments, and other sectors; when enterprises make investments and engage in production, households get into consumption and governments collect revenue and spend. As of end-March 2024, of total deposits worth about RMB296 trillion, the share of households, enterprises, and governments stood at 49 percent, 27 percent, and 14 percent, respectively, representing an increase of 7.1 percentage points, a decrease of 4.2 percentage points, and a decline of 3.3 percentage points from 2019 before the outbreak of COVID-19. Therefore, loans have been extended mostly to enterprises, and then have been transformed into household deposits through various types of spending. However, as household consumption still needs to be revived and aggregate demand is insufficient, most deposits remain within the household sector and have not been recycled into enterprise deposits. Meanwhile, with the upsurge in time deposits by both enterprises and households, the overall ratio of time deposits to demand deposits has risen from 6:4 in 2017 to the current level of 7:3. **In addition**, for assets such as deposits on bank balance sheets and wealth management products off-bank balance sheets, the yields have changed in relative terms, affecting the risk appetite and investment behaviors of households. In turn, households adjust their asset allocation, which is an important factor affecting the proportion of household deposits to the aggregate amount.

The current outstanding amount of monetary aggregates is not small. For a long time in the past, China's rapid economic growth and the continuous expansion of its economy resulted in an elevated funding demand. The huge amount of deposits and loans reflected constant financial support to the real economy over the years. The PBOC has ensured that the valve on aggregate monetary supply is well controlled. However, economic entities also have a relatively large impact on structural problems for loans and deposits. Loan issuances, by and large, are subject to diversified demands of borrowers, and the flow of deposits between business entities depends more on whether economic supply and demand is balanced and economic circulation is smooth. **It's worth noting that** China is accelerating the adjustment, transformation, and upgrading of its economic structure, pointing to a more asset-light economy and an optimized credit structure. Meanwhile, as effective demand recovers, social expectations improve, and the efficiency in the turnover of funds rises, there has been some relief for funds sitting idle. The growth of the vast monetary aggregates may slow down, but this does not mean support from the financial sector to the real economy will decrease. Instead, this reflects enhanced quality and effectiveness. Moreover, direct financing is developing at a faster pace. Due to the increase in OTC bonds, corporate bonds, and other bonds, and the divergence of such investment and financing from traditional bank lending and deposit channels, the amount of deposits, loans, and monetary supply will drop. The development of such direct financing is in fact more conducive to optimized resource allocation and enhanced fund-use efficiency, and the role indirect financing plays will fall accordingly. Internationally, in economies with more advanced direct financing, money supply is no longer the intermediate target of monetary policy.

Going forward, the PBOC will continue to follow the decisions and requirements of the CPC Central Committee and the State Council, pursue a prudent monetary policy in a flexible, moderate, precise, and effective manner, guide reasonable loan growth and balanced loan issuance, ensure efficient use of existing financial resources, and keep aggregate financing and money supply in step with projected economic growth and CPI increase. Meanwhile, the PBOC will support strengthened synergy among government policies, effectively mobilize funds among business entities, better realize the goal that households willing to consumption, enterprises willing to invest and governments able to provide a cushion for those most in need and promote a smooth circulation of the real economy.

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

The monetary aggregate grew at a reasonable pace. At end-March 2024, outstanding broad money M2 registered RMB304.8 trillion, up 8.3 percent year on year; narrow money M1 and currency in circulation M0 registered RMB68.6 trillion and RMB11.7 trillion, up 1.1 percent and 11.0 percent year on year, respectively. In total, the first quarter of 2024 witnessed a net cash injection of RMB376.6 billion, up RMB280.5 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 RMB390.3 trillion at end-March 2024 and its YOY growth registered 8.7 percent. In Q1 2024, the AFRE increment totaled RMB12.9 trillion, RMB1.6 trillion less than that during the same period in 2023. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In Q1 2024, RMB loans issued by financial institutions to the real economy increased by RMB9.1 trillion, which was RMB1.6 trillion less as compared with the increase in Q1 2023 and accounted for 70.5 percent of the AFRE increment during the same period. Second, government bond financing remained at a moderate level. In Q1 2024, the net financing amount of government bonds was RMB1.4 trillion, RMB470.8 billion less than that in Q1 2023. However, it was broadly flat with the corresponding quarterly average from 2020-2023. Direct financing of enterprises grew by a larger margin year on year. In Q1 2024, the net financing amount of corporate bonds increased by RMB255.1 billion year on year, and domestic equity financing by non-financial enterprises decreased by RMB138.6 billion year on year. Third, there was an uptick in off-balance-sheet financing. In Q1 2024, increments of new trust loans and undiscounted bankers' acceptances were RMB202.4 billion and RMB81.4 billion more as compared with Q1 2023, respectively, while entrusted loans decreased by a larger margin of RMB167.6 billion year on year. Fourth, loans were written off at a relatively rapid pace. In Q1 2024, the increment of written-off loans stood at RMB254.9 billion, up RMB63.4 billion year on year.

Table 7 Aggregate Financing to the Real Economy in Q1 2024

	End-March 2024		Q1 2024	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100

	End-March 2024		Q1 2024	
				million)
The AFRE	390.32	8.7	129288	-16145
Of which: RMB loans	244.59	9.2	91094	-15890
Foreign currency loans (RMB equivalent)	1.81	-3.6	1523	917
Entrusted loans	11.17	-1.3	-995	-1676
Trust loans	4.1	9.6	1983	2024
Undiscounted bankers' acceptances	3.03	-3.1	5500	814
Corporate bonds	31.83	1.3	11207	2551
Government bonds	71.15	14.7	13584	-4708
Domestic equity financing by non-financial enterprises	11.51	6	763	-1386
Other financing	10.88	3.8	1447	679
Of which: Asset-backed securities of depository institutions	1.26	-34.1	-1001	-239
Loans written off	8.86	15.1	2549	634

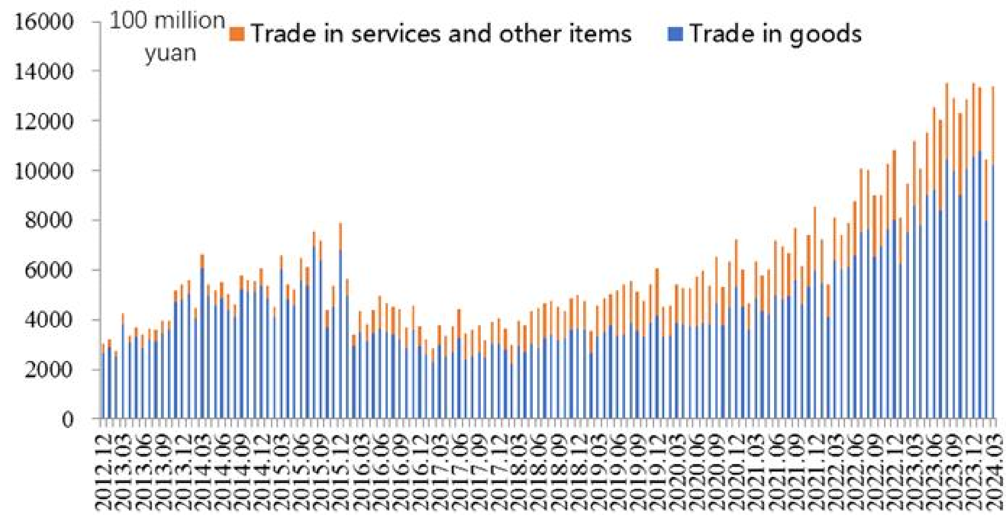
Notes: ① The AFRE (stock) refers to outstanding funds provided by the financial system to the real economy at the end of a period. The AFRE (flow) refers to the volume of funds provided by the financial system to the real economy within a certain period of time. ②Since January 2023, the PBOC has included three types of non-depository 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 Financial Regulatory Administration, 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

Since the beginning of 2024, cross-border capital flows have been stable and orderly, supply and demand in the foreign exchange market has been basically in equilibrium, and RMB exchange rate expectations have been generally stable. The U.S. Dollar Index has surged, international geopolitical uncertainties have heightened, and commodity prices have witnessed great volatility, weighing down on non-US currencies. In contrast, the RMB exchange rate has performed steadily among the world's major currencies, remaining basically stable at an adaptive and equilibrium level. In Q1 2024, based on market supply and demand, the RMB exchange rate appreciated against a basket of currencies. At end-March 2024, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 99.78, appreciating 2.4 percent from end-2023. 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-March 2024, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 42.9 percent and 37.1 percent, respectively. At end-March 2024, the central parity of the RMB against the US dollar was 7.0950, depreciating 0.2 percent from end-2023 while appreciating 16.7 percent in total since the beginning of the reform of the exchange-rate formation regime in 2005.

Cross-border RMB businesses have maintained growth, with receipts and payments basically reaching a balance. In Q1 2024, cross-border RMB settlements increased 28 percent year on year to RMB14.6 trillion. Specifically, cross-border RMB receipts and payments registered RMB7.1 trillion and RMB7.5 trillion, respectively. Cross-border RMB settlements under the current account increased 28 percent year on year to RMB3.7 trillion. In particular, RMB settlements under trade in goods registered RMB2.9 trillion and RMB settlements under trade in services and under other current items registered RMB819.8 billion. Cross-border RMB settlements under the capital account grew by 28 percent year on year to RMB10.9 trillion.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In Q1 2024, with resolute implementation of the decisions and arrangements of the CPC Central Committee and the State Council, the PBOC pursued a sound monetary policy in a flexible, appropriate, targeted, and effective manner, with a view to keeping liquidity adequate at a reasonable level. It guided reasonable growth and a balanced provision of credit, promoted a slight decline of the overall stable social financing costs, and channeled more financial resources into major strategies, key areas, and weak links. These efforts helped economic development get off to a good start.

I. Conducting open market operations in a flexible manner

Stabilizing liquidity supply for the Spring Festival in a forward-looking manner. In Q1, the factors affecting the liquidity in the banking system were complex, especially the large disruption brought about by the Spring Festival. The PBOC accurately anticipated these liquidity conditions. On the basis of the employment of instruments, such as the required reserve ratio (RRR) cuts and the medium-term lending facility (MLF) to inject medium and long-term liquidity into the banking system, it flexibly and accurately made marginal adjustments to the liquidity in the banking system via reverse repos. Before the Spring Festival, the PBOC timely conducted 14-day reverse repos in tandem with 7-day reverse repos in a flexible manner, injecting a total of RMB1.4 trillion in liquidity for the Spring Festival to maintain stable liquidity before the holiday. After the Spring Festival, given the cash withdrawals and other factors, the PBOC adjusted the scale of reverse repos in a timely manner to maintain a balance between supply of and demand for market funds.

Keeping quarter-end liquidity adequate at a reasonable level. The PBOC paid close attention to the liquidity conditions at end-Q1, especially the influence that the implementation of the revised *Administrative Measures for Commercial Bank Capital* exerts on financial institutions' liquidity management and transactions in the money market at quarter-end. Liquidity analysis and market monitoring were strengthened, and the intensity and pace of open market operations (OMOs) were flexibly managed. The PBOC ramped up reverse repo operations in a timely manner at quarter-end to keep liquidity adequate at a reasonable level. In Q1, the weighted average 7-day repo rate between deposit institutions in the interbank market (DR007) moved stably around the open market operation rate, averaging 1.87 percent, a drop of 16 basis points year on year, and without any obvious fluctuations at quarter-end.

In addition, the PBOC continued to conduct central bank bills swap (CBS) operations on a monthly basis 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 the issuance of some types of central bank bills based on the demands of global investors. In Q1, the PBOC issued 3 batches of central bank bills in Hong Kong, worth a total of RMB70 billion, including 3-month central bank bills totaling RMB30 billion, 6-month central bank bills totaling RMB25 billion, and one-year central bank bills totaling RMB15 billion. In particular, the PBOC issued an additional RMB10 billion of 6-month central bank bills. These measures played a positive role in increasing the supply of high-quality RMB assets in Hong Kong's offshore market and in promoting the healthy development of the offshore RMB market and the bond market.

II. Conducting standing lending facility (SLF) operations and medium-term lending facility (MLF) operations

Properly managing the intensity of MLF operations. MLF operations were conducted in a timely and appropriate manner to ensure a reasonable supply of medium and long-term liquidity. In Q1, the PBOC conducted a total of RMB1.9 trillion of MLF operations, with a term of one year and an interest rate of 2.5 percent. At end-March, outstanding MLFs totaled RMB7.2 trillion, an increase of RMB123 billion from the beginning of this year.

Conducting SLF operations in a timely manner. 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. In Q1, the PBOC conducted a total of RMB6.2 billion in SLF operations. At end-March, outstanding SLFs registered RMB3.4 billion. SLF rates have effectively played the role of the upper limit in the interest rate corridor, thus maintaining the smooth operation of the money market. At end-March, the overnight, 7-day, and 1-month SLF rates stood at 2.65 percent, 2.80 percent, and 3.15 percent, respectively.

III. Lowering the RRR for financial institutions

Lowering the RRR for financial institutions by 0.5 percentage points in a forward-looking way. On February 5, to ensure money supply before the Spring Festival and to provide long-term, stable, and low-cost funding to the banking system, the PBOC reduced the RRR for financial institutions by 0.5 percentage points, freeing up over RMB1 trillion in medium and long-term liquidity. This move was conducive to signaling intensified 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 by nearly RMB10 billion per year. After this RRR cut, the weighted average RRR for financial institutions fell to 7 percent.

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

Giving full play to the guiding role of the macro-prudential assessment (MPA). The PBOC guided financial institutions to place emphasis on a balanced supply of credit and to bring down as appropriate the surging issuance of loans in Q1. Moreover, it guided a slowdown in the pace of credit supply in the direction of the historical average in order to leave room for the supply of loans in the remaining three quarters of the year. The PBOC also took measures to cope with the problem of leaving funds idle or circulating outside the real economy and to enhance the ability to provide sustainable support for the real economy. The PBOC maintained credit support for inclusive MSB loans and medium and long-term financing to the manufacturing sector and it channeled more credit resources into key areas and weak links.

Refining the regulatory framework for systemically important financial institutions. Institutional construction moved forward steadily. The PBOC is studying and formulating additional regulations for systematically important issuers (SIIs). Monitoring and analysis were enhanced. It closely tracked changes in the operations of systemically important banks (SIBs). It supervised implementation of additional capital requirements and enhanced the risk resistance ability of SIBs. The PBOC reviewed the recovery plans and resolution plan proposals of SIBs in order to enhance their risk response capabilities. It will continuously shore up additional supervision of systemically important financial institutions and leverage the combined efforts of macro-prudential management and micro-prudential supervision so as to consolidate the foundation for stability in the financial system.

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

Maintaining strong support for 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 agriculture-related businesses, MSBs, and private enterprises. Central bank lending for poverty alleviation was rolled over in accordance with 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-March, outstanding central bank lending in support of rural development, in support of MSBs, and in support of poverty alleviation posted RMB665 billion, RMB1.7 trillion, and RMB117.2 billion, respectively, and outstanding central bank discounts registered RMB599.1 billion.

Continuously promoting the better development of green finance. The PBOC continued to implement and expand the coverage of the carbon emission reduction facility (CERF). Some locally incorporated and foreign financial institutions were added to the eligible list. Special central bank lending for the clean and efficient use of coal ceased at the end of 2023, while the outstanding funds continued to serve their purposes. By the end of March, the outstanding amount of these two instruments registered RMB514 billion and RMB264.1 billion, respectively.

Further improving financial support for technology. The PBOC established a special central bank lending facility worth RMB 500 billion, with an interest rate of 1.75 percent, to support sci-tech innovation and technical transformation, The facility aimed to guide financial institutions to step up credit support for sci-tech-oriented small and medium-sized firms, during their early stage of development or during their growth stage, and for technical transformation and equipment renewal projects to help key sectors become more digitized, smart, advanced, and green. The new instrument, a policy continuation and improvement on previous central bank lending for sci-tech innovation and special central bank lending for equipment upgrading and renovation, promoted sci-tech innovation and a new round of large-scale equipment renewals. At end-March, the outstanding amount of central bank lending for sci-tech innovation and special central bank lending for equipment upgrading and renovation registered RMB154.8 billion and RMB156.7 billion, respectively.

Advancing development of old-age finance at a solid pace. Special central bank lending for inclusive elderly care services will last until the end of 2024, from a pilot to a nationwide rollout, and it will extend its support to the operation of public welfare and inclusive elderly care institutions, the construction of at-home and the community-based elderly care system, and the manufacturing of products for the elderly included in the catalogue. At end-March, the outstanding amount of the instrument posted RMB1.8 billion.

Supporting the stable and healthy development of the real estate market. The PBOC continued to implement the guaranteed residential building delivery loan program and the loan support scheme for rental housing. At end-March, the outstanding amount in the guaranteed residential building delivery loan program and the loan support scheme for rental housing registered RMB8.6 billion and RMB2 billion, respectively. The pledged supplementary lending (PSL) facility was utilized effectively to support policy-backed and development-oriented financial institutions to grant loans for the development of affordable housing, the renovation of urban villages, and the construction of public infrastructure for both normal and emergency uses. At end-March, the outstanding amount of the PSL posted RMB3.4 trillion.

VI. Enhancing the quality and effectiveness of credit policies

Improving the quality and effectiveness of financial services for private enterprises and MSBs. The PBOC promoted implementation of the *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy*. Financial institutions are guided to formulate detailed implementation rules to further increase the input of financial resources and gradually raise the proportion of loans to private enterprises by improving internal policy arrangements, strengthening the use of technology, and broadening the sources of credit funds. The PBOC continued with the project to enhance financial services for micro, small, and medium-sized enterprises, and with the establishment of a long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to issue loans. At end-March, outstanding loans to the private economy witnessed a year-on-year increase of 10.7 percent, with its proportion in all loans rising by 0.4 percentage points compared to the previous year. Outstanding inclusive MSB loans and the number of supported MSBs increased by 20.3 percent and 7.5 percent year on year, respectively. The weighted average interest rate on newly issued inclusive MSB loans in March posted 4.36 percent.

Continuously promoting financial support for all-round rural revitalization. Targeting the goal of building up China's strength in agriculture, the supply of financial resources to key areas, such as food security, the facility cultivation system, and rural industries, shall increase. The PBOC guided financial institutions to optimize resource allocations by strengthening the integration of agro-related credit information, expanding the use of digital management tools, and enriching the supply of financial products, thus better serving the diversified financing needs of rural revitalization. Commercial banks are encouraged to issue special financial bonds for agriculture, rural areas, and farmers, and qualified enterprises are supported in the issuance of rural revitalization bills so as to broaden the direct financing channels in agro-related sectors. At end-March, outstanding agro-related loans registered a year-on-year increase of 13.5 percent, reaching RMB60.2 trillion.

Strengthening financial support for sci-tech innovation in a sustained manner. The PBOC enhanced credit support for sci-tech enterprises and continuously improved the capacity, intensity, and level of financial support for sci-tech innovation. It implemented the *Action Plan for Stepping Up Support for the Financing of Sci-tech Enterprises*, formulating an all-round and multi-dimensional service system of technology finance. The PBOC guided financial institutions to allocate more credit resources to sci-tech innovation and to improve professionalism by establishing a specialized organization structure, risk control regimes, product systems, and assessment mechanisms. Banks are incentivized to strengthen medium and long-term credit support for small and medium-sized high-tech companies as well as for the digital transformation of the manufacturing industry, etc. At end-March, outstanding medium and long-term loans to the high-tech manufacturing sector grew by 27.3 percent year on year to RMB2.9 trillion. Outstanding loans granted to sci-tech small and medium enterprises and to “specialized, sophisticated, distinctive, and innovative” enterprises recorded RMB2.7 trillion and RMB4.1 trillion, respectively, a year-on-year increase of 20.4 percent and 17.9 percent, respectively. The growth rate of loans issued to the above areas significantly outpaced the growth of all loans.

Consistently delivering old-age finance services. Focusing on the senior economy, the PBOC encouraged financial institutions to optimize their organization system, make innovations in financial products and services, and grant more credit to the elderly care industry so as to upgrade financial services for the sector. By the end of March 2024, 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 more than RMB100 billion.

Giving full play to the leading role of green finance. The PBOC guided financial institutions to attach equal importance to both green development and the transition from traditional energy. Targeted support was provided in areas such as clean energy, coal supply for power generation, and clean and efficient use of coal in power generation, ensuring that energy security is adequately resourced. With the increased green credit supply, green loans experienced rapid growth. At end-March, outstanding green loans posted RMB33.8 trillion, a year-on-year increase of 35.1 percent and 25.9 percentage points higher than the growth of all loans. The PBOC promoted the high-quality development of the green bond market and further broadened the sources of green funds for financial institutions. At end-March, outstanding green bonds in China registered over RMB1.9 trillion, of which outstanding green financial bonds registered RMB870 billion, accounting for more than 40 percent of the total stock of green bonds and providing stable funding sources for financial institutions to issue green credit.

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 maintain the stability of actual loan interest rates with a slight decline. On January 25, the PBOC cut the interest rate on central bank lending for rural development, the interest rate on central bank lending for MSBs, and the central bank discount rate, each by 0.25 percentage points. In February, it guided the over-five-year LPR to drop by 0.25 percentage points. Loans rates declined more substantially through the market-based interest rate transmission mechanism. In

March, the weighted average interest rate on corporate loans registered 3.73 percent, falling by 0.22 percentage points year on year and reaching a historically low level. The role of the interest rate self-regulatory mechanism was given full play to regulate competition in the deposit market. In April, the Self-Regulatory Pricing Mechanism for Market Interest Rates issued the *Initiative on Prohibiting High Interest Rate Deposit Collection through Manual Compensation and Maintaining Competition Order in the Deposit Market*, which explicitly requires that banks not promise to or pay to clients complementary interest that would exceed the ceiling of the authorized deposit rate. The *Initiative* safeguards reasonable competition in the market, thus reinforcing the effects of deposit rate adjustments and stabilizing the costs to banks on the liability side.

The PBOC adopted city-specific measures to adjust the floor of first-home mortgage rates. The PBOC gave play to the dynamic adjustment mechanism for newly issued first-home mortgage rates and guided the rates to move downward. By the end of March, of 343 cities at or above the prefectural level across the country, 75 cities had adjusted the first-home interest rate floor and 64 cities had removed the floor. In March, the interest rate on newly issued individual mortgage loans registered 3.69 percent, a year-on-year decrease of 0.45 percentage points.

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 and in giving 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. The PBOC took comprehensive measures and strengthened expectation guidance to balance supply with demand in the foreign exchange market and to prevent risks of an exchange rate overshooting. As a result, the RMB exchange rate remained basically stable at an adaptive and equilibrium level. In Q1 2024, the highest and lowest RMB central parities against the US dollar were 7.0770 and 7.1174, respectively. During the 59 trading days, the RMB appreciated on 30 days and depreciated on 29 days. The biggest intraday appreciation and depreciation was 0.1 percent (64 bps) and 0.3 percent (232 bps), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. As of end-March, the central parities of the RMB against the US dollar, the euro, the pound sterling, and the Japanese yen had depreciated 0.2 percent and had appreciated 2.4 percent, 0.5 percent, 6.5 percent from end-2023, respectively. From the beginning of the reform of the RMB exchange-rate formation regime in 2005 to end-March 2024, the RMB appreciated by a cumulative 16.7 percent, 30.5 percent, 60.1 percent, and 54.9 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.

Table 8 The Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in Q1 2024

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	137,366.73	1,846.19	1,034.79	200.95	83.94	212.20
Currency	NZD	SGD	CHF	CAD	MOP	MYR
Trading volume	59.42	240.13	28.79	138.24	19.83	9.16
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading volume	18.35	8.25	13.15	8.82	9.03	0.20
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	2.48	3.27	11.43	3.18	0.35	4.71
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	62.07	4.93	0	0	0	0

Source: China Foreign Exchange Trade System.

IX. Forestalling and defusing financial risks

Strengthening the monitoring and assessment of systemic risks. The PBOC continued to strengthen its framework for monitoring and assessing systemic financial risks and to improve risk monitoring in the banking sector, securities sector, insurance sector, and financial markets. It conducted regular ratings of financial institutions, optimized the working mechanism of such ratings, and continued to improve the rating indicators and the rating system. For institutions at levels 1-7 within the safe boundary, risk monitoring and early warning will continue to be carried out on a regular basis. For high-risk banks at levels 8-10, the PBOC will distinguish previously identified institutions from newly identified institutions. For the former, multiple measures will be taken to reduce the number through coordinated efforts by all parties. For the latter, an early correction mechanism with hard constraints will be established from pilots to a broader rollout.

Reinforcing the financial safety net. Adhering to the principle of “ex-ante prevention of excessive accumulation of financial risks, interim and ex-post resolution of risks in a quick and efficient manner," the PBOC took the initiative to forestall and defuse financial risks and it guided financial institutions to heighten corporate governance and risk management. It enhanced financial regulation so that macro-prudential management, micro-prudential management, and conduct supervision serve their purposes and collaborate with each other to create a synergy. It ensured disposal resource supplies and took advantage of its role as lender of last resort to banks. It accelerated development of the legal system for financial stability and promoted new legislation for the Financial Stability Law.

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

Improving and expanding high-level opening-up trials. To implement the major decisions and arrangements of the CPC Central Committee and the State Council to support Fujian Province in building a demonstration zone for integrated Cross-Strait development, the PBOC issued a package of high-level opening-up policies for cross-border trade and investment in parts of Fujian. This move will further facilitate the business entities' settlement.

Continuously streamlining mobile payments for overseas visitors. The PBOC has further facilitated mobile payment services for overseas visitors to China and has helped them enjoy a hassle-free payment environment. Payment institutions were encouraged to cooperate with banks to launch services that allow foreign users to link their international credit cards to payment platforms, providing tailored services for foreign visitors by hierarchical identification. It has also clarified the management requirements and principles for online services in the acquisition of international bank cards to provide convenience for foreign visitors who use bank cards for online shopping.

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-March, based on the bilateral currency swap agreements between the PBOC and overseas monetary authorities, overseas monetary authorities had drawn RMB115.4 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.

Box 3 Continuously Facilitating Payment Services for Overseas Visitors to China

To thoroughly implement the decisions and arrangements made by the Communist Party of China (CPC) Central Committee and the State Council as well as the requirements stipulated in the *Opinions of the General Office of the State Council on Further Optimizing Payment Services and Enhancing Payment Convenience* (hereinafter referred to as the *Opinions*), the PBOC, taking the optimization of payment services as a key task, has promoted cross-departmental collaboration, accelerated improvements in a sound policy system, and put in place a multidimensional work pattern that coordinates efforts among the relevant agencies at various levels and focuses on key tasks. It has also adopted a mix of policies to optimize payment services and taken effective measures to eliminate the blockages in payment services so as to continuously enhance payment convenience for overseas visitors to China.

First, building the policy framework and strengthening collaborative efforts. The PBOC took the lead among fifteen ministries in drafting the *Opinions*. It has issued documents in collaboration with the Ministry of Commerce, the Ministry of Culture and Tourism, and other ministries respectively, in a bid to refine policy measures and to introduce supporting implementation rules. A "1+N" policy system that is based on the *Opinions* and complemented by joint documents has thus taken shape, which is aimed at promoting payment services in commerce, tourism, transport, and other relevant areas. Moreover, the PBOC has guided its branches to strengthen communications and collaboration with local governments and to establish concrete work plans based on local conditions. Work plans have been issued in Beijing, Guangzhou, Shenzhen, Chengdu, Dalian, and other cities.

Second, focusing on key cities and key institutions. Seventeen cities, including Beijing, Shanghai, Guangzhou, Shenzhen, and Chengdu, and twenty-one institutions were listed as key cities and key institutions, respectively, based on a holistic consideration of various aspects, including the number of overseas visitors, the number of popular tourist attractions in the region as well as the volume of payments made by overseas individuals. The key cities and key institutions were required to formulate specific work plans breaking down key tasks with clear timetables and roadmaps, and they were expected to achieve significant results in the near future. The PBOC held meetings in multiple key cities, such as Beijing and Shanghai, to advance optimization of payment services. Local governments, relevant authorities, and related industries were encouraged to work closely and to step up efforts to improve payment services.

Third, targeting key tasks and removing payment blockages. In terms of mobile payments, Alipay and Tencent were guided to improve their mobile payment services that allow overseas bank cards to be bound to Alipay or Wechat as well as payments with overseas e-wallets in China, enriching applicable business scenarios and lifting the transaction quotas so as to facilitate overseas visitors' use of mobile payments in China. **In terms of bank card acceptance,** facilities were upgraded at key merchants and in key venues, such as airports, hotels, and scenic spots, in support of overseas bank card acceptance, thus improving the environment for accepting overseas bank cards. **In terms of foreign currency exchange**, cash exchange services can be accessed through various channels, such as bank outlets, foreign currency exchange facilities, and ATMs. Foreign currency exchange services have been improved, with a growing number of currencies that can be exchanged through various channels. **In terms of cash**, commercial banks distributed a large number of "Change Wallets" that contain cash in different denominations, including banknotes of 1 yuan, 5 yuan, and 10 yuan. The PBOC stepped up efforts to ensure cash supply and launched special rectification campaigns against cash rejection. **In terms of account services**, commercial banks and payment institutions were urged to continuously improve their account services by streamlining account opening procedures, implementing account management based on classification and grading, and upgrading supporting services for account opening, including multilingual services, consultations, and settlement of complaints.

Fourth, strengthening policy interpretation and publicity. The PBOC responded to social concerns in a timely manner through various channels and made efforts to help overseas visitors to China learn more about relevant policies. A special column on "Optimizing Payment Services and Enhancing Payment Convenience" was introduced on the English website of the PBOC, which is aimed at publicizing the experiences, practices, and achievements made in various regions and institutions in terms of payment facilitation. Guides to payment services were published in multiple languages (including Chinese and English) in various regions, with more than 14 million hits on overseas platforms. Progress in the implementation of payment facilitation policies and typical cases were reported in a continuous and extensive manner by means of short videos and graph illustrations. According to incomplete statistics, the reading volume of relevant reports exceeded 15 million on mass media, including Xinhua News Agency, CCTV, China News Agency, and *China Daily*.

With joint efforts made by various parties, significant results have been achieved in optimizing payment services. **First, the convenience of mobile payments witnessed further improvement.** According to statistics, in Q1 2024 inbound visitors made over 39 million mobile payment transactions with a total volume of RMB5.6 billion, resulting in a year-on-year increase of over 11 times. Specifically, the number and volume of mobile payment transactions grew by 64 percent and 67 percent in March, respectively, compared to February. **Second, bank card acceptance was continuously expanded.** As of end-March 2024, the acceptance coverage ratio for overseas bank cards at key merchants in key cities was 20 percentage points higher compared with end-February 2024. **Third, cash use was significantly facilitated.** Overseas bank cards are accepted by all the ATMs for RMB cash withdrawals from large banks, including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications. Foreign exchange services are provided in over 60,000 bank outlets and nearly 2,300 foreign exchange facilities, and 2.62 million "Change Wallets" have been distributed to various market entities. **Fourth, account services were continuously upgraded.** As of end-March 2024, a total of 22.79 million bank accounts had been opened for overseas visitors to China (including residents of Hong Kong, Macau, and Taiwan), representing a growth of 810,000 accounts compared to the beginning of the year.

Going forward, the PBOC will continue to implement the decisions and arrangements of the CPC Central Committee and the State Council, work closely with the relevant departments and local governments in accordance with established plans and goals, and fully leverage the multidimensional work pattern that focuses on key cities, institutions, and tasks, in a bid to improve payment services on an on-going basis and further facilitate payments.

Part 3 Financial Market Conditions

In Q1 2024, the performance of the financial market was generally stable. Money market interest rates slightly rebounded, with active market transactions. The issuance rates of government bonds and enterprise bonds slipped back, and bond issuances increased. The trading volume on the stock market increased, while fund-raising decreased year on year.

I. Financial market overview

1. Money market interest rates rebounded, with active market transactions

Money market interest rates rebounded. In March 2024, the monthly weighted average interest rate for interbank lending was 1.88 percent, and the monthly weighted average interest rate for pledged repos posted 1.91 percent, 10 basis points, and 1 basis point higher than those in December 2023, respectively. The average monthly weighted interest rate for government-backed bond pledged repos among depository institutions posted 1.76 percent, 15 basis points lower than the monthly weighted average interest rate for pledged repos. At end-March, the overnight Shibor posted 1.72 percent, down 3 basis points from end-2023, while the 7-day Shibor stood at 1.97 percent, up 10 basis points from end-2023.

Repos transactions on the money market were active. In Q1 2024, the cumulative volume of bond repos trading on the interbank market registered RMB418.7 trillion, representing an average daily turnover of RMB6.9 trillion and an increase of 18.6 percent year on year. The cumulative volume of trading for interbank lending registered RMB26.3 trillion, representing an average daily turnover of RMB431.3 billion and a decrease of 20.2 percent year on year. In terms of the maturity structure, overnight repos accounted for 85.5 percent of the total turnover in bond repos, down 0.9 percentage points year on year, and overnight lending constituted 85.4 percent of the total turnover in interbank lending, down 4.6 percentage points year on year. The volume of bond repos trading on the exchange markets increased 4.3 percent year on year to RMB118 trillion.

Table 9 Fund Flows Among Financial Institutions in Q1 2024

Unit: RMB100 million

	Repos		Interbank lending	
	Q1 2024	Q1 2023	Q1 2024	Q1 2023
Chinese-funded large banks①	-2,071,865	-1,420,541	-118,656	-109,762
Chinese-funded medium-sized banks②	-205,865	-298,799	20,364	-20,546
Chinese-funded small-sized banks③	206,702	91,660	11,287	19,852
Securities institutions④	609,115	461,284	75,807	90,221
Insurance institutions⑤	85,343	46,201	730	254
Foreign-funded banks	11,978	14,474	-3,730	-2,510
Other financial institutions and vehicles⑥	1,364,593	1,105,721	14,197	22,492

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 Q1 2024, about 6,818 interbank CDs were issued on the interbank market, raising RMB7.4 trillion. The total volume of trading on the secondary market registered RMB60.9 trillion. At end-March, outstanding interbank CDs reached RMB16.1 trillion. The weighted average interest rate of 3-month interbank CDs was 2.26 percent, 2 basis points lower than that of the 3-month Shibor. About 28,000 negotiable CDs were issued by financial institutions throughout the year, raising RMB5.6 trillion, an increase of RMB36.4 billion year on year.

Interest rate swap transactions remained stable. In Q1 2024, the RMB interest rate swap market witnessed 81,000 transactions, decreasing 3.0 percent year on year, with the volume of the notional principal totaling RMB7.8 trillion, a decrease of 2.2 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 RMB5.5 trillion, accounting for 69.8 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 94.6 percent and 4.5 percent, respectively, of the total notional principal of the interest rate swaps. In Q1, interest rate swaps anchored to the loan prime rate (LPR) witnessed 219 transactions, with RMB39.22 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in Q1 2024

	Transactions	Notional principal (RMB100 million)
Q1 2024	81,050	78,331
Q1 2023	83,587	80,077

Source: China Foreign Exchange Trade System.

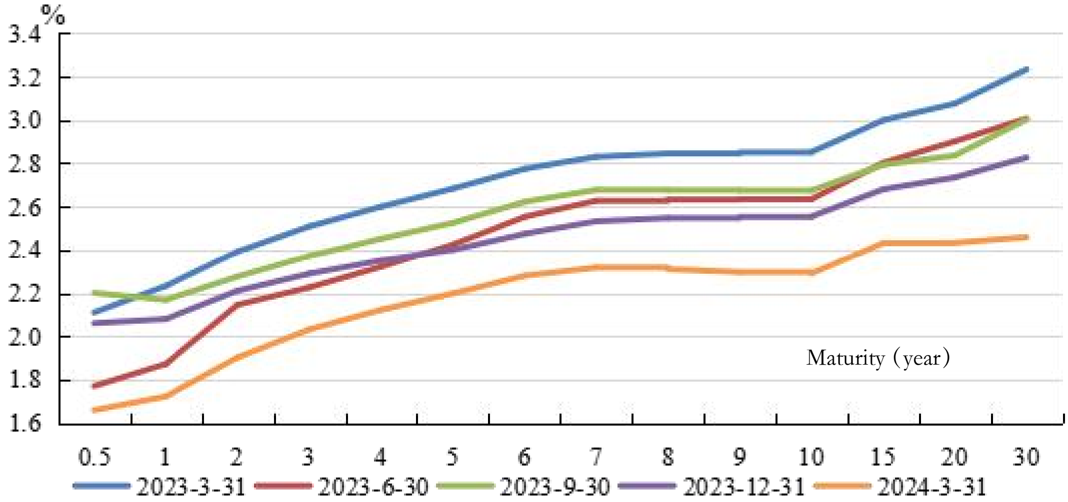
The interest rate options business developed at a steady pace. In Q1 2024, a total of 121 interest rate options transactions were concluded, totaling RMB25.94 billion. Specifically, 4 were interest rate swap transactions, amounting to RMB1.8 billion and 117 were interest rate cap/floor transactions, amounting to RMB24.14 billion.

2. The bond issuance rates fell, while the issuance volume increased year on year

Bond issuance rates fell. In March 2024, the yield on 10-year government bonds issued by the Ministry of Finance was 2.31 percent, 28 basis points lower than the rate in December 2023; the average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 2.35 percent, down 74 basis points from December 2023.

The yields on government bonds marked a downward trend with slightly widened term spreads. At end-March, the yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds decreased by 36 basis points, 26 basis points, 20 basis points, 22 basis points, and 27 basis points, to 1.72 percent, 2.03 percent, 2.20 percent, 2.32 percent, and 2.29 percent from end-2023, respectively; and the term spread on 1-year and 10-year government bonds was 57 basis points, which widened by 9 basis points from end-2023.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Box 4 How to View Current Long-term Government Bond Yields

Long-term government bond yields are essential parts of the government bond yield curve that serves as the pricing benchmark for the financial market. The financial market has always been highly attentive to long-end yields. In Q1 2024, long-term government bond yields exhibited a downward trend. From the beginning of 2024 to the end of Q1, the 10-year government bond yield dropped from 2.56 percent to 2.29 percent, and the 30-year government bond yield decreased from 2.84 percent to 2.46 percent, down 27 and 38 bps, respectively. The long-term government bond yields mainly reflect expectations of long-term economic growth and inflation. Meanwhile, factors such as a shortage of safe assets may also disrupt long-end yields.

From a macroeconomic perspective, China's fundamental trend of long-term economic growth and improvement remains unchanged. With a solid economic base, numerous economic advantages, strong economic resilience, and huge development potentials, Chinese economy will maintain a reasonable growth rate for a relatively long period into the future. Currently, as the COVID-19 prevention and control measures have entered a new stage and previous macroeconomic policies have gradually taken effect, the overall trend of economic recovery has been continuously consolidated. In 2023, China achieved an economic growth rate of 5.2 percent. In Q1 2024, China continued to maintain a relatively high growth rate of 5.3 percent, kicking off a good start. Recently, economic indicators including the PMI, investments, and exports, as well as social expectations, have still been improving. All these factors will support the long-term government bond yields in remaining generally within a reasonable range that is in line with long-term expectations for economic growth.

From a microeconomic perspective, the shortage of safe assets in the financial market has also influenced the long-term government bond yields. In Q1 2024, demand for asset allocation from financial institutions, such as banks and insurance companies, started to surge intensively, based on the consideration of “an earlier asset purchase leads to an earlier profit”. Meanwhile, investors’ demand for risk-free assets was also climbing, with corresponding investment demand in the bond market increasing. As of end-March, the asset under management (AUM) of open-end mutual bond funds stood at RMB5.7 trillion, up 36.3 percent from the same period of last year. Notably, some financial institutions were seeking to increase returns from bond investments by extending the duration, which increased the demand for long-term bonds. In Q1 2024, the trading volume of bonds with a maturity of between 20 years to 30 years in the interbank bond market registered RMB8.9 trillion, five times more than that in the same period of last year. In particular, the trading volume of rural financial institutions took up 24.8 percent of the total trading volume in the interbank bond market, 10.5 percentage points higher than that in the same period of last year.

Since late April, the long-term government bond yields have started to increase. As of end-April, 30-year government bond yield has rebounded to over 2.5 percent, indicating a marginal improvement in the supply-demand relationship in the bond market. Theoretically, the fixed-rate long-term bonds have a long duration, which are relatively sensitive to interest rate fluctuations. Market investors pay more attention to the interest rate risks on long-term bond investments and avoid losses from overly short-sighted investment behaviors by upholding a prudent and rational investment principle.

Overall, China’s long-term government bond yields have been effective in reflecting market expectations and macroeconomic conditions. In recent years, the relatively high intensity of counter-cyclical adjustments from monetary policy has been continuously providing a sound liquidity environment for the smooth operation of the bond market. In 2024, the intensity of the proactive fiscal policy is relatively large, and the scale of planned government bonds issuance is also significant, with an accelerating pace of issuance. The balance between supply and demand in the bond market is expected to be further improved, with a better match between the long-term government bond yields and the upward trend for future economic growth.

Bond issuances increased year on year. The cumulative value of bonds issued in Q1 grew by 5.4 percent year on year to RMB17.3 trillion, RMB888.9 billion more than that in the same period of last year mainly due to the large increase in government bonds, interbank certificates of deposits and non-financial enterprise debt-financing instruments. At end-March, outstanding bonds amounted to RMB160.8 trillion, representing an increase of 9.0 percent year on year.

The trading volume of spot bonds maintained rapid growth. In Q1, the value of cash bonds traded on the bond market reached RMB106.9 trillion, registering an increase of 42.9 percent year on year. Specifically, the value of cash bonds traded on the interbank market was RMB96.9 trillion, representing an increase of 46.6 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB10.1 trillion, an increase of 15.3 percent year on year.

Table 11 Bond Issuances in Q1 2024

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	24488	2987
Local government bonds	14869	-4278
Central bank bills	0	0
Financial bonds①	95098	8059
Of which: Financial bonds issued by the CDB and policy financial bonds	12538	-6082
Interbank certificates of deposits	73451	13265
Corporate credit bonds②	37469	1727
Of which: Debt-financing instruments of non-financial enterprises	25863	2180
Enterprise bonds	247	-1047
Corporate bonds	8635	765
Bonds issued by international institutions	590	394
Total	172514	8889

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. Bill financing was generally stable with a slight decrease, and interest rates in the bill market were basically stable.

The balance of bill acceptance went down. In Q1, commercial drafts issued by enterprises totaled RMB7.8 trillion, increasing by 32.7 percent year on year. At end-March, outstanding commercial drafts stood at RMB16.4 trillion, decreasing by 1.9 percent year on year. At end-March, outstanding commercial draft acceptances decreased by RMB778.1 billion compared to end-2023. Of the outstanding bankers' acceptances, 72.7 percent were issued by micro, small, and medium-sized enterprises (MSMEs).

The bill financing business was generally steady and smooth. In Q1, total discounts by financial institutions amounted to RMB13.5 trillion, increasing by 25 percent year on year. At end-March, the balance of bill financing was RMB11.6 trillion, down 1.5 percent year on year. The balance accounted for 4.7 percent of the total outstanding loans, down 0.5 percentage points year on year. In Q1, the interest rates for bill financing were basically stable.

4. The total turnover in the stock market increased, and the amount of raised funds decreased year on year.

The Shanghai Stock Exchange Composite Index and the Shenzhen Stock Exchange Component Index diverged. At end-March, the Shanghai Stock Exchange Composite Index closed at 3,041 points, up 2.2 percent from end-2023. The Shenzhen Stock Exchange Component Index closed at 9,401 points, down 1.3 percent from end-2023. The total turnover in the stock market increased, with the amount of raised funds decreasing year on year. In Q1, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB51.5 trillion, and the average daily turnover was RMB887.7 billion, up 0.8 percent year on year. In Q1, cumulative funds amounting to RMB78.0 billion were raised through the Shanghai Stock Exchange and the Shenzhen Stock Exchange, a decrease of 70.3 percent year on year.

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

In Q1 2024, total premium income in the insurance sector amounted to RMB2.2 trillion, up 10.7 percent year on year and an acceleration of 1.6 percentage points compared to that recorded in 2023. Claim and benefit payments totaled RMB735.2 billion, representing a year-on-year increase of 49.1 percent. Specifically, total property insurance claims and benefit payments increased by 11.0 percent year on year and total life insurance claims and benefit payments increased by 74.6 percent year on year.

Table 12 Asset Allocations in the Insurance Sector at end-March, 2024

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-March 2024	End-March 2023	End-March 2024	End-March 2023
Total assets	328591	283664	100.0	100.0
of which: Bank deposits	31502	28450	9.6	10.0
Investments	267879	231756	81.5	81.7

Source: National Financial Regulatory Administration.

The growth of assets in the insurance sector accelerated. At end-March 2024, total assets in the insurance sector increased by 15.8 percent year on year to RMB32.9 trillion, an acceleration of 5.4 percentage points from end-2023. Specifically, bank deposits increased by 10.7 percent and investment-linked assets increased by 15.6 percent year on year.

6. The turnover of spot foreign exchange transactions fell back, while that of swap foreign exchange transactions went up

In Q1, the cumulative turnover of spot RMB/foreign exchange transactions registered USD2.0 trillion, a decrease of 13.3 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD5.6 trillion, an increase of 13.5 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD3.8 trillion, accounting for 67.6 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD52.3 billion, increasing by 155.3 percent year on year. The turnover of foreign currency pair transactions totaled USD641.3 billion, increasing by 43.2 percent year on year. In particular, the USD/JPY pair registered the largest trading volume, accounting for 45.1 percent of the total market share.

7. Gold prices went up and gold trading was active

At end-March, international gold prices closed at USD2,214.35 per ounce, representing an increase of 6.5 percent from end-2023. The Au99.99 on the Shanghai Gold Exchange closed at RMB527.54 per gram, increasing by 10.0 percent from end-2023. In Q1, the volume of gold traded on the Shanghai Gold Exchange was 15,000 tons, an increase of 32.3 percent year on year. The turnover reached RMB7.5 trillion, up 54.7 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

RMB-denominated bond was promoted as widely accepted eligible collateral in the offshore market. On January 24, 2024, the PBOC, in cooperation with the HKMA, announced that RMB-denominated bonds under the Northbound Bond Connect were included in the list of eligible collateral for the Renminbi Liquidity Facility of the HKMA. This was the first time the collateral function of domestic bonds was acknowledged in the offshore market. The move was conducive to promoting the willingness of overseas institutions to hold such bonds, further enhancing the attractiveness of China's bond market, and serving as a cornerstone for domestic bonds to become globally accepted eligible collateral. It also helped promoting RMB internationalization in a stable and prudent manner, consolidating Hong Kong's position as an international financial center, and enabling better development of Hong Kong.

The OTC business in the interbank bond market was regulated towards normative development. In February, the PBOC released the *Notice on Matters Concerning OTC Business in the Interbank Bond Market*, further clarifying the requirements for the types of business, means of trade, and opening of investors' accounts. The Notice facilitated the participation of individuals and other institutional investors in bond investment, expanded channels for people to increase property income, improved financing structure, and enabled a more efficient bond market.

2. Reforms and institutional arrangements in the securities market

The institutional arrangements in the capital market were improved. On March 15, the CSRC released the *Opinions on Tightening Scrutiny over IPOs and Improving the Quality of Listed Companies from the Source (Trial)*, the *Opinions on Strengthening the Supervision of Listed Companies (Trial)*, the *Opinions on Strengthening the Supervision of Securities Companies and Mutual Funds and Expediting the Establishment of First-Class Investment Banks and Investment Institutions (Trial)*, and the *Opinions on Implementing Strict Standards for Political Integrity, Capacity Development and Disciplined Conduct and Comprehensively Enhancing Self-Improvement in the CSRC System (Trial)*. With respect to strengthening regulation, preventing risks and promoting high-quality development, the four Opinions implemented the requirement that supervision must be "sharp and thorny" with defined boundaries, highlighted "strengthening the foundation" and "strict supervision and management", so as to promote the development of the capital market with Chinese characteristics.

3. Institutional arrangements in the insurance market

The classified supervision on personal insurance companies was strengthened. In March, the NFRA released the *Measures for Supervisory Rating of Personal Insurance Companies*. The Measures established a comprehensive risk assessment system with multidimensional evaluation to determine the comprehensive risk levels of insurance companies, so as to enhance the capability of risk identification and early warning, and enable early risk prevention. By classifying risks into 1-5 levels and S level with scientific assessments, the NFRA conducted classified supervision based on different levels and linked the rating results to onsite inspections and early corrections.

The institutional arrangements for catastrophe insurance were improved. In March, the NFRA and the MOF released the *Notice on Expanding the Coverage of Catastrophe Insurance for Urban and Rural Residents and Further Improving the Catastrophe Insurance System*. The Notice expanded the catastrophe insurance liability to cover such natural disasters as typhoon, floods, rainstorms, mudslides, and landslides. It also increased the basic amount insured from RMB50,000 per household for urban residents and RMB20,000 per household for rural residents to RMB100,000 per household for urban residents and RMB40,000 per household for rural residents, respectively. In addition, the Notice supported the development of commercial catastrophe insurance to meet the differentiated risk coverage demands of various regions.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The global economy continued to recover, but growth further diverged. As inflationary pressures in the advanced economies eased in general, inflation may fall at a slower-than-expected pace down the road. Rising geopolitical risks and falling demand may also weigh on global trade and investment. Given the uncertain timing for rate cuts in the U.S., the euro area, and other major advanced economies, potential financial risks still merit attention.

1. Economic performance and financial markets in the major economies

Economic recovery diverged. The economic performance in the U.S. was broadly stable. The GDP grew by 2.5 percent in 2023, higher than the 1.9 percent in 2022. In March, the Manufacturing Purchasing Managers' Index (PMI) of the Institute for Supply Management (ISM) came in at 50.3, back to the expansion territory for the first time since November 2022. The economic growth in Europe was sluggish. The GDP in the euro area grew by 0.4 percent in 2023, way below the 3.4 percent in 2022. In March, the manufacturing PMI in the euro area dropped to 46.1, staying below 50 for 21 consecutive months. In the U.K., the GDP grew by merely 0.1 percent, pointing to a notable slowdown in economic growth. Compared with the first half of 2023, the Japanese economy decelerated considerably in the second half-year, with the GDP up by 1.9 percent in 2023. It remains to be seen whether Japan can maintain the momentum of economic recovery.

Inflation rebounded in the U.S., but continued to fall in Europe. In the U.S., the consumer price index (CPI) rebounded for two months in a row. It went up by 3.5 percent year on year in March 2024, up by 0.3 percentage points compared with February. The core CPI remained the same as in February. The Harmonized Index of Consumer Prices (HICP) in the euro area rose by 2.4 percent year on year in March, falling further from the 2.6 percent in the prior month. In the U.K., the CPI continued to fall. It was up by 3.2 percent year on year in March, compared with the 3.4 percent in February.

Labor market moved closer to balance. In March 2024, the U.S. unemployment rate dropped from 3.9 percent in February to 3.8 percent. The labor force participation rate went up by 0.2 percentage points from February to 62.7 percent, but was still 0.6 percentage points lower than the pre-COVID level. Nonfarm payrolls increased by 303,000, compared with 275,000 in February. Average hourly earnings for nonfarm payrolls rose by 4.1 percent year on year, slightly slower than the 4.3 percent in February. The number of job openings decreased by 320,000 from the previous month to 8.49 million in March, the lowest in three years.

Global financial markets performed well. Global equity markets increased. This year, the S&P 500, the EURO STOXX 50, and the Nikkei 225 have jumped by 10.2 percent, 12.4 percent, and 20.6 percent, respectively, as of end-March. Central banks in the major economies pausing rate hikes and investors' upbeat expectations for a soft landing have fueled global equity markets. Bond yields went up. Given the strong U.S. economic data and inflation coming down at a slower-than-expected pace since 2024, markets have been pushing back their forecasts of the first cut by the U.S. Federal Reserve (Fed). This gradually pushed up the yields on government bonds. As of end-March, the yield on the 10-year U.S. Treasury closed up by 32 bps from end-2023 at 4.2 percent, while the yield on the 10-year German and U.K. government bonds closed at 2.31 percent and 3.95 percent, respectively, up by 29 bps and 33 bps compared with end-2023. The U.S. dollar index fluctuated upwards. The U.S. dollar continued to strengthen on the back of strong economic performance relative to other major advanced economies. The U.S. dollar index has fluctuated within the range of 100-105 since 2024. It closed at 104.51 at the end of March, up by 3.1 percent from end-2023. Commodity prices rebounded. The prices of crude oil, copper, and aluminum recovered across the board, while gold prices hit a record high.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q1 2023			Q2 2023			Q3 2023			Q4 2023			Q1 2024		
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.

United States	Real GDP Growth (annualized quarterly rate, %)	2.2			2.1			4.9			3.4			1.6		
	Unemployment Rate (%)	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7	3.7	3.9	3.8
	CPI (year-on-year, %)	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5
	DJ Industrial Average (end of the period)	34086	32657	33274	34098	32908	34408	35560	34722	33508	33053	35951	37690	38150	38996	39807
Euro Area	Real GDP Growth (year-on-year, %)	1.3			0.6			0.1			0.1			0.4		
	Unemployment Rate (%)	6.7	6.6	6.6	6.5	6.5	6.5	6.6	6.5	6.6	6.6	6.5	6.5	6.5	6.5	6.5
	HICP (year-on-year, %)	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6	2.4
	EURO STOXX 50 (end of the period)	4163	4238	4315	4359	4218	4399	4471	4297	4175	4061	4382	4522	4648	4878	5083
United Kingdom	Real GDP Growth (year-on year, %)	0.3			0.2			0.2			-0.3			0.2		
	Unemployment Rate (%)	3.8	3.9	4.0	3.9	4.0	4.2	4.3	4.2	4.1	4.0	3.9	3.8	4.0	4.2	
	CPI (year-on-year, %)	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4.0	4.0	3.4	3.2
	FTSE 100 (end of the period)	7772	7876	7632	7871	7446	7532	7699	7439	7608	7322	7454	7733	7631	7630	7953
Japan	Real GDP Growth (annualized quarterly rate, %)	4.0			4.2			-3.2			0.4			-		
	Unemployment Rate (%)	2.5	2.6	2.7	2.6	2.6	2.5	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.6	2.6
	CPI (year-on-year, %)	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	2.6	2.2	2.8	2.7
	Nikkei 225 (end of the period)	27327	27446	28041	28856	30888	33189	33172	32619	31858	30859	33487	33464	36287	39166	40369

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

2. Monetary policies of the major economies

The Fed may postpone its rate cuts, while the Bank of Japan (BOJ) has ended its negative interest rate and yield curve control policy. The Fed kept the target range for the federal funds rate unchanged at 5.25-5.5 percent. The Fed Chair Powell said he continued to believe that the policy rate is likely at its peak for this tightening cycle after the Federal Open Market Committee met in March 2024. The European Central Bank (ECB) stood pat on rates, with the interest rate on its main refinancing operations, marginal lending facility, and deposit facility at 4.5 percent, 4.75 percent, and 4 percent, respectively. In the meantime, the ECB 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) kept interest rates on hold at 5.25 percent since August 2023. The Bank of Japan (BOJ) ended its eight-year-long negative interest rate policy and increased its short-term policy rate to 0-0.1 percent. It also abandoned its yield curve control which had kept the long-term target rate at around zero percent. In addition, the BOJ decided to discontinue purchases of exchange-traded funds and Japan real estate investment trusts and to gradually reduce the amount of purchases of commercial paper and corporate bonds. In the first quarter (Q1) of 2024, the Bank of Canada, the Bank of Korea, the Reserve Bank of Australia, and the Reserve Bank of New Zealand all kept rates unchanged at high levels.

Monetary policies in the emerging economies diverged. In Q1 2024, the central banks of India, Russia, Indonesia, Malaysia, and South Africa stood pat on rates. The central banks of Brazil, Chile, and Mexico cut rates by 100 bps, 100 bps, and 25 bps, respectively, while the central bank of Egypt raised rates by 800 bps.

3. Issues and trends that merit attention

The global economy still faces challenges. Due to high interest rates and elevated debt levels, the prospects for global economic recovery in 2024 remain uncertain. The global economy is projected to grow by 3.2 percent in 2024 according to the IMF, the same growth rate as 2023, but far below the average of 3.8 percent between 2000 and 2019. The 2024 global growth forecasts by the World Bank and the Organization for Economic Cooperation and Development are 2.4 percent and 3.1 percent, respectively.

Inflation may fall at a slower-than-expected pace. Inflation has already come down from the high of around 10 percent in 2022 to around 3 percent in the major advanced economies. As monetary tightening gradually bites, inflation is likely to fall further in the major economies, but the pace may slow down. On the one hand, the fall in inflation was mainly driven by lower goods prices. However, highly sensitive geopolitical tensions since the beginning of this year, supply chain disruptions, and rising shipping costs may become headwinds for the further decline in goods prices. On the other hand, the rate of wage growth remains high in the U.S. and Europe, and services inflation may be sticky.

Global trade and investment faces uncertainties. The growth of international trade and investment has slowed down substantially in recent years under the combined impact of unilateralism, geopolitics, the reconfiguration of industrial chains, and other factors. The average growth rate of global trade was about 2 percent between 2019 and 2023, the slowest five-year period since 1990. According to the statistics of United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment dropped by 18 percent in 2023 after excluding a few European countries that levy a little or no tax on capital transfer. More than 70 countries and regions will hold general elections in 2024, including the U.S., India, and Brazil. Highly uncertain domestic and foreign policies may have implications for trade, investment, and industrial policies, further weighing on global trade and investment. In addition, global trade recovery may also be affected by slower consumption growth in the advanced economies and escalated trade frictions.

Global financial risks still merit attention. The Fed, the ECB, and the BOE have raised rates by 525 bps, 450 bps, and 515 bps respectively in current tightening cycle. With policy rates reaching historic highs, the above three central banks have paused rate hikes since the fourth quarter of 2023. While interest rates remain higher for longer, the pressures on commercial real estate may spread to the banking sector. In the meantime, central banks have raised rates at a faster pace this time around. Therefore, the shock of rising rates has not been fully felt, as most fixed-rate financial contracts signed in the era of low rates have not expired yet. The pressures from rising financing costs may become more prominent when fixed-rate contracts expire or market entities need to refinance on the market.

II. Macroeconomic developments in China

In Q1 2024, all regions and departments earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, increasing the intensity of macro adjustments, consolidating and enhancing the gradual recovery of economic development. China has seen positive factors increasing in economic operation. The endogenous drivers of the economy have continuously gained steam and social expectations have improved. High-quality development has been solidly promoted, featuring rapid growth, structural optimization, and improved quality and efficiency. The national economy got off to a good start. According to preliminary statistics, GDP in Q1 2024 grew by 5.3 percent year on year to RMB29.6299 trillion on a comparable basis, up 1.6 percent quarter on quarter.

1. Consumption grew stably, investments witnessed steady growth, and imports and exports increased steadily.

Residents' income continued to increase and market sales grew steadily. In Q1, China's per capita disposable income posted RMB11539, increasing by 6.2 percent year on year in nominal terms, or 6.2 percent in real terms. The structure of income distribution has been continuously improved. The nominal and real growth rates of rural residents' per capita disposable income were 2.3 percentage points and 2.4 percentage points, higher than those of urban residents, respectively. In Q1, total retail sales of consumer goods grew by 4.7 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 grain/oil/food and beverage increasing by 9.6 percent and 6.5 percent year on year, respectively. Sales of upgraded products increased fairly rapidly, with retail sales of sports/entertainment products and communication equipment by enterprises (units) above the designated size increasing by 14.2 percent and 13.2 percent, respectively.

Fixed-asset investments witnessed steady growth, and investments in the high-tech sector grew rapidly. The total fixed-asset investments throughout China (those by rural households excluded) increased by 4.5 percent year on year to RMB10.0042 trillion. In terms of sectors, investments in the manufacturing sector increased by 9.9 percent, 5.4 percentage points higher than the total investment growth. Investments in infrastructure increased by 6.5 percent. Investments in real estate development decreased by 9.5 percent year on year. Investments in the high-tech sector grew by 11.4 percent year on year, 6.9 percentage points higher than the total investment growth. Specifically, investments in the high-tech manufacturing sector and high-tech services sector grew by 10.8 percent and 12.7 percent year on year, respectively. In the high-tech manufacturing sector, investments in the aviation/spacecraft/instrument manufacturing industry, computer/office equipment manufacturing industry increased by 42.7 percent and 11.8 percent year on year, respectively. In the high-tech services sector, investments in the e-commerce service industry and the information service industry increased by 24.6 percent and 16.9 percent year on year, respectively.

Imports and exports increased steadily, with the trade structure continuously optimized. In Q1, imports and exports of goods increased by 5.0 percent year on year to RMB10.1693 trillion. Specifically, exports grew by 4.9 percent year on year and imports grew by 5.0 percent year on year, with the trade surplus in goods posting RMB1.3063 trillion. The trade structure continuously improved. Imports and exports of private enterprises increased by 10.7 percent, accounting for 54.3 percent of total imports and exports, an acceleration of 0.8 percentage points from 2023. Imports and exports with trading partners countries along the Belt and Road grew by 5.5 percent year on year, accounting for 47.4 percent of total imports and exports, an acceleration of 0.8 percentage points from 2023. Exports of mechanical and electrical products increased by 6.8 percent, accounting for 59.2 percent of total exports.

Foreign direct investment (FDI) was basically stable and the quality of investments continued to improve. In Q1, actually utilized FDI decreased by 26.1 percent year on year to RMB301.7 billion. The quality of investments continued to improve. Actually-utilized FDI in the high-tech manufacturing industries grew by 2.2 percent year on year to RMB37.8 billion, accounting for 12.5 percent of total actually utilized FDI. Actually-utilized FDI in accommodation/catering and construction sector increased by 84.7 percent and 17.5 percent year on year, respectively.

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

In Q1, the value-added of the primary industry totaled RMB1.1538 trillion, up 3.3 percent year on year. The value-added of the secondary industry totaled RMB10.9846 trillion, up 6.0 percent year on year. The value-added of the tertiary industry totaled RMB17.4915 trillion, up 5.0 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In Q1, the value-added of agriculture (farming) increased by 3.8 percent year on year. The sowing area of winter wheat was generally stable, and the wheat was growing well The preparations for spring ploughing were carried out in a smooth and orderly manner. In Q1, the output of pork, beef, lamb, and poultry grew by 1.4 percent year on year to 24.9 million tons. Specifically, the output of pork fell by 0.4 percent year on year. At end-March, the number of hogs in stock decreased by 5.2 percent year on year and the number of hogs for slaughter increased by 2.2 percent year on year.

The industrial production grew rapidly and the growth of high-tech manufacturing industry accelerated. In Q1, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 6.1 percent year on year. In terms of sectors, the value-added of the mining sector and that of the manufacturing sector increased by 1.6 percent and 6.7 percent year on year, respectively. The value-added of electricity, heat, gas, water production and the supply sector increased by 6.9 percent year on year. The value-added of the high-tech manufacturing sector increased by 7.5 percent, an acceleration of 2.6 percentage points from Q4 2023. In terms of enterprises, the value-added of state-owned enterprises and private enterprises increased by 5.2 percent and 5.4 percent year on year, respectively. In terms of products, the output of charging stations, 3D printing equipment, and electronic component products grew by 41.7 percent, 40.6 percent, and 39.5 percent year on year, respectively.

The service industry grew rapidly, with the modern service industry growing rapidly. In Q1, the value-added of the service industry grew by 5.0 percent year on year. Specifically, the value-added of electronic information transmission/software/information technology services, leasing/business service sector and transportation/storage/postal services grew by 13.7 percent, 10.8 percent and 7.3 percent year on year, respectively. In March, the Index of Service Production (ISP) increased by 5.0 percent year on year. Specifically, the ISP of electronic information transmission/software/information technology services, leasing/business service sector, and accommodations/catering services increased by 12.7 percent, 8.2 percent and 6.2 percent year on year, respectively. From January to February, the revenue of enterprises above a designated size in the services industry registered a year-on-year increase of 12.0 percent, an acceleration of 3.7 percentage points from 2023. The Business Activities Index for the services industry reached 52.4 percent in March, an acceleration of 1.4 percentage points from February. The Expectation Index of Business Activities was 58.2 percent.

3.Consumer prices increased slightly, and the increase of core CPI accelerated moderately

Consumer prices remained generally stable. In Q1, the Consumer Prices Index (CPI) was on par with that in 2023, a deceleration of 0.2 percentage point year on year. The growth rate of the CPI in each month was –0.8 percent, 0.7 percent, and 0.1 percent, respectively. The abundant supply and the high base of the previous year have led to weaker trends in most food prices. The Spring Festival spanning January and February, along with holiday effects, intensified monthly fluctuations in the prices of pork and fresh vegetables. Food prices fell by 3.2 percent year on year, a deceleration of 0.8 percentage points from the previous quarter. The increase in international oil price accelerated the rise of energy prices, and the Spring Festival caused significant monthly fluctuations in the prices of traveling services. Non-food prices increased 0.7 percent year on year, an acceleration of 0.2 percentage points from the previous quarter. The core CPI, excluding food and energy, increased by 0.7 percent year on year, an acceleration of 0.1 percentage points from the previous quarter.

The decline in production prices has narrowed moderately. External factors drove the price rise in domestic petroleum and non-ferrous metal-related industries, but overall demand remained weak, leading to the weak trend of most industrial commodity prices. In Q1, the Producer Price Index (PPI) decreased by 2.7 percent year on year, a deceleration of 0.1 percentage points from the previous quarter. The decrease in each month was 2.5 percent, 2.7 percent, and 2.8 percent, respectively. The Purchasing Price Index of Raw Material (PPIRM) decreased by 3.4 percent year on year, a deceleration of 0.4 percentage points from the previous quarter. The Corporate Goods Price Index (CGPI), monitored by the PBOC, decreased by 2.2 percent year on year, 1.7 percentage points down from the same period of 2023.

4.Fiscal revenue decreased slightly and fiscal expenditures grew steadily.

In Q1, revenue in the general public budget posted RMB6.1 trillion, decreasing by 2.3 percent year on year. Specifically, revenue at the central level decreased by 6.5 percent year on year, and revenue at local levels increased by 1.0 percent year on year. National tax revenue amounted to RMB4.9 trillion, decreasing 4.9 percent year on year. Specifically, the domestic valued-added tax and the personal income tax decreased by 7.1 percent and 4.5 percent year on year, respectively. Non-tax revenue posted RMB1.2 trillion, increasing by 10.1 percent year on year.

In Q1, expenditures in the general public budget posted RMB7.0 trillion, increasing by 2.9 percent year on year. Specifically, expenditures in the central level general public budget and in the local level general public budget increased by 10.5 percent and 1.9 percent year on year, respectively. In terms of the expenditure structure, expenditures related to social security and employment, agriculture, forestry and water conservancy, and housing security grew rapidly, increasing by 3.7 percent, 13.1 percent, and 7.8 percent, respectively.

5.The employment situation generally improved

The surveyed urban unemployment rate decreased slightly. In Q1, the surveyed urban unemployment rate averaged 5.2 percent, decreasing by 0.3 percentage points year on year. In March, the surveyed urban unemployment rate averaged 5.2 percent, decreasing by 0.1 percentage points both from last month and March 2023. The employment of migrant workers continued to improve. In Q1, unemployment for the rural registered labor force in urban areas averaged 4.7 percent, decreasing by 0.9 percentage point year on year. The number of migrant workers from rural areas posted 186 million, increasing by 2.2 percent year on year.

6. The balance of payments and the external debt

In 2023, China's current account surplus registered USD253.0 billion, equivalent to 1.4 percent of the Gross Domestic Product (GDP) over the same period and remaining within a reasonable and balanced range. Specifically, trade in goods recorded a surplus of USD593.9 billion. The results of China's continuous efforts to upgrade its industries and to diversify its international trade in goods have become increasingly evident. Trade in services recorded a deficit of USD207.8 billion. Residents' cross-border tourism and overseas studies have resumed in an orderly manner but were still below the pre-pandemic level. The services for productive activities kept a vibrant momentum. There was an independent pattern of equilibrium between the deficit in the non-reserve financial account and the surplus in the current account. Specifically, inward foreign direct investments maintained a net inflow. The deficit in portfolio investments decreased significantly. As of end-March 2024, outstanding foreign-currency reserve assets stood at USD3.2 trillion, increasing by USD7.7 billion from end-2023 and mainly influenced by factors such as changes in the exchange rates and global asset prices. As of end-2023, the position of China's gross external debt (denominated in both domestic and foreign currencies) posted USD2.4 trillion. Specifically, the position of short-term external debt posted USD1.4 trillion, accounting for 56 percent of the total external debt position.

7. Analysis by sector

7.1 The new energy power generation sector

Since the announcement of carbon peak and carbon neutrality goals in 2020, China has continuously pushed forward adjustments in the energy structure, reduced fossil energy consumption, and accelerated construction of a new energy system. The new energy sector has witnessed fast development and achieved remarkable results. **First, the installed capacity of new energy has grown rapidly.** By end-2023, the combined installed capacity of grid-connected wind power and solar power in China reached 1.05 billion kilowatts, a year-on-year increase of 38.6 percent and accounting for 36.0 percent of the total installed capacity. It is expected that by end-2024, the installed capacity of new energy power generation will reach 1.3 billion kilowatts, accounting for about 40 percent of the total installed capacity. **Second, the efficiency of power generation and the power grid integration and consumption capacity have been steadily improved.** The integration of new energy relies on the construction of a comprehensive supporting power grid. In recent years, China has continuously invested in the construction of the UHV system. By end-2023, 35 UHV projects had been completed, with a total line length of over 46,000 kilometers. In 2023, the utilization rates of wind and photovoltaic power throughout the year were both around 98 percent, and the utilization hours increased by 28 percent and 14 percent, respectively, compared with 2016. **Third, continuous breakthroughs have been made in terms of core technologies.** Currently, China’s photovoltaic industry has achieved domestic production in all aspects of the entire industrial chain, significantly reducing the cost per kilowatt-hour. In 2023, the total export value of China’s photovoltaic products, such as silicon wafers, cells, and modules, exceeded USD48.4 billion.

As an important support for promoting green and low-carbon energy transformation, the finance sector has been providing a favorable financial environment for green and low-carbon areas, such as new energy power generation via multiple measures. **First, green credit has maintained rapid growth.** By end-2023, the outstanding balance of green loans in domestic and foreign currencies of financial institutions reached RMB30.1 trillion, increasing 36.5 percent year on year, and the balance of carbon emission reduction facility created by the PBOC stood at RMB541 billion, an increase of RMB231.4 billion compared with the beginning of the year, which has continuously improved the funding supply capacity to the new energy sector. **Second, the loan maturity is reasonably matched with investment needs.** Carbon emissions reduction loans usually have a maturity of over 10 years, which can match the long operating cycle of clean energy construction projects such as large-scale wind and solar power bases, helping to improve the financing term structure of related enterprises. **Third, the interest rate for funding has significantly declined.** Data disclosed by listed companies in the clean energy sector shows that the interest costs in 2023 decreased by approximately 0.84 percentage points, compared with those in 2021.

Looking forward, the prospects for new energy development are still very broad, and further efforts need to be made to improve the effective utilization of new energy, promoting China's new energy system to reach a new level of high-quality development. **First, deepening the reform of the power system.** Focusing on optimizing the allocation of energy resources on a wider scale, China will continuously expand the scale of power market transactions through the accelerated construction of a unified nationwide power market system. The basic rules and regulations of the market will be unified, providing an institutional foundation for the remote consumption of clean energy. **Second, enhancing the regulation capacity of the power system.** China will improve the construction of energy infrastructure networks, enhance financial support for the construction and renovation of power grid enterprises, raise the level of intelligence for distribution networks, comprehensively enhance the regulation capacity and flexibility of the power system, and enhance the ability of the power system to integrate new energy. **Third, focusing on energy technological innovation.** China will make efforts to seek breakthroughs in terms of key and core technologies and strategically forward-looking major technologies, accelerate the realization of high-level technological self-reliance in new energy area, and further enhance the utilization of clean energy.

7.2 The high-tech manufacturing sector

The high-tech manufacturing sector is an important force in driving China's high-quality economic development and in enhancing global competitiveness, which has maintained rapid development in recent years. **First,** industrial investments have witnessed robust growth. In 2023, investments in the high-tech manufacturing sector grew by 9.9 percent year on year, 3.4 percentage points higher than that in the overall manufacturing sector, and the proportion of the high-tech sector in total manufacturing investment increased by 0.8 percentage points, compared with 2022. **Second,** the value-added of the industry has grown rapidly. In 2023, the value-added of high-tech manufacturing enterprises above designated size increased by 2.7 percent, and its proportion of the total value-added of industrial enterprises above designated size increased by 0.2 percentage points compared with 2022, indicating remarkable achievements in the transformation and upgrading of the manufacturing industry. **Third,** continuous breakthroughs have been made in the cutting-edge technologies. In 2023, China made a series of technological progress and breakthroughs in the high-tech manufacturing sector, such as the completion of the first commercial passenger flight of the domestically-manufactured large passenger aircraft C919, the birth of the world's first computing-in-memory memristor chip, and the industrial production of the self-developed submarine seismic exploration and acquisition equipment named "Haimai".

In recent years, the financial sector has continuously increased its support for the development of the high-tech manufacturing sector. Documents such as the *Guiding Opinions on Financial Support for the Construction of a Manufacturing Powerhouse*, the *Notice on Further Enhancing Financial Services for the High-Quality Development of the Manufacturing Industry*, and the *Notice on Deepening Financial Services for the Manufacturing Industry and Assisting in Promoting the New-type Industrialization* have been issued and implemented, guiding financial institutions to increase credit supply to the manufacturing industry, especially the high-tech manufacturing sector. Recently, the PBOC has established central bank lending for sci-tech innovation and technological transformation, guiding financial institutions to support "first-time loan borrowers" from the technology-based SMEs and technological transformation and equipment update projects in key areas. Commercial banks are also continuously innovating financial products and services to better suit the characteristics of the high-tech manufacturing sector. By end-March 2024, loans to the high-tech manufacturing sector from financial institutions had increased by 27.3 percent year on year, significantly higher than the 9.6 percent growth rate of all loans.

Looking forward, the high-tech manufacturing sector, as an important driving force for China's economic transformation and development, will continue to advance towards high-quality development. **First,** China is actively promoting a new type of industrialization and deeply implementing major technological transformation and upgrading projects and large-scale equipment renewal projects in the manufacturing sector, and investment in high-tech manufacturing is expected to continuously maintain rapid growth. **Second,** driven by continuous technological innovation and growing global demand for high-tech products, the market size of the high-tech manufacturing sector will also be further expanded. **Third,** facing an increasingly complicated competitive international environment, the high-tech manufacturing sector will pay more attention to enhancing its capability of independent innovation and the self-reliance of the industrial chain.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

China saw its economic recovery further taking hold and gaining momentum in the first quarter of 2024, with its GDP rising 5.3 percent year on year, thus establishing a good foundation in its bid to achieve the full-year growth target.

There are many favorable conditions for a sustained recovery of the Chinese economy. First, the government has continued ramping up efforts to stabilize growth. Given the 3 percent fiscal deficit ratio set for this year and the planned issuance of RMB1 trillion in ultra-long-term special treasury bonds, there is ample room for the central government to effectively use leverage, which will help bolster the construction of major projects and boost employment. Second, people's willingness to consume is picking up at a faster pace. With the holiday economy continuing to unleash its vitality, domestic tourist expenditures during the Qingming Festival holiday increased 12.7 percent over the same period of 2019. In addition, there is a sizable market in consumer upgrades of automobiles and home appliances. According to the findings of the Urban Depositor Survey conducted by the PBOC, the share of people who preferred more consumption rose 1.5 percentage points, as compared with the low level recorded last year. Third, economic activity in the private sector is improving. Growth of private investment returned to positive territory in the first quarter of the year, while the Caixin Manufacturing PMI, mainly an indicator of the business performance of small and medium-sized private enterprises, has remained in the expansion zone for five consecutive months. As shown in the PBOC's *Entrepreneur Survey Report,* the Business Climate Index has also remained in the expansion zone for two consecutive quarters. Moreover, the macro policy measures introduced earlier are still working to further consolidate and add steam to the economic recovery.

China's economic development is still confronting some challenges. Globally, as geopolitical conflicts and great power rivalries are intensifying, the complexity, severity, and uncertainties in the external environment have risen significantly. Meanwhile, economic globalization is in question. The high inflation with strong stickiness in the developed economies is leading to delayed timing of their interest rate cuts and calls for attention to the possible repercussions. Domestically, effective demand is still insufficient; enterprises are under strain; a host of potential risks are present in key fields; and domestic economic circulation is not smooth enough. That said, we should not only face up to the difficulties but also strengthen confidence and belief in ourselves. In light of the solid foundation, ample advantages, strong resilience, and huge potential of the Chinese economy, the basic trend of economic recovery and long-term improvement has not changed. The favorable conditions outweigh the unfavorable ones, with the current economic performance basically characterized by a good start for the year and a trend toward recovery. It is important to follow the general principle of seeking progress while maintaining stability and promoting stability through progress in order to advance high-quality development with solid efforts and to solve the problems in the process of development.

Prices are expected to continue to show a mild rebound. What lies fundamentally behind the current low prices is not inadequate money supply but rather a lack of demand in the real economy and a supply-demand imbalance. On the back of the improving economic data in the first quarter of the year, price indicators have rebounded notably, with year-on-year CPI growth turning positive and expected to continue a mild rebound throughout the year. Meanwhile, the decline in the PPI will be smaller. From a medium- to long-term perspective, as China is undergoing a critical period of economic transformation and industrial upgrading, supply and demand are poised to improve continually, monetary conditions will be appropriate, and people's expectations will remain stable. Therefore, there is a solid basis for prices to remain basically stable.

II. Monetary Policy for 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 National Congress of the CPC, the Central Economic Work Conference, the Central Financial Work Conference, and the National Two Sessions. It will adhere to the general principle of seeking progress while maintaining stability, and it will apply the new development philosophy fully, faithfully, and comprehensively. Firmly following the path of financial development with Chinese characteristics, the PBOC will speed up efforts to build China into a financial powerhouse, develop a modern central banking system, and work hard to promote high-quality development. Maintaining prudence of monetary policies and enhancing consistency in the macroeconomic policy orientation, the PBOC will strengthen counter-cyclical and inter-temporal adjustments, and it will enhance support for the real economy in a bid to consolidate and reinforce the upward economic recovery trend.

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, the PBOC will guide reasonable growth and a balanced provision of credit. By doing so, it will keep liquidity adequate at a reasonable level and keep aggregate financing and money supply in step with projected economic growth and CPI increase. Maintaining price stability and promoting moderate price recovery will be an important consideration for the implementation of monetary policy. The PBOC will enhance policy coordination to keep prices at a reasonable level. By continuing to deepen the market-oriented interest rate reform and giving play to the role of the LPR reform and the mechanism for market-oriented deposit rate adjustments, it will promote the costs for business financing and for consumer credit to remain stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will provide effective support for key areas and weak links, such as inclusive finance, sci-tech innovation, and green development. It will smooth the transmission mechanism of monetary policy and avoid accumulation and idle transfer of funds.

Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate. It will take a holistic approach in policy implementation and it will stabilize expectations. It will firmly correct pro-cyclical activities so as to prevent market expectations from becoming unanimously one-sided and self-reinforced, and it will firmly prevent risks arising from exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium 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.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. It will appropriately manage the relationship between the two largest financing markets, i.e., the bond market and the credit market, to support the accelerated development of direct financing. Further steps will be taken to develop the corporate credit bond and financial bond markets. Keeping a close watch on the monetary policy shifts of the major central banks abroad, the PBOC will continue to strengthen monitoring and analysis of financial market movements as well as liquidity supply and demand in the banking system. It will conduct open market operations (OMOs) in a flexible and effective manner while using a mix of monetary policy tools, thereby keeping liquidity in the banking system adequate at a reasonable level and maintaining the stable movement of money market rates. The PBOC will support efforts by financial institutions to maintain a commensurate supply of money and credit based on market principles and the rule of law to meet effective financing needs arising from the high-quality development of the real economy. It will offer guidance on reasonable loan growth and balanced loan supply to make the growth of loans more stable and sustainable, working to keep aggregate financing and money supply in step with projected economic growth and CPI increase. Meanwhile, the PBOC will ramp up efforts to mobilize existing financial resources. It will pay close attention to the funds left idle or circulating outside the real economy and improve the efficiency of fund utilization to provide better support for high-quality economic development.

Second, the PBOC will give full play to the guiding role of monetary and credit policies. Carrying out 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. Additionally, it will push for implementation of the central bank lending facility for sci-tech innovation and technological transformation. Continued efforts will be made to provide financial support for the development and growth of the private economy and to smooth the credit, bond, and equity financing channels for private enterprises. Moreover, the PBOC will assess the effectiveness of implementation of the credit policies for private enterprises and MSBs. It will also assess financial institutions' performance in serving the needs of rural revitalization and channel more financial resources into private enterprises, MSBs, rural revitalization, and other key fields. The PBOC will work effectively to implement the *Action Plan for Stepping up Financing Support for Sci-tech Enterprises* and it will conduct a special campaign to enhance the ability to provide sci-tech financial services. It will promote upgrading of age-friendly financial services and make old-age finance more inclusive. It will also coordinate financial support for green development and for the transformation of traditional energy industries while further pushing ahead with the high-quality development of the green bond market. 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, and it will coordinate research on policy measures aimed at reducing the housing inventory and optimizing newly built housing, thereby promoting the stable and sound development of the real estate market. In addition, the PBOC will intensify financial support for the development of affordable housing, the renovation of urban villages, and the construction of public infrastructure for both normal and emergency use so as to accelerate 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 to bring into play the guiding role of the central bank policy rates. It will implement the mechanism for market-oriented deposit rate adjustments, guard against the behaviors of offering high interest rates to attract deposits, maintain a level playing field in the market, and put efforts into stabilizing bank liability costs. At the same time, the PBOC 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 stabilize and bring down overall social financing costs. The PBOC will take steady steps to deepen the market-oriented exchange rate reform and to improve the managed floating exchange rate regime 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 firmly 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 an adaptive and equilibrium 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 micro, small, and medium-sized enterprises 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. It will put in place a mechanism linking up market-makers and OMO primary dealers, and it will improve management of the businesses, such as bond underwriting, valuation, and market-making, in order to enhance the pricing function and robustness of the bond market. While promoting the expansion and well-regulated development of the over-the-counter bond business, it will work to improve the efficiency and convenience of services provided by financial infrastructures. At the same time, the PBOC will strengthen macro-prudential management of the money market. 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 take prudent and solid steps to advance the internationalization of the RMB. 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 on 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. Continuing to improve the regulatory framework for systemically important financial institutions, the PBOC will consolidate additional regulation of systemically important banks and work on the drafting of rules for additional regulation of systemically important insurance companies. With macro-prudential management and micro-prudential regulation joining efforts effectively, it will cement the foundation for stability of the financial system. Moreover, the PBOC will advance steadily and step by step the resolution of risks in key regions, key institutions, and key fields while pushing ahead with reforms to defuse their risks. It will wrap up the ongoing risk resolutions in a prudent and orderly manner. Furthermore, it will continue with the pilot program pressing for early rectification with hard constraints. The PBOC will also reinforce the financial stability guarantee system. It will improve the accountability mechanism for risk resolution that matches power with responsibility and ensures compatibility between incentives and constraints. At the same time, a scientific and reasonable mechanism will be set up for cost sharing in the resolution of financial risks. The PBOC will further bring into play the core functions of deposit insurance and take solid measures to conduct differentiated premium rate management, risk monitoring and early warnings, on-site inspections, early rectification, and risk resolution. It will continue to improve the system of laws and regulations for financial stability and work with the relevant authorities to advance the process for the launch of the *Law on Financial Stability*.