China Monetary Policy Report

Q3 2024

(November 8, 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 has strengthened macro regulation and control while focusing on deepening reform and opening-up, expanding domestic demand, and optimizing the economic structure. As a result, overall economic performance has been stable. In the first three quarters, the GDP grew 4.8 percent year on year and the CPI rose 0.3 percent year on year. Production and demand increased steadily, employment and prices remained generally stable, and high-quality development achieved solid progress. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) earnestly implemented the decisions and arrangements of the CPC Central Committee and the State Council. It pursued a sound monetary policy in a flexible, moderate, precise, and effective manner, and it strengthened counter-cyclical adjustments, thereby creating a favorable monetary and financial environment for economic recovery and development.

First, money and credit maintained reasonable growth. The PBOC cut the required reserve ratio (RRR) by a total of one percentage point in February and September, thus releasing about RMB2 trillion of long-term liquidity. In addition, it used a mix of tools, including open market operations (OMOs), medium-term lending facility (MLF) operations, and central bank lending and discounts, and it conducted government bond transactions, to keep liquidity adequate at a reasonable level. It promoted a balanced supply of credit and mobilized the existing low-efficient financial resources to improve the quality and efficiency of financial services for the real economy. **Second,** overall social 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 in January, and it cut the 7-day reverse repo rate by a total of 0.3 percentage points in July and September. It continued to promote the market-based reform of the deposit rate and guided market rates, including the loan prime rate (LPR), to move down. **Third,** the credit structure was improved. The PBOC launched new policies to bolster the real estate market. It lowered the interest rate on existing mortgage loans, unified the minimum down payment ratio for first- and second-home buyers, and it improved central bank lending for government-subsidized housing. It launched the Securities, Funds, and Insurance Companies Swap Facility (SFISF) as well as central bank lending for share buybacks and shareholding increases to support stable development of the stock market. It pressed ahead with the use of central bank lending for sci-tech innovation and technological transformation, and it intensified financial support for large-scale equipment renewal and trade-in of consumer goods. It lowered the threshold for access to inclusive MSB loans and expanded the list of financial institutions eligible for the Carbon Emission Reduction Facility (CERF), making good use of the existing structural monetary policy tools. **Fourth,** the exchange rate remained basically stable. Upholding the decisive role of the market in the formation of the exchange rate, the PBOC gave play to the role of the exchange rate in adjusting the macro economy and the balance of payments, maintained exchange rate flexibility, and strengthened expectation guidance. **Fifth,** risk prevention and resolution were strengthened. The PBOC improved financial risk monitoring and assessment, and it appropriately handled the risks in key areas and with key projects. The work of providing financial support to help resolve the debt risks of local government financing vehicles was promoted in an orderly way, and development of a financial stability guarantee system was stepped up.

Overall, since the beginning of 2024, the monetary policy stance has been accommodative, providing strong support for economic recovery and development. The financial aggregates witnessed reasonable growth. At end-September, outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) recorded year-on-year growth of 8.0 percent and 6.8 percent, respectively. In the first three quarters, new RMB-denominated loans registered RMB16 trillion. The credit structure continued to improve. At end-September, inclusive MSB loans and medium- and long-term (MLT) loans to the manufacturing sector grew by 14.5 percent and 14.8 percent year on year, respectively, both outpacing the overall loan growth. Financing costs were stable with a slight decline. In September, the weighted average rate on new corporate loans registered 3.51 percent, down 0.31 percentage point year on year. The RMB exchange rate remained stable with an upward trend against a basket of currencies. By end-September, the China Foreign Exchange Trade System (CFETS) RMB Index had risen by 1.0 percent from the end of 2023.

Currently, external uncertainties are on the rise and momentum for global economic growth has weakened. The domestic economy still faces challenges, such as insufficient effective demand and weak social expectations. However, China's economic fundamentals remain solid, and favorable conditions for development, including its big market, resilient economy, and great potential, remain unchanged. Therefore, we should face the challenges, remaining confident and responding proactively. 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 guiding principles of the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Central Financial Work Conference. It will adhere to the general principle of seeking progress while maintaining stability, and it will apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will continue its efforts to promote high-quality financial development and build China into a financial powerhouse. It will deepen institutional reform in the financial sector, fasten the pace of making improvements to the central banking system, and further optimize the monetary policy framework. The PBOC will work to strike a balance between short-term and long-term concerns, between growth stability and risk prevention, and between the internal and external equilibria. Firmly pursuing an accommodative monetary policy stance, it will intensify monetary policy adjustments and enhance the precision of monetary policy to create a favorable monetary and financial environment for steady economic growth and high-quality development.

The sound monetary policies will be flexible, moderate, precise, and effective. The PBOC will keep liquidity adequate at a reasonable level, and it will guide reasonable growth and a balanced supply of credit, thereby keeping aggregate financing and money supply to remain in step with the projected economic growth and CPI increase. Promoting reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. It will improve the market-based interest rate formation and transmission mechanism, enhance the guiding role of the central bank policy rate, and unleash the efficacy of the self-regulatory pricing mechanism for market interest rates and the mechanism for market-oriented deposit rate adjustments so as to help financial institutions enhance their ability to set prices independently and to keep the costs of business financing and of consumer credit stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will continue its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance. It will also step up efforts to provide high-quality financial services for major strategies, key areas, and weak links, aiming to make financial services more adaptive and better targeted for economic restructuring and dynamic balancing. The PBOC will smooth the transmission mechanism of monetary policy, diversify monetary policy tools, and enhance the efficiency of fund utilization. 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 formation of the exchange rate. Also, by taking a holistic approach to policy implementation and strengthening expectation guidance, it will prevent market expectations from becoming overly one-sided and self-realized, 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 improve the macro-prudential policy framework and the systemic financial risk prevention and resolution mechanism, thereby firmly defending the bottom line whereby no systemic financial risks will occur.

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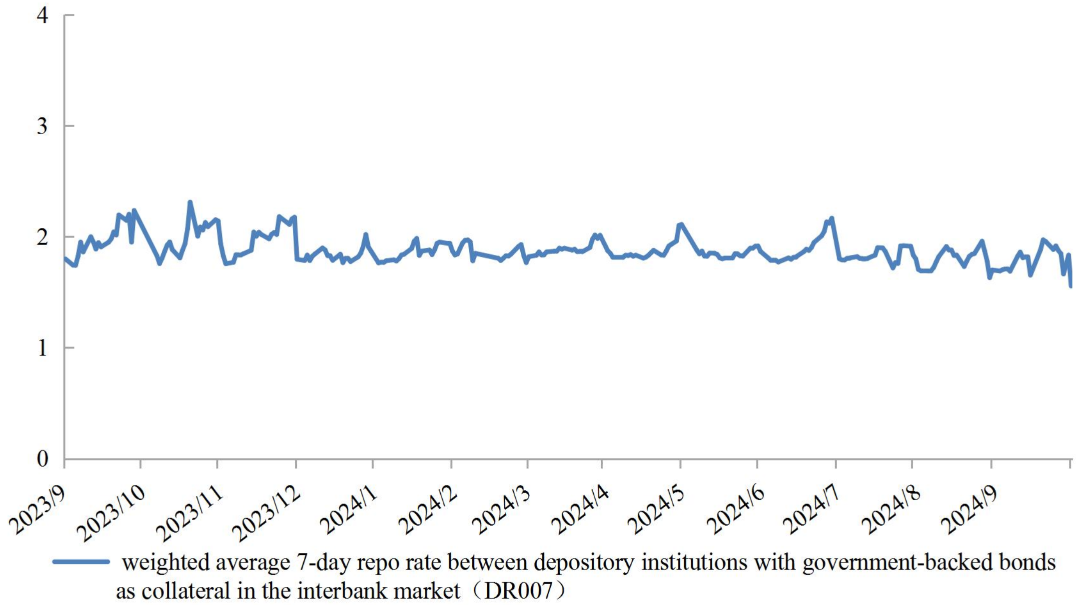
Part 1 Money and Credit Analysis

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 Third Plenary Session of the 20th CPC Central Committee, 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 it has significantly intensified counter-cyclical adjustments. On the whole, money, credit, and 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 and at a reasonable level

Since the beginning of this year, the PBOC has employed a mix of instruments, such as a cut in the required reserve ratio (RRR), open market operations (OMOs), the medium-term lending facility (MLF), and central bank lending and central bank discounts to inject liquidity into the economy. It cut the RRR by 0.5 percentage points in February and September, respectively, cumulatively releasing about RMB2 trillion in medium- and long-term liquidity. It also cut the 7-day open market reverse repo rate by 10 basis points and 20 basis points in July and September, respectively, guiding the MLF rate and the loan prime rate (LPR) to move in a downward direction. The PBOC also managed the intensity and pace of OMOs in a flexible manner and guided money market rates to move smoothly around the central bank's open market reverse repo rates. In the first three quarters of 2024, the weighted average 7-day repo rate between depository institutions with government-backed bonds as collateral in the interbank market（DR007）averaged 1.85 percent. At end-September, the excess reserve ratio for financial institutions registered 1.8 percent, indicating that liquidity in the banking system was adequate and at a reasonable level.

Figure 1 Movement of Money-Market Interest Rates



Source: www.chinamoney.com.cn

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

Credit aggregates grew reasonably. Since the beginning of this year, the PBOC has worked together with the National Bureau of Statistics (NBS) to improve the accounting method for the quarterly value-added of the financial sector so as to prevent the circulation of funds solely within the financial system, smooth the transmission mechanism of monetary policy, and enhance the quality and efficiency of credit growth. Meanwhile, it has also guided financial institutions to take proactive measures to tap into effective credit demand, increase credit support for the real economy, and maintain reasonable credit growth so as to promote a sustained economic recovery. At end-September, outstanding loans issued by financial institutions in domestic and foreign currencies grew 7.6 percent year on year to RMB257.7 trillion, increasing RMB15.5 trillion from the beginning of 2024. Outstanding RMB loans grew 8.1 percent year on year to RMB253.6 trillion, up RMB16.0 trillion from the beginning of 2024.

The credit structure has been improving. At end-September, medium and long-term (MLT) loans to enterprises and public entities grew by RMB9.7 trillion from the beginning of 2024, accounting for 71.8 percent of total corporate loans. The year-on-year (YOY) growth of MLT loans to the manufacturing sector registered 14.8 percent, 6.7 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 14.5 percent year on year, 6.4 percentage points higher than the growth of total loans. A total of 62.03 million MSBs were supported, a rise of 1.6 percent year on year.

Table 1 The Structure of RMB Loans in the First Three Quarters of 2024

Unit: RMB100 million

	Outstanding amount at end-September	YOY growth (%)	Increase from the beginning of the year
RMB loans to:	2536108	8.1%	160236
Households	820427	3.1%	19375
Enterprises and public entities	1688606	10.2%	134550
Non-banking financial institutions	9647	67.1%	1887
Overseas	17428	44.4%	4424

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

Source: The People's Bank of China

Table 2 New RMB Loans from Financial Institutions in the First Three Quarters of 2024

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	93830
Chinese-funded small and medium-sized banks②	68208
Small-sized rural financial institutions③	18342
Foreign-funded financial institutions	-448

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

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 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 September, the one-year LPR and the over-five-year LPR stood at 3.35 percent and 3.85 percent, respectively, down 0.1 and 0.35 percentage points from December 2023, respectively. In September, the weighted average interest rate on new loans recorded 3.67 percent, down 0.47 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.15 percent, down 0.36 percentage points year on year, and the weighted average interest rate on corporate loans was 3.51 percent, down 0.31 percentage points year on year, both of which represented a continuous increase in financial support for the real economy. In September, the share of ordinary loans with rates above, at, or below the LPR registered 51.46 percent, 5.21 percent, and 43.33 percent, respectively.

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

Unit: %

	September	Change from last December	YOY Change
Weighted average interest rate on new loans	3.67	-0.16	-0.47
on ordinary loans	4.15	-0.20	-0.36
of which: on corporate loans	3.51	-0.24	-0.31
on bill financing	1.35	-0.12	-0.45
on mortgage loans	3.31	-0.66	-0.71

Source: The People's Bank of China

Table 4 Shares of RMB Lending Rates at Different Levels, from January to September 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
April	40.61	6.35	53.04	13.73	16.34	10.71	6.21	6.06
May	42.45	5.96	51.59	13.35	16.17	10.35	5.89	5.83
June	44.29	6.16	49.55	14.04	15.84	10.11	5.08	4.47
July	42.39	4.95	52.66	13.73	15.59	10.76	6.17	6.40
August	42.12	4.88	53.01	14.51	16.23	10.74	5.91	5.63
September	43.33	5.21	51.46	14.83	16.12	10.01	5.26	5.24

Source: The People's Bank of China

Interest rates on foreign-currency deposits edged up, while interest rates on foreign-currency loans edged down. In September, the weighted average interest rates on demand large-value USD-denominated deposits registered 2.76 percent, up 0.53 percentage points from December 2023, while the weighted average interest rates on large-value USD-denominated deposits with maturities within three months registered 4.61 percent, down 0.09 percentage points from December 2023. 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 5.63 percent and 5.45 percent, a decrease of 0.18 and 0.35 percentage points compared to December 2023, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to September 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
April	2.49	4.90	4.95	5.37	5.19	5.22	5.90	5.78	5.50	5.46	6.00
May	2.60	4.87	4.99	5.45	5.39	5.25	5.90	5.88	5.53	4.93	6.23
June	2.64	4.93	4.97	5.31	4.10	5.30	5.93	5.84	5.73	5.25	6.69
July	2.76	4.78	5.21	5.18	5.07	5.01	5.87	5.83	5.52	5.29	5.87
August	2.79	4.87	4.75	4.59	4.56	4.94	5.92	5.56	5.33	5.17	5.29
September	2.76	4.61	4.79	4.74	4.47	4.40	5.63	5.45	4.66	5.13	5.54

Source: The People's Bank of China

Deposits grow steadily. At end-September, outstanding deposits in domestic and foreign currencies at all financial institutions increased 7.1 percent year on year to RMB306.8 trillion, up RMB16.9 trillion from the beginning of 2024. Outstanding RMB deposits grew 7.1 percent year on year to RMB300.9 trillion, an increase of RMB16.6 trillion from the beginning of 2024. Outstanding deposits in foreign currencies stood at USD849.1 billion, an increase of USD51.2 billion from the beginning of 2024.

Table 6 The Structure of RMB Deposits in the First Three Quarters of 2024

Unit: RMB100 million

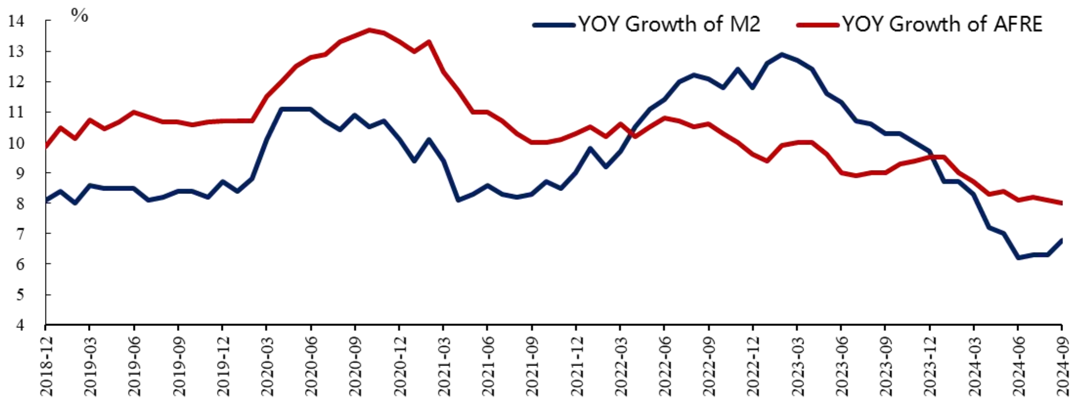
	Outstanding deposits at end-September	YOY growth (%)	Increase from the beginning of the year
RMB deposits:	3008823	7.1%	166212
Household deposits	1488436	10.5%	118541
Non-financial enterprise deposits	765460	-3.2%	-21132
Public entity deposits	370863	4.3%	17131
Fiscal deposits	65185	14.9%	7428
Non-banking financial institution deposits	300884	25.5%	44962
Overseas deposits	17994	-8.1%	-537

Source: The People's Bank of China.

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

The monetary aggregate grew at a reasonable pace. At end-September 2024, outstanding broad money M2 registered RMB309.5 trillion, up 6.8 percent year on year; narrow money M1 registered RMB62.8 trillion, down 7.4 percent year on year; currency in circulation M0 registered RMB12.2 trillion, up 11.5 percent year on year. The first three quarters of 2024 witnessed a net cash injection of RMB838.6 billion, RMB376.3 billion more than that in the same period of 2023.

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



Source: The People's Bank of China

Box 1 A Review of and Outlook for China's Money Supply Statistical System

Money supply refers to the total amount of financial instruments serving as a medium of circulation and payment at a given point in time. In modern economic activities, money takes various forms, such as the form of many financial products and instruments. The *Monetary and Financial Statistics Manual and Compilation*

Guide (MFSMCG), released by the International Monetary Fund (IMF), adopts the basic framework for the balance sheets of financial institutions and the standards for measurability, controllability, and relevance. It sets out that financial instruments included in broad money should demonstrate liquidity, serve as a medium of exchange, and function as a store of value. Countries compile various levels of money supply statistics based on national conditions as well as based on international standards and rules. Although their measures of money supply may vary, the liquidity and stability of value are commonly considered to be key criteria, both for money statistics and for distinguishing the levels of the money supply. Since 1994, China has officially compiled and published money supply statistics, categorizing the money supply in three levels based on their ease of circulation, namely, M0, M1, and M2. M0 represents currency in circulation, M1 includes M0 plus demand deposits by enterprises and public institutions, and M2 includes M1 plus time deposits by enterprises and public institutions, personal deposits, deposits of non-depository financial institutions, and fund shares held by non-depository institutions in the money market.

Measures of the money supply are not static. Instead, they are adjusted dynamically based on the liquidity of the financial instruments and their alignment with the economic conditions. Since their inception, China's money supply statistics have undergone four significant revisions. In June 2001, in order to adapt to the rapid development of China's capital market and to eliminate the impact of frozen share subscription funds on money supply, the customers' margin deposits at securities companies were included in M2. In March 2002, to reflect the changes in the market environment after China's accession to the World Trade Organization (WTO), RMB deposits at foreign financial institutions within China were incorporated into the corresponding levels of the money supply. In October 2011, to adapt to the development of non-depository financial institutions and implementation of housing security systems, the deposits of non-depository financial institutions and housing provident funds were included in M2. In January 2018, as the rapidly developing money market funds began to support payments, instant withdrawals, and store of value, money market fund shares held by non-depository institutions were also included in M2. However, these adjustments primarily focused on M2, with little change in M1 measurements.

International experience shows that central banks in the major developed economies also adjust money supply measures as appropriate to better serve macro-financial analysis and monetary policy regulation. For instance, the U.S. Federal Reserve has revised its money supply measures 16 times, including a significant revision in April 2020, when savings deposits that had been included in M2 but excluded from M1 were incorporated into M1 as the revised regulatory rules reduced restrictions on U.S. savings accounts. The Bank of England made 22 adjustments to its money supply statistical indicators in the late 20th century, including a 1987 revision that categorized savings deposits as part of the more liquid M1.

In recent years, the rapid development of China's financial market and financial innovation has significantly changed the scope of financial instruments qualified as money supply, necessitating dynamic adjustments. First, technological advances have increased the efficiency of the medium of exchange. For instance, with the rise in bank cards and mobile payments, cash use is decreasing in our daily lives. Personal demand deposits, no longer tied to deposit books, have become highly liquid payment instruments that support immediate consumption. Given the enhanced monetary characteristics, these can potentially be reclassified as M1. **Second**, new financial instruments with payment functions have emerged. For instance, online payments have developed rapidly, and the provisions of non-bank payment institutions have become widely used for daily payments. They share monetary attributes that are similar to demand deposits, and they can also be included in M1. **Third**, M2 statistics should be adjusted as the liquidity of financial instruments evolves. Drawing on international experience, we may find that the monetary policy frameworks across countries primarily focus on price regulation while they are phasing out quantitative targets. Some quantitative indicators have been abolished. For instance, the Federal Reserve no longer releases M3 and other broader money.

The PBOC is carefully studying a plan to update the money supply criteria, which may be released at an appropriate time along with revisions to the historical data, to improve the completeness and sensitivity of money supply in reflecting the economic changes. It should be noted that with the high-quality development and restructuring of China's economy, the money supply needed by the real economy is changing. As a result, the controllability of money supply and its correlation with key economic variables have weakened. Even with continuous adjustments to money supply statistics based on the development of financial businesses, this trend is likely to persist. Going forward, China's monetary policy framework will gradually downplay its focus on quantitative targets, taking financial aggregates more as indicators for observation, reference, and prediction. It will place a greater emphasis on the role of interest rate regulation, continuously improving the alignment and effectiveness of financial support for the high-quality development of the real economy.

Growth of the AFRE was stable. According to preliminary statistics, the outstanding AFRE reached RMB402.2 trillion at end-September, and its YOY growth registered 8 percent. In the first three quarters of 2024, the AFRE increment totaled RMB25.7 trillion. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In the first three quarters of 2024, RMB loans issued by financial institutions to the real economy increased by RMB15.4 trillion, accounting for 60 percent of the AFRE increment during the same period. Second, government bond financing saw a higher YOY increase. The net financing amount of government bonds in the first three quarters of the year amounted to RMB7.2 trillion, which was RMB1.22 trillion more than that in the same period of 2023. Direct financing of enterprises grew by a smaller margin year on year. In the first three quarters, the net financing amount of corporate bonds decreased by RMB54.5 billion year on year, and domestic equity financing by non-financial enterprises decreased by RMB503.9 billion compared with the same period of 2023. Third, there was a downtick in off-balance-sheet financing. In the first three quarters of 2024, increments of new trust loans were RMB292.3 billion, while entrusted loans and undiscounted bankers' acceptances decreased by RMB121.2 billion and RMB389.3 billion year on year, respectively. Fourth, loans were written off at a relatively rapid pace. In the first three quarters of the year, the increment of written-off loans stood at RMB925.5 billion, up RMB180.4 billion year on year.

Table 7 Aggregate Financing to the Real Economy in the First Three Quarters of 2024

	End-September 2024		First Three Quarters of 2024
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)
The AFRE	402.19	8.0	256643
Of which: RMB loans	250.87	7.8	153913
Foreign currency loans (RMB equivalent)	1.43	-18.6	-2063
Entrusted loans	11.25	-0.9	-155
Trust loans	4.26	11.8	3562
Undiscounted bankers' acceptances	2.34	-19.6	-1476
Corporate bonds	32.07	2.2	15884
Government bonds	76.97	16.4	71805
Domestic equity financing by non-financial enterprises	11.60	2.6	1705
Other financing	11.12	2.8	3878
Of which: Asset-backed securities of depository institutions	0.84	-52.8	-5209

	End-September 2024		First Three Quarters of 2024
Loans written off	9.53	15.5	9255

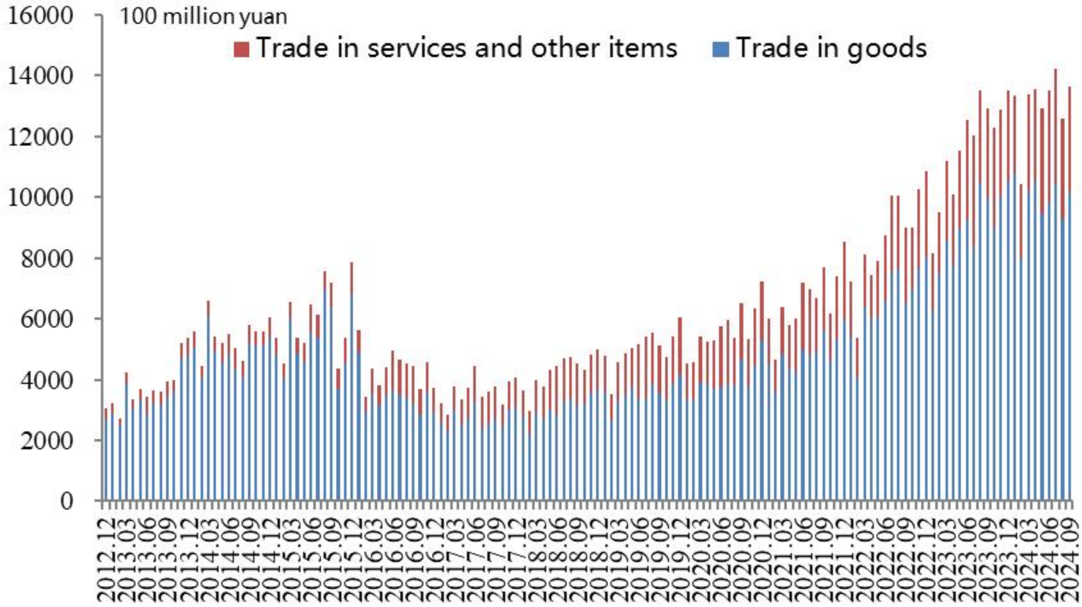
Notes: ① The AFRE (stock) refers to outstanding funds provided by the financial system to the real economy at the end of a period. The AFRE (flow) refers to the volume of funds provided by the financial system to the real economy within a certain period of time. ②Since January 2023, the PBOC has included three types of non-depository financial institutions, 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, and supply and demand in the foreign exchange market have been basically in equilibrium, with RMB exchange rate expectations generally stable. As the monetary policies of major economies were being adjusted, the Federal Reserve's interest rate cuts were substantively implemented, and the monetary policies of the major economies other than the Bank of Japan entered a cycle of interest rate cuts. The US Dollar Index exhibited an overall downward trend but with oscillations. Meanwhile, the RMB exchange rate moved in both directions, remaining basically stable at an adaptive and equilibrium level. In the first three quarters of 2024, based on market supply and demand, the RMB exchange rate appreciated against a basket of currencies. At end-September 2024, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 98.36, appreciating 0.96 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-September 2024, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 43.8 percent and 36.5 percent, respectively. At end-September 2024, the central parity of the RMB against the US dollar was 7.0074, appreciating 1.1 percent from end-2023 and a total of 18.1 percent from the beginning of the reform of the exchange-rate formation regime in 2005.

Cross-border RMB businesses maintained growth, with receipts and payments basically reaching a balance. In the first three quarters, cross-border RMB settlements increased 21 percent year on year to RMB47 trillion. Specifically, cross-border RMB receipts and payments registered RMB22.9 trillion and RMB24.1 trillion, respectively. Cross-border RMB settlements under the current account increased 16 percent year on year to RMB11.8 trillion. In particular, RMB settlements under trade in goods registered RMB8.9 trillion, and RMB settlements under trade in services and under other current account items registered RMB2.9 trillion. Cross-border RMB settlements under the capital account grew by 22 percent year on year to RMB35.2 trillion.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China

Part 2 Monetary Policy Operations

In Q3 2024, the PBOC resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It strengthened counter-cyclical adjustments, kept liquidity adequate at a reasonable level, guided reasonable growth and a balanced provision of credit, and promoted a slight decline in the overall stable social financing costs. It also channeled more financial resources into major strategies, key areas, and weak links, thus providing effective support for the real economy. In particular, since September, following the decisions and arrangements of the CPC Central Committee and the State Council, the PBOC has strengthened monetary policy adjustments, introduced a series of incremental financial policies, and provided support for the stable growth of the real economy. These moves were positively received by the market, effectively boosting public confidence.

I. Conducting open market operations in a flexible manner

Optimizing the mechanism for open market operations. To further strengthen the role of the open market 7-day reverse repo rate as the main policy rate, the PBOC announced on July 22 that 7-day reverse repo operations would be conducted through quantity bidding at a fixed interest rate. This adjustment was aimed at fully meeting the demand of primary dealers for open market operations, encouraging financial institutions to manage liquidity proactively, and guiding money market rates to move smoothly around the open market operation rates. In late September, considering the relatively high cross-quarter funding demands from financial institutions as well as the long vacation for the National Day holiday, the PBOC conducted 14-day reverse repos in a timely manner to inject cross-quarter funds in advance. From September 23 to September 30, the PBOC injected cross-quarter funds totaling RMB1.7 trillion, ensuring smooth operation of market institutions at quarter-end.

Cutting the main policy rates on two occasions. On July 22, the 7-day open market reverse repo rate was lowered by 10 basis points, from 1.80 percent to 1.70 percent. On September 27, the 7-day reverse repo rate was further lowered by 20 basis points to 1.50 percent, which was the largest decrease during the recent four years. This further enhanced the counter-cyclical adjustments of monetary policy and boosted market confidence. In Q3, the money market rate moved smoothly around the rate of open market reverse repos, and market rates at end-Q3 remained stable.

Gradually increasing purchases and sales of government bonds in the central bank's open market operations. To implement the requirements of the Central Financial Work Conference on "expanding the monetary policy toolkit and gradually increasing the purchase and sale of government bonds in central bank open market operations," in August the PBOC conducted purchases and sales of government bonds. The purchases and sales of government bonds by the PBOC are positioned to be a channel for the injection of base money and as a liquidity management tool. In August and September, the face value of net bond purchases registered RMB100 billion and RMB200 billion, respectively. The results of the operations were disclosed at the end of each month.

Launching the Securities, Funds ,and Insurance Companies Swap Facility (SFISF). To implement the requirements of the Third Plenary Session of the 20th Central Committee of the Communist Party of China on "establishing a long-term mechanism to enhance the internal stability of the capital market" and promoting the healthy and stable development of the capital market, on October 10 the PBOC launched the Securities, Funds, and Insurance Companies Swap Facility (SFISF), supporting eligible securities, funds, and insurance companies to use their assets, including bonds, stock ETFs, and holdings of CSI 300 constituent stocks, as collateral in exchange for highly liquid assets, such as government bonds and central bank bills from the PBOC. The initial scale of the swap operation was set at RMB500 billion, with likely expansions in the future. On October 21, the PBOC conducted the SFISF operations for the first time, with an allotment amount of RMB50 billion and a winning rate of 0.20 percent. Twenty institutions participated in the tender. The SFISF improves the institutions' ability to raise funds and to increase stock holdings through a "bond-for-bond" exchange mechanism.

In addition, in Q3 the PBOC continued its monthly Central Bank Bills Swap (CBS) operations to enhance the liquidity of bank-issued perpetual bonds in the secondary market. The PBOC maintained its regular issuance of RMB-denominated central bank bills in Hong Kong. In Q3, the PBOC issued 3 batches of RMB-denominated central bank bills in Hong Kong, totaling RMB70 billion, including RMB30 billion of 3-month central bank bills, RMB25 billion of 6-month central bank bills, and RMB15 billion of one-year central bank bills. This strategy has positively contributed to the healthy development of the offshore RMB money market and the bond market.

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

Conducting well-timed MLF operations. To ensure a reasonable supply of medium- and long-term liquidity, during the first three quarters the PBOC conducted MLF operations in the amount of RMB3.2 trillion and with a term of one year. The interest rate was 2.5 percent from early 2024 to July 15, 2.3 percent from July 16 to end-August, and 2 percent in September, respectively. The outstanding MLF totaled RMB6.9 trillion at end-September, down RMB197 billion from the beginning of the year.

Reducing MLF collateral provisionally. On July 22, following the cut in the 7-day reverse repo rate, the PBOC announced that MLF participating institutions with demands for selling medium and long-term bonds may apply for a temporary reduction in collateral from the beginning of the month. This measure aims to increase the number of tradable bonds and to ease supply-demand stress in the bond market.

Conducting SLF operations in a timely manner. SLF operations provided the locally incorporated financial institutions with sufficient short-term liquidity support as needed, helping to stabilize market expectations, strengthen the stability of liquidity in the banking system, and prevent liquidity risks. In the first three quarters, the PBOC conducted SLF operations in the amount of RMB12.7 billion. At end-September, the outstanding SLF was RMB2.8 billion. Serving as the ceiling of the interest rate corridor, SLF rates assist the money market in running smoothly. At end-September, the overnight, 7-day, and 1-month SLF rates stood at 2.35 percent, 2.50 percent, and 2.85 percent, respectively.

III. Lowering the required reserve rate (RRR) for financial institutions

Lowering the RRR by 0.5 percentage points for the second time. After the 0.5 percentage point cut in February, the PBOC again reduced the RRR for financial institutions by 0.5 percentage points on September 27, injecting about RMB1 trillion of medium- and long-term liquidity into the financial market. By enhancing the intensity of monetary policy counter-cyclical adjustments, this move sent a strong signal to stabilize the economy, thereby helping bolster confidence in growth and promoting a sustained economic recovery and development. After the cut, the weighted average RRR for financial institutions was 6.6 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 directed financial institutions to reinforce a balanced credit supply, maintain steady growth of money and credit, and enhance the sustainability of support for the real economy. Robust credit support for inclusive micro and small businesses (MSBs) and medium- and long-term financing to the manufacturing sector was maintained, and more credit resources were channeled to key areas and weak links.

Refining the regulatory framework for systemically important financial institutions. Institutional building has progressed steadily. The PBOC is studying and formulating additional regulations for systematically important insurers (SIIs), and it is revising the assessment method for systemically important banks (SIBs). Monitoring and analysis were strengthened to closely track the operational changes of the SIBs. Furthermore, the SIBs were urged to implement additional capital requirements to improve their anti-risk capacity. The PBOC also examined the recovery plans and proposed resolution plans to further improve their risk management level. Moreover, the PBOC continuously strengthened additional regulation of systemically important financial institutions and leveraged the synergies of macro-prudential management and micro-prudential supervision so as to consolidate the foundation for financial stability.

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

Continuing efforts to develop inclusive financing. 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 eradication and to support 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-September, outstanding central bank lending in support of rural development, in support of MSBs, and in support of poverty alleviation posted RMB653.1 billion, RMB1.7 trillion, and RMB90.1 billion, respectively, and outstanding central bank discounts registered RMB583.5 billion. At end-September, inclusive MSB loan facilities cumulatively provided RMB67.4 billion as incentive funds, representing growth of RMB12 billion from the beginning of 2024, and cumulatively supporting locally incorporated financial institutions in the issuance of inclusive MSB loans worth RMB4.5 trillion, growing by RMB1.2 trillion from the beginning of 2024.

Maintaining consistent support for green finance. The PBOC continued to implement the carbon emission reduction facility (CERF). The outstanding funds of special central bank lending for clean and efficient coal use played their role. At end-September, the outstanding amount of these two facilities registered RMB535.1 billion and RMB211.6 billion, respectively. By the end of September, the CERF cumulatively supported financial institutions in the granting of carbon emission reduction loans worth over RMB1.2 trillion.

Reinforcing financial support for technology. The PBOC continued to implement two central bank lending facilities, i.e., central bank lending for sci-tech innovation and central bank lending for equipment upgrading and renovation, to guide financial institutions to provide credit support to sci-tech–oriented small and medium-sized firms and for technical transformation and equipment renewal projects, thus assisting key sectors to become more digitized, smart, advanced, and green. The outstanding funds from the above two expired facilities remain effective. At end-September, the outstanding balances in these two facilities registered RMB86.5 billion and RMB155.7 billion, respectively.

Advancing development of old-age finance at a solid pace. The PBOC implemented special central bank lending for inclusive elderly care on a continuous basis from a pilot program to a nationwide roll-out, and it extended support for the operation of public welfare and inclusive elderly care institutions, construction of at-home and community-based elderly care, and the manufacturing of products for the elderly included in the catalogue. At end-September, the outstanding amount of the instrument posted RMB2.1 billion, supporting financial institutions to grant preferential loans worth a cumulative RMB3 billion, up 13 percent from Q2. The instrument benefited 87 inclusive elderly care institutions and 4 enterprises manufacturing products for the elderly.

Supporting the stable and healthy development of the real estate market. The PBOC advanced implementation of the central bank lending facility for government-subsidized housing, incentivizing and guiding financial institutions to support local state-owned enterprises in their purchase of completed but unsold commercial housing, with the aim of accommodating rental and sales needs. After the launch of the facility, the loan support scheme for rental housing was merged into the central bank lending facility for government-subsidized housing. To further strengthen market-based incentives for banks and purchasing entities, the PBOC increased the proportion of provided central bank lending funds from 60 percent to 100 percent. The pledged supplementary lending (PSL) facility was utilized effectively in supporting policy-backed and development-oriented financial institutions to grant loans for the development of government-subsidized housing, the renovation of urban villages, and the construction of public infrastructure for both normal and emergency uses. At end-September, the outstanding amount of the PSL posted RMB2.6 trillion.

Promoting stable operation of the capital market. To further safeguard stable operation of the capital market, enhance the underlying stability of the capital market, raise market confidence, and consolidate and add momentum to the economic recovery, the PBOC established a central bank lending facility for share buybacks and shareholding increases, with the aim of guiding financial institutions to grant loans to eligible listed companies and major shareholders, encouraging listed companies to manage their market value through active use of share buybacks and shareholding increases. The initial quota for this facility was RMB300 billion, with an interest rate of 1.75 percent and a term of one year. The scale may be extended according to circumstances.

VI. Enhancing the quality and effectiveness of credit policies

Enhancing technology finance policy support. Support for sci-tech innovation as well as for the restructuring and upgrading of the manufacturing sector was provided in a targeted manner to continuously improve the service capacity, intensity, and level of technology finance. Technology financial services at international and regional science and technology innovation centers were provided to promote the construction of sci-tech innovation financial reform pilot zones and to support the building of sci-tech innovation hubs. Financial institutions were guided to create a complete system of products and services, with an organizational structure and risk controls, to improve the capability of technology finance. Banking institutions were guided to establish a special working mechanism for central bank lending for sci-tech innovation and technological transformation, providing financing and due diligence services for almost all enterprises and projects on the list. The amount of loans on the concluded contracts exceeded RMB300 billion, strongly supporting the first round of financing of technology-based small and medium-sized enterprises and technology upgrading and equipment renewal in key areas. At end-September, outstanding medium and long-term loans to the high-tech manufacturing sector grew 12 percent year on year to RMB2.9 trillion. Outstanding loans granted to "specialized, sophisticated, distinctive, and innovative" enterprises recorded RMB4.3 trillion, an increase of 13.5 percent year on year. The growth rate of loans issued to the above areas significantly outpaced the overall growth of loans.

Box 2 Improving the Financial Service System for Technology

The Central Financial Work Conference emphasized the need to strengthen "five key areas" of finance, namely, technology finance, green finance, inclusive finance, old-age finance, and digital finance. In line with the decisions of the CPC Central Committee and the State Council, the People's Bank of China (PBOC) is actively advancing the development of a financial service system that is well-aligned with the country's goals for high-level scientific and technological self-reliance. This system provides end-to-end lifecycle financial services for a variety of innovation-driven entities, supporting the construction of a modernized industrial system.

To advance high-quality economic development, it is essential to improve the financial service system for technology. Sci-tech innovation fosters new industries, models, and growth drivers. Currently, the central point in advancing high-quality economic development is to enhance total factor productivity, with sci-tech innovation as the key. Considering that technology finance holds a primary position among the "five key areas" and that high-quality finance must provide strong support for high-quality development, the quality and structure of financial services should adapt to the broader economic trends, which increasingly rely on innovation and creativity. Technology-based enterprises have significantly different financing needs at various stages of their lifecycle, thus diversified, relay-style financial services are essential to meet these stage-specific financing demands.

Significant progress has been made in building the capabilities of financial services for technology. **First, the policy framework for technological finance has been continuously improved.** The PBOC has improved the top-level design of financial support for sci-tech innovation, resulting in a comprehensive and multi-tiered financial service system. A detailed work plan has been developed to support advances in technology finance, establishing an overarching framework for financial policies aimed at fostering sci-tech innovation. The regional distribution of technology finance resources has been optimized, with guidance for technology-intensive regions to strengthen such services. Additionally, it has also encouraged the pilot zones for financial reforms in sci-tech innovation to take the lead among the pilot programs. **Second is more refined and targeted financial policy tools for sci-tech innovation**. In 2022, special central bank lending for sci-tech innovation and special central bank lending for equipment upgrading were introduced, encouraging banks to step up credit support for technology-driven enterprises and the transformation and upgrading of traditional industries. Building on these tools, in 2024 the PBOC launched RMB500 billion of central bank lending for sci-tech innovation and technological transformation, incorporating an "innovation point system" and aligning with industrial policy standards. This tool directs financial resources in a more targeted manner to first-time loans for start-up and growth-stage technology-based small and medium-sized enterprises (SMEs) as well as to digital, intelligent, and green transformation in key sectors. **Third is significantly enhanced support from financial institutions and financial markets for sci-tech innovation.** Loans for technology-based enterprises continue to grow in both scale and reach. During the past five years, medium- and long-term (MLT) loans to the high-tech manufacturing sector have grown at an average annual rate of over 30 percent, while the loan approval rate for technology-based SMEs has risen from 14 percent to 47 percent. A fast-track registration and issuance channel for sci-tech innovation bonds has been established, and the issuance volume has been surging, with the cumulative issuance of sci-tech innovation bills surpassing RMB1 trillion. An equity financing market for technological innovation has developed rapidly, with over 1,700 specialized, sophisticated, distinctive, and innovative companies listed on the A-share market. The size of venture capital funds under management has reached RMB3.3 trillion. **Fourth is more diversified financial products and service models for sci-tech innovation.** Large banks have widely established a specialized structure of "headquarters plus regional sci-tech innovation centers plus technology branches." Additionally, a "technology flow" risk assessment model, emphasizing the enterprises' innovation capabilities and growth, has been broadly adopted. Intellectual property pledge loans have continued to grow, both in volume and coverage, with national patent and trademark pledge financing increasing by 75.4 percent year on year in 2023. Furthermore, the digitalization of supply chain financial services has been advanced considerably. **Fifth is continuous improvements in the supporting policies for technology finance.** The pilot programs for cross-border financing facilitation and foreign exchange management for Qualified Foreign Limited Partners (QFLP) are progressing steadily. Interdepartmental collaboration has been strengthened, resulting in the creation of technology finance information platforms or service hubs that regularly distribute information on technology-based enterprises and facilitating precise connections between banks and companies. In many regions, technology credit risk compensation funds have been established, government-backed financing guarantees have been directed to support the financing of technology-based enterprises, and fiscal rewards and subsidies have been provided to encourage innovation in technology finance products.

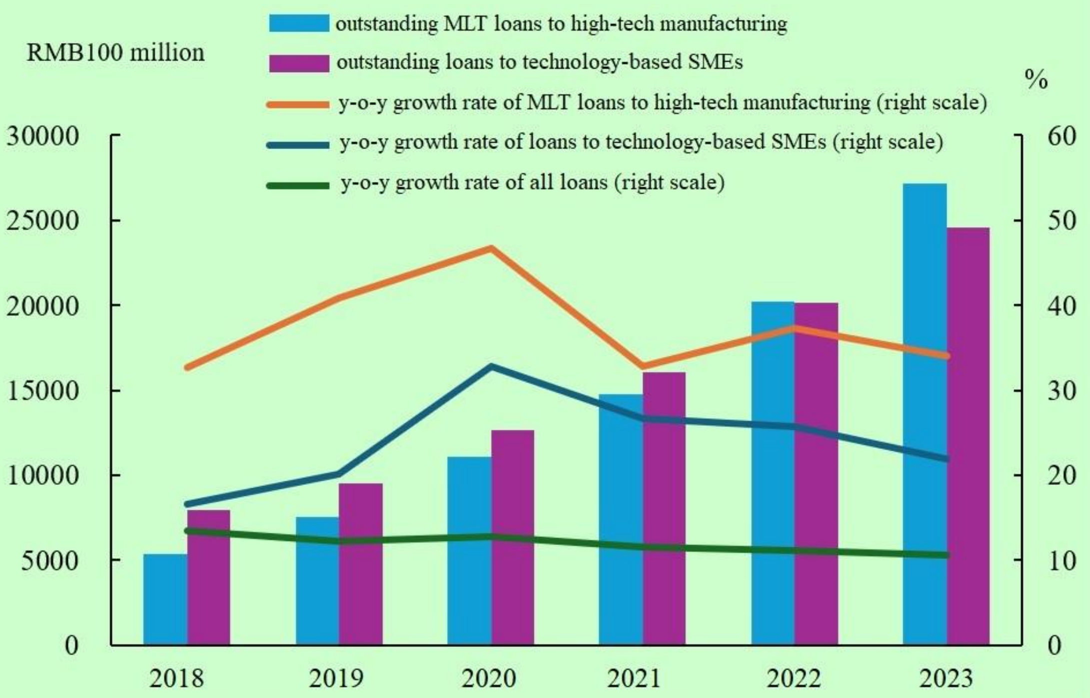


Chart Growth Rates of MLT Loans to High-tech Manufacturing Sector and of Loans to Technology-based SMEs

Going forward, we must enhance the financial service system to achieve high-level sci-tech self-reliance. This involves deepening structural reforms on the financial supply side, implementing the strategic work plan for technology finance, and directing financial capitals towards early-stage startups, small businesses, long-term investments, and core technologies. Our aim is to foster the sustainable and healthy development of technology finance. **We must strengthen credit support for technology-based SMEs.** This involves encouraging banks to improve policies on resource allocation and performance assessment, and gradually shaping a credit asset structure that aligns with the national goal of building China into a great power in science and technology. Commercial banks should be guided to establish specialized technology finance structures and enhance the professional capabilities of technology branches and business teams. Additionally, we should expand the range of financial products and services for science and technology, developing offerings like "loans plus direct external investments" and intellectual property pledge loans. **We must promote high-quality growth in venture capital.** To this end, it is important to ensure a smooth process across the entire venture capital business chain, from fundraising to investment, management, and exit. This includes broadening venture capital funding sources and exit channels, supporting high-quality equity investment institutions to issue bonds. By utilizing government investment funds as a guiding force, market-driven initiatives, such as the development of funds-of-funds (FoF) for mergers and acquisitions, and venture capital secondary funds, will be promoted.

Venture capital institutions should focus on enhancing their comprehensive service capabilities to support seed-stage and early-stage technology-based enterprises in a targeted manner. **We must balance financial support with risk prevention.** The PBOC will guide financial institutions to develop risk assessment models tailored to the specific characteristics of technology-based enterprises and to leverage digital technology to improve risk assessment and monitoring capabilities. A sound risk-sharing and compensation system for technology loans should be established, along with enhanced guarantee coverage. Coordination between financial and sci-tech industry policies should be strengthened, and efforts should be made to reinforce credit risk management and monitoring of fund usage.

Giving full play to the role of green finance as policy guidance. Structural monetary policy instruments and green bonds have played a vital role in promoting the development of green financial products and markets. A sound working mechanism for developing green finance to serve the Beautiful China initiative was established, continuously strengthening coordination and cooperation among industrial departments, financial departments, and market entities and promoting the rapid development of green loans. At end-September, outstanding green loans reached RMB35.8 trillion, with a year-on-year increase of 25.1 percent. Efforts have been intensified to strengthen the self-regulation of green bond evaluation and certification agencies, standardize institutional business inspections, and consistently promote the high-quality development of the green bond market. The issuance of green bonds reached a cumulative RMB3.9 trillion, of which green financial bonds reached RMB1.6 trillion, providing stable sources of funding for financial institutions to grant green credit.

Improving the quality and effectiveness of financial services for private enterprises and MSBs. The *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy* was fully implemented, urging financial institutions to establish the philosophy of "treating all business entities equally regardless of their ownership" and to continuously enhance financial services for private enterprises. The PBOC actively participated in the drafting of the law to support development of the private sector, and it promoted the improvement of supporting policies for financing. The plan to evaluate the effects of financial services on the private economy was improved to enhance the system of incentives and constraints for financial institutions. It continuously carried out the project to strengthen the provision of financial services for MSMEs and promoted the building of a long-term mechanism whereby banking financial institutions will have the confidence, willingness, ability, and professionalism to grant loans. At end-September, outstanding loans to the private economy and inclusive MSB loans witnessed a year-on-year increase of 6.8 percent and 14.5 percent, respectively. The number of supported MSBs increased 1.6 percent year on year. The private enterprise bond financing facility continued to play its role. In the first three quarters, a total of RMB257.9 billion of bonds issued by 143 private enterprises were provided with credit enhancement support.

Ramping up financial support for all-round rural revitalization. The *Notice on Carrying out Special Actions to Strengthen Financial Support for All-round Rural Revitalization by Learning from and Using the Experience of the Green Rural Revival Program* was issued, specifying five special actions focusing on rural industry, rural construction, and rural governance to further support all-round rural revitalization. Financial institutions were guided to provide financial services in key areas related to rural revitalization, including food security, securing stable production and the supply of important agricultural products, protected agriculture, seed industry revitalization, and agricultural sci-tech, consolidating and expanding the achievements made in poverty alleviation and improving the effectiveness of financial assistance. The PBOC collaborated with the Ministry of Agriculture and Rural Affairs to connect financing project databases and to increase financial support for agricultural and rural infrastructure, and promote the integration of agriculture-related information such as production and operation and its connection with financial services. It also worked with the National Financial Regulatory Administration (NFRA) to evaluate services of financial institutions for rural revitalization in 2023. At end-September, outstanding agriculture-related loans amounted to RMB51.1 trillion with a year-on-year increase of 10.8 percent. The balance of loans for rural infrastructure construction registered a year-on-year increase of 12.7 percent, reaching RMB10.2 trillion.

Continuing to support implementation of the trade-in policy of consumer goods. Financial institutions were guided to actively implement the policy measures that have been introduced, formulate action plans for financial support for the trade-in of consumer goods, reduce the down payment ratio of self-use car loans, launch innovative consumer credit products for home improvements, such as decorations and installment loans, and strongly support the trade-in of consumer goods, such as automobiles, home appliances, and home furnishings. At end-September, outstanding household consumer loans (excluding personal housing loans) reached RMB20.4 trillion, an increase of RMB658 billion compared to the amount at the beginning of the year, a year-on-year increase of 5.8 percent.

VII. Establishing a sound mechanism for the formation and transmission of market-oriented interest rates

Deepening the market-oriented interest rate reform. Momentum for reform of the LPR was unleashed continuously, promoting steady reductions in loan interest rates. In July and September, the 7-day reverse repo operation rate in the open market was lowered by 0.1 and 0.2 percentage points, respectively, guiding the Medium-term

Lending Facility (MLF) rates to decline by 0.2 and 0.3 percentage points, respectively. and a cumulative decrease of 0.35 percent in both the one-year and over-five-year LPR released in July and October. The actual lending rates were lowered. In September, the weighted average interest rate of corporate loans was 3.51 percent, down 0.31 percent year on year, continuing to remain at a historical low. Starting in September, pilot programs were launched in five provinces—Shanxi, Jiangxi, Shandong, Hunan, and Sichuan—to explicitly disclose the total financing costs of corporate loans. These programs require banks to clearly specify financing costs beyond interest, aiming to reduce the overall financing costs for enterprises. Furthermore, the PBOC gave full play to the market-oriented adjustment mechanism to bring down the deposit interest rates. Based on actual operational needs and market supply and demand conditions, the major commercial banks voluntarily cut deposit interest rates in both July and October. The PBOC also guided the establishment of a provincial self-regulatory mechanism for interest rates and improved the linkage adjustment mechanism for deposit rates to encourage and guide locally incorporated financial institutions within a jurisdiction to follow the state-owned banks and the major joint-stock commercial banks in adjusting deposit rates, improving the efficiency of interest rate transmission, and further enhancing the sustainability of financial support for the real economy.

Facilitating the reduction in the mortgage rates for existing housing loans. On September 29, the PBOC announced an improved pricing mechanism for loan rates on commercial personal housing. Replacing the spread of the mortgage rate to the LPR was allowed in order to reduce the interest rates of existing housing loans. On the same day, a self-regulatory initiative was made by the Self-Regulatory Pricing Mechanism for Market Interest Rates, with active responses from commercial banks. The major commercial banks released detailed measures on October 12 and began to adjust the interest rates of existing mortgages in batches on October 25. For existing housing loans with more than -30 basis points added to the LPR, the spread was adjusted to no more less than -30 basis points. For those cities where there is a floor on the rates of new mortgages, the adjusted rates were to meet a minimum requirement. The market mechanism played a more effective role in encouraging banks and clients to independently negotiate and dynamically adjust mortgage rates for existing housing loans based on market principles so as to mitigate conflicts in an orderly manner and to safeguard the integrity of contracts. Meanwhile, the one-year restriction on the minimum repricing period for mortgage rates was lifted to timely reflect the change in the LPR as a pricing benchmark and to facilitate monetary policy transmission.

Box 3 Maintaining Order in Market Competition and Improving Transmission of the Policy Rate

The basic concept behind the market-based reform of interest rates was put forward at the Third Plenary Session of the 14th CPC Central Committee held in 1993, with specific requirements proposed at major CPC meetings thereafter. According to the arrangements made by the CPC Central Committee and the State Council, the PBOC steadily pressed ahead with the market-based reform of interest rates, following the general idea of "lifting the restrictions, facilitating the formation, and making the rates more adjustable." In 2024, the PBOC conscientiously implemented the guiding principles of the Third Plenary Session of the 20th CPC Central Committee by continuously deepening the market-based reform of interest, designating the 7-day reverse repo rate in open market operations as the primary policy rate, and working to improve the transmission channels of monetary policy.

At present, the framework for the market-based interest rate formation and transmission mechanism has been basically established, and a relatively complete market-based interest rate system has come into being. By adjusting the policy rate, which refers to the rate on 7-day reverse repo operations, the PBOC is able to affect money market rates (i.e., rates on interbank negotiable certificates of deposit), bond market rates (i.e., government bond yields), and deposit and loan rates (i.e., the Loan Prime Rate and the deposit rates posted by banks), thus promoting consumption and investment, enhancing aggregate social demand, and supporting economic development (see the figure below).

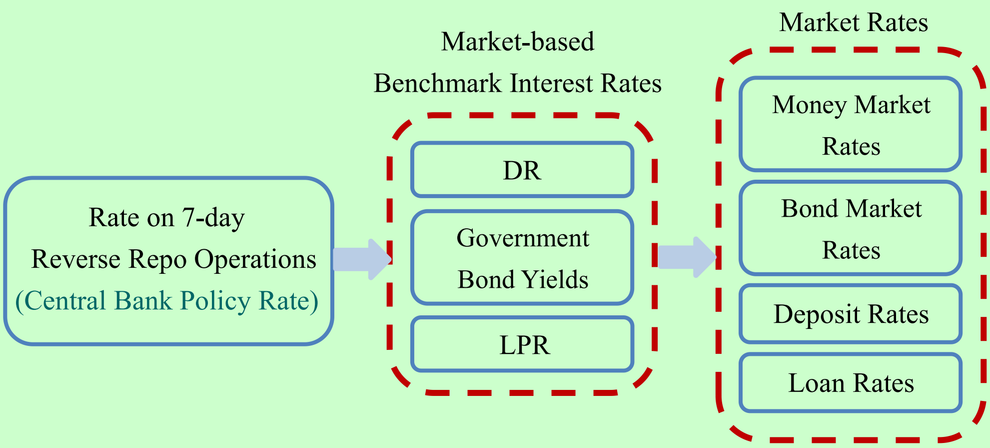


Chart Transmission Process for Policy Rates

On the whole, the transmission of policy rates is effective, but there are differences in transmission efficiency across different markets. The money market and bond market rates generally move in the same direction as does the policy rate of a similar magnitude. For example, the 7-day reverse repo rate was lowered by a total of 0.85 percentage points from August 2019 to August 2024, while the rate on

3-month interbank negotiable certificates of deposit and the 10-year government bond yield both dropped by 0.9 percentage points. However, the 1-year LPR, the average rates on bank loans, and those on term deposits declined by a total of 0.9, 1.9, and 0.5 percentage points, respectively, showcasing that the movement of deposit and loan rates diverged from that of the policy rate during the same period. This divergence is mainly due to the intense market competition and the severe "involution" within banks. In terms of loans, interest rates "fall quickly." Against the backdrop of insufficient effective credit demand, banks competed unduly for loans, giving rise to the fact that rates on some loans, those for large enterprises in particular, were substantially lower than the government bond yield with the same maturity. A small number of banks, in an attempt to capture market share, offer mortgages at interest rates significantly below the break-even point, which is not conducive to sustainably supporting development of the real economy. With respect to deposits, the rates showed a “reluctance to decline.” Generally, banks are still obsessed with the expansion of scale, maintaining that deposits are the very foundation of commercial banks. At performance appraisal moments, such as month-end and season-end, banks sometimes “buy deposits at high rates” or “pay for better regulatory ratios.” Some banks go further to make up for the lowered deposit rates through manual interest subsidies for their clients, thereby raising the actual rates though the explicit rates are declining. Some banks also take interbank deposits at high rates or bid for deposits at interest rates much higher than the market rate, pushing up the actual interest rates.

Inefficiencies in the transmission of interest rates in the loan and deposit market affect the effectiveness of monetary policy regulation, thereby limiting the space for monetary policy. In the process of monetary policy adjustments, the PBOC always attaches importance to the balance between the soundness of the banking sector and its support for growth of the real economy. In the face of the current economic situation, we should intensify counter-cyclical adjustments, but further interest rate cuts will be subject to both internal and external constraints, namely the net interest margin and the exchange rate. The PBOC has adopted various measures to facilitate the transmission of interest rates and to stabilize the banks’ net interest margin. First, it regulates interest rate pricing in the deposit market by guiding the Self-Regulatory Pricing Mechanism for Market Interest Rates to discipline non-local deposits, structured deposits, and agreement deposits. Second, it has established a reporting mechanism for the deposit tender rate to guide banks in promoting the efficient allocation of financial resources in a scientific and effective manner. Third, it has rectified the behavior of manual interest subsidies to maintain order in market competition, saving over RMB80 billion in interest expenses for the banks. Fourth, it has urged banks to follow the risk-based pricing principle, suggesting that the after-tax rates at which they lend should be no lower than the government bond yield with the same maturity. Fifth, it has improved the pricing mechanism for mortgage rates, narrowing the spread between the rates on existing and new mortgages, so as to encourage rational mortgage competition among banks.

Moving forward, the PBOC will continuously press ahead with the market-based reform of interest rates, maintain order in market competition, and facilitate transmission of the policy rate. Since the administrative restrictions on deposit and loan rates have been fully lifted, emphasis will be placed on "facilitating formation of the rates" and "rendering them more adjustable." In terms of "facilitating the formation," financial institutions shall effectively enhance their ability to price independently and rationally and to coordinate the interest rate adjustments with both the assets and the liabilities. The processes, such as giving play to the role of self-regulation in the industry, maintaining order in market competition, and improving the banks' fund transfer pricing (FTP) mechanism, are all indispensable to bolstering the implementation of interest rate policies. With respect to "making the rates more adjustable," the constraints on interest rate adjustments shall be eased as much as possible. The PBOC will guide banks to maintain a reasonable return on assets and costs of liabilities in a market-based manner to eliminate the net interest margin constraints, thus making the interest rate policies more effective in serving the macro adjustment function of monetary policy.

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

The PBOC has continued to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The PBOC is committed to the principle that the market plays a decisive role in the formation of the exchange rate, and the exchange rate plays the role of both an auto stabilizer and a shock absorber for macroeconomic management as well as for the balance of payments. The PBOC has taken comprehensive measures and strengthened expectation guidance to balance supply and demand in the foreign exchange market and to guard against the risk of exchange rate overshooting. As a result, the RMB exchange rate has remained basically stable at an adaptive and equilibrium level. In the first three quarters of 2024, the highest and lowest RMB central parities against the US dollar were 7.0074 and 7.1479, respectively. During the 182 trading days, the RMB appreciated on 92 days and depreciated on 90 days. The biggest intraday appreciation and depreciation was 0.5 percent (339 bps) and 0.3 percent (232 bps), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. At end-September, the central parity of the RMB against the US dollar, the euro, and the Japanese yen appreciated 1.1 percent, 0.4 percent, and 2.3 percent from end-2023, respectively, while the central parity of the RMB against the pound sterling depreciated 3.6 percent from end-2023. From the beginning of the reform of the RMB exchange rate formation regime in 2005 to end-September 2024, the RMB appreciated by a cumulative 18.1 percent, 28 percent, 53.7 percent, and 48.9 percent, respectively, against the US dollar, the euro, the pound sterling, and the Japanese yen. Direct RMB trading is buoyant in the interbank foreign exchange market and liquidity remains stable, reducing the exchange costs for enterprises and promoting bilateral trade and investment.

Table 8 Volume of RMB Trading Against Other Currencies in the Interbank Foreign Exchange Spot Market in Q3 2024

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	204170.83	1828.98	797.93	988.89	140.89	157.37
Currency	NZD	SGD	CHF	CAD	MOP	MYR
Trading volume	64.42	265.91	110.43	163.59	12.71	12.16
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading volume	18	4.04	13.61	85.52	0.26	0.24
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	1.21	0.2	13.51	3.06	0.01	0.7
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	59.9	16.85	0	0.0005	0	0

Source: China Foreign Exchange Trade System

IX. Forestalling and defusing financial risks

Continuously improving the financial risk monitoring, early warning, and prevention system. The PBOC is committed to addressing both the underlying and the existing risks. It has continued to strengthen its framework for monitoring and assessing systemic financial risks, and it has improved the monitoring and assessment indicator system for financial stability in order to deepen and refine risk monitoring in the financial sector and to comprehensively assess the soundness of the financial system. The PBOC has conducted Central Bank Ratings of Financial Institutions on a regular basis. For institutions at levels 1–7 within the safe boundary, risk early warnings will be carried out and risk alerts will be issued in a timely manner. For "red zone" banks at levels 8–D, the PBOC will distinguish previously identified institutions from newly identified institutions. For the former, multiple measures will be taken to reduce their number through coordinated efforts by all parties. For the latter, an early correction mechanism with hard constraints will be established to prevent the accumulation of risks.

Establishing a long-term mechanism for forestalling and defusing financial risks and to reinforce the system safeguarding financial stability. In order to improve risk resilience, the PBOC implemented the requirements set forth in the *Administrative Measures on the Total Loss-absorbing Capacity (TLAC) of Global Systemically Important Banks* and issued TLAC-eligible non-capital bonds. It also continued to improve the deposit insurance mechanism, strengthening its role in professional risk resolution by increasing its fund accumulation and expanding the resolution tools so as to better support risk management of high-risk institutions.

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

Making efforts to promote cross-border trade facilitation. Procedures for enterprise trade payments and receipts were continuously simplified, the quality and efficiency of trade facilitation measures were closely monitored, and the effects of policy implementation were reviewed and evaluated. Business guidance provided to banks was strengthened to step up efforts to optimize the online registration of foreign trade enterprises, thus further improving foreign exchange services and the foreign trade environment.

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 the development of offshore RMB markets and facilitating trade and investment. With a focus on neighboring countries and those 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-September, under the bilateral currency swap agreements between the PBOC and the overseas monetary authorities, the overseas monetary authorities had drawn RMB90 billion and the PBOC had drawn foreign currencies equivalent to about RMB500 million. These initiatives have played an active role in promoting bilateral trade and investment.

Part 3 Financial Market Conditions

In Q3 2024, the financial market functioned in a stable manner. Money market interest rates decreased somewhat, and market transactions developed in an orderly manner. The issuance rates of bonds decreased, but their issuance accelerated. The stock market rebounded. Transactions in the foreign exchange market were active.

The gold market witnessed growth in both volume and price.

I. Financial market overview

1. Money market interest rates decreased compared to those in the first half of the year, and market transactions developed in an orderly manner

Money market interest rates decreased somewhat. In September 2024, the monthly weighted average interest rate for interbank lending was 1.78 percent, and the monthly weighted average interest rate for pledged repos posted 1.83 percent, 9 basis points and 6 basis points lower than those in June 2024, respectively. The average monthly weighted interest rate for government-backed bond pledged repos among depository institutions posted 1.69 percent, 14 basis points lower than the monthly weighted average interest rate for pledged repos. At end-September, the overnight Shibor posted 1.51 percent, and the 7-day Shibor stood at 1.52 percent, down 23 basis points and 35 basis points from end-2023, respectively.

On the whole, repos businesses were stable. In the first three quarters of 2024, the cumulative volume of bond repos trading on the interbank market registered RMB1214.5 trillion, representing an average daily turnover of RMB6.4 trillion and a decrease of 5.5 percent year on year. The cumulative volume of trading for interbank lending registered RMB77.5 trillion, representing an average daily turnover of RMB410.0 billion and a decrease of 31.4 percent year on year. In terms of the maturity structure, overnight repos accounted for 84.7 percent of the total turnover in bond repos, down 3.1 percentage points year on year, and overnight lending constituted 84 percent of the total turnover in interbank lending, down 6.1 percentage points year on year. The cumulative volume of bond repos trading on the exchange markets increased 7.4 percent year on year to RMB367.1 trillion.

Table 9 Fund Flows Among Financial Institutions in the First Three Quarters of 2024

Unit: RMB100 million

	Repos		Interbank lending	
	Q1-Q3 2024	Q1-Q3 2023	Q1-Q3 2024	Q1-Q3 2023
Chinese-funded large banks①	-5092087	-5688684	-297134	-423236
Chinese-funded medium-sized banks②	-782485	-868101	22592	-48237
Chinese-funded small-sized banks③	426985	441190	30998	77755
Securities institutions④	1806014	1691783	232161	335675
Insurance institutions⑤	204390	173500	1175	1170

Foreign-funded banks	-4402	50398	-23870	-11188
Other financial institutions and vehicles⑥	3441586	4199913	34078	68061

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 developed in an orderly manner. In Q3 2024, about 6,369 interbank CDs were issued on the interbank market, raising RMB7.4 trillion. The total volume of trading on the secondary market registered RMB64.7 trillion. At end-September, outstanding interbank CDs reached RMB17.8 trillion. The weighted average interest rate of 3-month interbank CDs was 1.87 percent, 1 basis point higher than that of the 3-month Shibor. In Q3 2024, about 14,000 negotiable CDs were issued by financial institutions, raising RMB4.3 trillion, an increase of RMB1.6 trillion year on year.

Interest rate swap transactions functioned in a stable manner. In Q3 2024, the RMB interest rate swap market witnessed about 88,000 transactions including standard interest rate swaps, with the volume of the notional principal totaling RMB9.2 trillion, an increase 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 RMB6.6 trillion, accounting for 71.7 percent of the principal of all maturities. The 7-day fixing repo rate (FR), PrimeNCD, and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 83.7 percent, 13.6 percent, and 2.3 percent, respectively, of the total notional principal of the interest rate swaps. In Q3, interest rate swaps anchored to the loan prime rate (LPR) witnessed 110 transactions, with RMB12.7 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in Q3 2024

	Transactions	Notional principal (RMB100 million)
Q3 2024	88,275	92,003
Q3 2023	101,068	89,984

Source: China Foreign Exchange Trade System

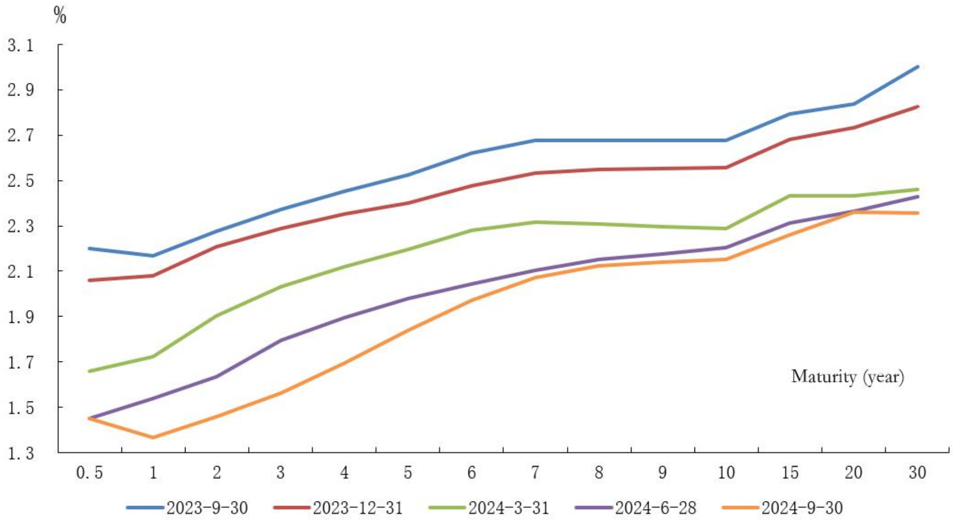
The interest rate options business developed at a steady pace. In Q3 2024, a total of 68 interest rate options transactions were concluded, totaling RMB12.82 billion, all of which were interest rate cap/floor transactions.

2. Bond issuance rates fell, while their issuance and trading volumes increased

Bond issuance rates declined. In September, the yield on 10-year government bonds issued by the Ministry of Finance was 2.01 percent, 24 basis points lower than the rate in June; the average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 2.29 percent, down 5 basis points from June.

The yields on government bonds marked a downward trend with widened term spreads. At end-September, the yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds decreased by 17 basis points, 23 basis points, 14 basis points, 3 basis points, and 5 basis points to 1.37 percent, 1.56 percent, 1.84 percent, 2.07 percent, and 2.15 percent from end-June, respectively; and the term spread on 1-year and 10-year government bonds was 78 basis points, representing a widening of 12 basis points from end-June.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Box 4 Development of Direct Financing and Transformation of Monetary Policy Framework

As China's financial market has enjoyed accelerating development in recent years, asset management products, including wealth management products, have been continuously enriched. The growing direct financing and the changing financing structure, which are brought about by financial innovation, have had a profound impact on money and credit aggregates and on financial regulation.

The scale of asset management products is on the rise. As of end-September 2024, the balance of China's bond market approximated RMB170 trillion, and the total market value of the Shanghai and Shenzhen stock markets exceeded RMB70 trillion. The development of direct financing, such as the bond market and the stock market, has given rise to booming financial products in wealth and asset management. The current balance of asset management products, including bank wealth management products and funds, exceeds RMB100 trillion, providing the public with more diversified financial investment channels other than deposits. Enterprises and households can use their deposits to purchase wealth management products as an indirect investment in bonds and stocks. It is more convenient for funds to flow from deposits to wealth management products, while changes in asset prices can also trigger a reverse flow of funds from wealth management products to deposits. Therefore, changes in the financing structure and public investment behavior have made the flow of funds between deposits and wealth and asset management products more frequent than ever before.

Changes in the financing structure have a greater impact on the supply of broad money (M2). The funds flows to and from deposits influence money creation in the banking system and cause large disturbances to M2. There are two major mechanisms. First, as funds flow from bank deposits to asset management products, non-bank financial institutions (NBFIs) purchase interbank certificates of deposit and financial bonds, which are not incorporated in M2. Second, as the NBFIs are more sufficiently funded, they may repay the existing bank loans and repos or purchase bonds held by banks. As a result, the balance sheets of banks will shrink and the derivative deposits and M2 will decrease accordingly. For example, since the beginning of this year, due to deposit interest rate cuts, reinforced regulation on manual compensation of interest, and price hikes in the bond market, the deposit market has experienced periods of a rapid outflow of funds to asset management products, resulting in an accelerated decline in M2. At the end of August, the growth rate of the balance of asset management products (including wealth management products) increased from 3.7 percent at end-2023 to 8.8 percent, while the growth rate of M2 decreased from 9.7 percent to 6.3 percent over the same period. In September, after the release of a package of incremental policy measures, the market responded positively to the two structural monetary policy tools that support the stable development of the capital market. As market expectations picked up, the stock market rebounded, and funds from some asset management products flowed back to customers' margin deposit accounts of securities companies, which are included in M2. The M2 growth rate rebounded to 6.8 percent at the end of September. From the perspective of international experience, the United States also explored expanding the intermediate target of monetary policy from M1 to M2 in the 1980s and 1990s amid accelerated financial innovation, and statistics of broad money were even broadened to incorporate M3, M4, and M5. However, due to the weakening correlation between money supply and economic performance, the quantity target was ultimately abandoned. At that time, the growth rate of M2 in the United States continued to fluctuate, falling from about 5 percent to near 0, while the overall real GDP growth rate remained around 5 percent during the same period.

Direct financing serves as an important channel to bolster the real economy, and overall support of the financial sector for the real economy remains steadfast. With an increasingly mature financial market and abundant financial products, it has become more convenient for funds to flow from deposits to wealth management products. Meanwhile, changes in asset prices may trigger a reverse flow of funds to deposits. As a result, fluctuations in M2 increased. It should be noted that the current growth rate of China's aggregate financing to the real economy (AFRE), which incorporates bond financing, still remains at 8 percent, significantly higher than the nominal GDP growth rate. **At present, we can also see the accelerating development of direct financing when observing the scale of social financing.** As the structural transition of the Chinese economy accelerates, credit demand for traditional growth drivers, such as the real estate sector and local government financing vehicles (LGFVs), have witnessed a significant slowdown, while the development of direct financing, which is more compatible with new growth engines, such as high-tech innovative enterprises, has accelerated. As the proportion of direct financing goes up, the contribution of indirect financing, such as bank credit, to the economy has declined. In addition, the measurability and controllability of money supply as well as its correlation with the economy have all decreased. All these are inevitable byproducts of the boom in direct financing. Therefore, at present, more attention should be paid to the scale of social financing that incorporates direct financing, which is a better gauge of financial support for the real economy. **Going forward, we will continue to promote the transformation of monetary policy framework.** The development of direct financing has made market participants, product portfolios, and transmission mechanisms more complicated, and it has become more difficult to make direct adjustments to the financial aggregates through monetary policies. Therefore, continuous efforts should be made to transform the current monetary policy framework, with more emphasis placed on price-based adjustments. By continuously deepening the market-oriented reform of interest rates, improving the independent pricing capability of financial institutions, smoothing the transmission mechanisms between short-term and long-term interest rates, and leveraging the role of interest rates in adjusting the allocation of financial resources, we can provide more effective financial support for the real economy.

Bond issuances accelerated. The cumulative value of bonds issued in the first three quarters grew by 13.1 percent year on year to RMB59.7 trillion, RMB6.9 trillion more than that in the same period of last year mainly due to the large increase in government bonds and interbank certificates of deposits. At end-September, outstanding bonds amounted to RMB169.9 trillion, representing an increase of 10.4 percent year on year.

The trading volume of spot bonds increased significantly. In the first three quarters, the value of spot bonds traded on the bond market reached RMB321.7 trillion, registering an increase of 22.4 percent year on year. Specifically, the value of spot bonds traded on the interbank market was RMB291.1 trillion, representing an increase of 27.1 percent year on year. The value of spot bond transactions on the stock exchanges totaled RMB30.6 trillion, a decrease of 9.5 percent year on year.

Table 11 Bond Issuances in Q1-Q3 2024

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	97580	22168
Local government bonds	64964	-4561
Central bank bills	0	0
Financial bonds①	321509	48274
Of which: Financial bonds issued by the CDB and policy financial bonds	45068	-3964
Interbank certificates of deposits	238157	48024
Corporate credit bonds②	111645	3130
Of which: Debt-financing instruments of non-financial enterprises	76572	8476
Enterprise bonds	486	-2973
Corporate bonds	27087	-1243
Bonds issued by international institutions	1520	338
Total	597218	69349

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

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

3. The bill market operated in a stable manner, and bill issuance witnessed a fast growth

The bill acceptance business remained stable with an upward trend. In the first three quarters, commercial drafts issued by enterprises totaled RMB27.2 trillion, increasing by 28.6 percent year on year. At end-September, outstanding commercial drafts stood at RMB17.9 trillion, increasing by 7.5 percent year on year. The balance of bill acceptance increased. At end-September, outstanding commercial draft acceptances increased by RMB1.4 trillion from end-June. Of the outstanding bankers' acceptances, 73.3 percent were issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing remained stable with a slight decline, while interest rates were basically stable. In the first three quarters, total discounts by financial institutions amounted to RMB47.3 trillion, increasing by 9.5 percent year on year. At end-September, the balance of bill financing was RMB11.7 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 Q3, the interest rates for bill financing were basically stable.

4. The stock market index went up, while the total turnover and the amount of raised funds in the stock market decreased year on year

The Shanghai Stock Exchange Composite Index and the Shenzhen Stock Exchange Component Index both increased substantially. At end-September, the Shanghai Stock Exchange Composite Index closed at 3,336 points, up 12.4 percent from end-June. The Shenzhen Stock Exchange Component Index closed at 10,530 points, up 19 percent from end-June. The total turnover and the amount of raised funds in the stock market decreased year on year. In the first three quarters, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB143.5 trillion, and the average daily turnover was RMB793.1 billion, down 11.3 percent year on year. In the first three quarters, cumulative funds amounting to RMB219.2 billion were raised through the Shanghai Stock Exchange and the Shenzhen Stock Exchange, a decrease of 70.2 percent year on year.

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

In the first three quarters of 2024, total premium income in the insurance sector amounted to RMB4.8 trillion, up 12.7 percent year on year and an acceleration of 3.6 percentage points compared to that recorded in 2023. Claim and benefit payments totaled RMB1.7 trillion, representing a year-on-year increase of 25.5 percent. Specifically, total property insurance claims and benefit payments increased by 7.2

percent year on year, and total life insurance claims and benefit payments increased by 41.7 percent year on year.

The growth of assets in the insurance sector accelerated. At end-September 2024, total assets in the insurance sector increased by 18.3 percent year on year to RMB35 trillion, an acceleration of 7.9 percentage points from end-2023.

6. The trading volume of swap and forward foreign exchange transactions went up

In the first three quarters, the cumulative turnover of spot RMB/foreign exchange transactions registered USD7 trillion, a decrease of 3.9 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD17.9 trillion, an increase of 16.9 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD11.9 trillion, accounting for 66.5 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD147.3 billion, increasing by 59 percent year on year. The turnover of foreign currency pair transactions totaled USD1.8 trillion, increasing by 40.5 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 39.1 percent of the total market share.

7. Gold prices went up and the trading volume increased

At end-September, international gold prices closed at USD2,629.95 per ounce, representing an increase of 26.5 percent from end-2023. The Au99.99 on the Shanghai Gold Exchange closed at RMB595.25 per gram, increasing by 24.1 percent from end-2023. In Q3, the volume of gold traded on the Shanghai Gold Exchange was 17,000 tons, an increase of 63.6 percent year on year. The turnover reached RMB9.5 trillion, up 103.4 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

Expanding the use of RMB bonds as qualified offshore collateral. On July 9, the PBOC announced it would support overseas institutions in using onshore bonds held under Northbound Bond Connect as margin collateral for Swap Connect transactions. The measure further expands the application of RMB bonds as eligible offshore collateral, helps revitalize RMB bonds held by overseas institutions, and lowers their costs of participating in Swap Connect.

Strengthening supervision and management in the interbank bond market. On July 26, the PBOC issued the *Notice on Strengthening Supervision and Management and Improving Law Enforcement Efficiency in the Interbank Bond Market*. The notice clarifies the roles and responsibilities of financial infrastructures, the NAFMII, the

PBOC and its branches in managing the interbank bond market. It also outlines the procedures for identifying, transferring, and penalizing activities in violation of laws and regulations. It aims to improve coordination among self-regulation, administrative supervision, and unified law enforcement, and to increase efficiency in law enforcement.

2. Institutional arrangements in the securities market

Improving institutional arrangements in the capital market. On July 5, the General Office of the State Council forwarded the *Opinions on Further Improving the Comprehensive Punishment and Prevention of Financial Fraud in the Capital Market* issued by the CSRC and related departments. The document proposes specific measures in five areas, including combating and deterring financial fraud in critical sectors, optimizing the securities regulatory enforcement system, strengthening multi-dimensional accountability on all fronts, improving inter-ministerial coordination and central-local collaboration, and establishing a regular and long-term financial fraud prevention mechanism, thus promoting high-quality development of the capital market. On September 24, the CSRC issued the *Opinions on Deepening Market Reform in Mergers, Acquisitions (M&A) and Restructurings of Listed Companies,* aiming to enhance the role of the capital market as a main channel in corporate M&A and restructurings, and further energize the M&A and restructuring markets. On September 26, the office of the Central Financial Commission and the CSRC jointly issued the *Guiding Opinions on Promoting the Entry of Medium and Long-term Funds into the Market*, aiming to clear the obstacles for social insurance, commercial insurance, and wealth management funds to invest in the markets, and guide medium and long-term funds to enter and boost the capital market.

Refining the regulatory system for securities firms. On September 13, the CSRC released the *Provisions on the Calculation Standards for Risk Control Indicators of Securities Companies*, which further improves the risk control indicator system for securities companies, promotes their implementation of comprehensive risk management requirements, enhances their quality and efficiency in serving the real economy, and advances the high-quality development of securities companies.

3. Institutional arrangements in the insurance market

Preventing and mitigating insurance fraud risks. In July, the NFRA issued the *Rules on Insurance Anti-fraud*, which clarifies the objective of anti-fraud work, the mandate for anti-fraud supervision and management, the anti-fraud duties and tasks of insurance institutions, the division of anti-fraud responsibilities of relevant industrial organizations, and requirements on collaboration among all parties involved in anti-fraud endeavors.

Accelerating the construction of the Shanghai International Reinsurance Center. In

August, the NFRA and the Shanghai Municipal People's Government jointly issued the *Implementation Opinions on Accelerating the Construction of the Shanghai International Reinsurance Center*. The opinions include providing policy support for market access for institutions, implementing rules for publishing cross-border reinsurance premium statistics, promoting unified information registration, advancing the reinsurance market development in a prudent and orderly manner, and enhancing reinsurance protection capabilities in key areas.

Improving the pricing mechanism for life insurance products. In August, the NFRA released the *Notice on Improving the Pricing Mechanism for Life Insurance Products*, which specifies that, effective from September 1, 2024, the preset interest rates shall not exceed 2.5 percent, 2.0 percent, and 1.5 percent, respectively, for newly filed ordinary, dividend-paying, and universal insurance products. It establishes a mechanism to link preset interest rates with market interest rates and adjust the former ones dynamically, and requires insurance companies to emphasize the protective function of insurance when demonstrating policy benefits of dividend-paying and universal products. It also highlights a sharing mechanism of both interest rate risk and investment income, encourages the development of long-term dividend-paying products, enhances consistency in reporting and implementation, and strengthens management of sales behavior.

Strengthening and improving regulation of online property insurance services. In August, the NFRA issued the *Notice on Matters of Strengthening and Improving the Regulation of Online Property Insurance Services*. The document defines the scope and operating conditions of online property insurance services, and sets regulatory requirements on risk management, internal controls, and on-site services. It also proposes strict control over property insurance companies' expansion of service areas for providing motor vehicle insurance through the Internet. In principle, property insurance companies that offer agricultural, ship, or special-risk insurance shall not expand their service areas via the Internet.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The global economy remained a low-growth trend. In the major advanced economies, inflation generally eased and monetary policy entered a rate-cutting cycle, while further reduction in inflation still faces multiple challenges. Rising geopolitical uncertainties may weigh on global trade and investment.

1. Economic performance and financial markets in the major economies

The major advanced economies generally experienced a trend of recovery. In Q3, the U.S. real GDP registered an annualized growth rate of 2.8 percent on a quarterly basis, down 0.2 percentage points from Q2. Economic activities severely diverged in the U.S. In September, the Manufacturing Purchasing Managers' Index (PMI) of the Institute for Supply Management (ISM) came in at 47.2, nearly 8 percentage points lower than the Services PMI, indicating a contraction (below 50) for six consecutive months. In the euro area, the GDP registered a year-on-year growth of 0.9 percent in Q3, higher than the 0.6 percent growth rate of Q2. However, the manufacturing sector remained weak. The manufacturing PMI posted 45, staying within the contraction area (below 50) for 27 consecutive months. The year-on-year GDP growth in the U.K. was 0.7 percent in Q2, higher than the 0.3 percent growth rate of Q1. Driven by the recovering domestic demands, Japan's GDP grew at an annualized rate of 2.9 percent on a quarterly basis in Q2, showing a large increase from the -2.4 percent growth rate of Q1.

Inflation continued to fall. In the U.S., the consumer price index (CPI) was up by 2.4 percent year on year in September, lower than the 2.5 percent growth rate in August, falling back to the lowest level since March 2021. In the euro area, the Harmonized Index of Consumer Prices (HICP) rose by 1.7 percent year on year, down 0.5 percentage points from August, marking the first time that it has fallen below the inflation target since 2021. In the U.K., the CPI went up by 1.7 percent on an annual basis in September, 0.5 percentage points lower than the increase in August, registering a new low since May 2021. In Japan, the CPI increased by 2.5 percent year on year in September, down 0.5 percentage points from August.

Labor market remained stable. In September, the U.S. unemployment rate dropped from 4.2 percent in August to 4.1 percent, remaining at historical lows. The labor force participation rate was 62.7 percent, still 0.6 percentage points lower than the pre-COVID data. Nonfarm payrolls increased by 254,000, up by 112,000 compared with the August figure. The year-on-year growth rate of average hourly earnings for nonfarm payrolls rose by 0.1 percentage points from last month to 4 percent. The number of job openings was 7.44 million in September, lower than the 7.86 million of August.

Global financial markets diverged. Since the beginning of 2024, the popularity of new technologies such as artificial intelligence (AI) has remained high, continuously driving up tech stocks and global stock markets. At the beginning of August, affected by factors such as the rate hike of the Bank of Japan (BOJ) and the rising expectations of a rate cut by the U.S. Federal Reserve (Fed), global stock markets experienced huge turbulence, with the maximum single-day drop of Nikkei 225 Index reaching 12.4 percent. As the market sentiments eased, global stock markets gradually stabilized, recovering to an upward trend. As of end-September, the S&P 500 Index of the U.S., the STOXX50 Index of the euro area, and the Nikkei 225 Index of Japan cumulatively increased by 20.8 percent, 12.1 percent, and 13.3 percent, respectively. Since July, the major advanced economies have successively started rate cut, leading to a decline in their government bond yields. As of end-September, the 10-year U.S. treasury yield closed at 3.81 percent, 7 basis points (bps) lower than the end of last year. The 10-year government bond yield of the U.K., France, and Germany closed at 4.02 percent, 2.92 percent, and 2.16 percent, respectively, all decreasing from their highest records within this year. The U.S. economy has been rather robust since the beginning of this year, providing support for a continuing upward trend in US dollar. However, driven by the rising expectations of Fed rate cuts, the U.S. dollar index decreased amid fluctuations in Q3, and already rolled back the increase within this year, closing at 100.8 as of end-September, 0.6 percent lower than end-2023.

Table 12 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q3 2023			Q4 2023			Q1 2024			Q2 2024			Q3 2024		
		Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	Real GDP Growth (annualized quarterly rate, %)	4.4			3.2			1.6			3.0			2.8		
	Unemployment Rate (%)	3.5	3.8	3.8	3.9	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2	4.1
	CPI (year-on-year, %)	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4
	DJ Industrial Average (end of the period)	35559	34722	33508	33053	35951	37690	38150	38996	39807	37816	38686	39119	40843	41563	42330
Euro Area	Real GDP Growth (year-on-year, %)	0			0.1			0.5			0.6			0.9		
	Unemployment Rate (%)	6.6	6.6	6.6	6.6	6.5	6.5	6.5	6.5	6.5	6.4	6.5	6.4	6.4	6.3	6.3
	HICP (year-on-year, %)	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6	2.4	2.4	2.4	2.6	2.6	2.2	1.7
	EURO STOXX 50 (end of the period)	4471	4297	4175	4061	4382	4522	4648	4878	5083	4921	4984	4930	4874	4958	5067
United Kingdom	Real GDP Growth (year-on year, %)	0.3			-0.4			0.3			0.7					

	Unemployment Rate (%)	4.3	4.2	4.1	4.0	3.9	3.8	4.0	4.2	4.3	4.4	4.4	4.2	4.1	4.0	
	CPI (year-on-year, %)	6.8	6.7	6.7	4.6	3.9	4.0	4.0	3.4	3.2	2.3	2.0	2.0	2.2	2.2	1.7
	FTSE 100 (end of the period)	7699	7439	7608	7322	7454	7733	7631	7630	7953	8144	8275	8164	8368	8377	8237
Japan	Real GDP Growth (annualized quarterly rate, %)	-4.3			0.2			-2.4			2.9					
	Unemployment Rate (%)	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.6	2.6	2.6	2.6	2.5	2.7	2.5	2.4
	CPI (year-on-year, %)	3.3	3.2	3.0	3.3	2.8	2.6	2.2	2.8	2.7	2.5	2.8	2.8	2.8	3.0	2.5
	Nikkei 225 (end of the period)	33172	32619	31857	30859	33487	33464	36287	39166	40369	38406	38488	39583	39102	38648	37920

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

2. Monetary policies of the major economies

The major advanced economies such as the U.S. have entered a rate-cutting cycle, while Japan has raised its interest rates. The Fed started its rate-cutting cycle by lowering the target range for the federal funds rate by 50 bps to 4.75-5 percent in September. The dot plot indicated that the majority of the Federal Open Market Committee (FOMC) members projected another 50 bps of potential rate cut for 2024. Meanwhile, the Fed continued to shrink its balance sheet as scheduled, maintaining the monthly redemption cap on Treasury securities at USD25 billion, and the monthly redemption cap on agency debt and agency mortgage-backed securities (MBS) at USD35 billion. After leading the cycle by a rate cut in June, the European Central Bank (ECB) further reduced interest rates by 25 bps in both September and October. The ECB has lowered interest rate on its deposit facility to 3.25 percent. In line with the adjusted operational framework for implementing monetary policy, the ECB has also, as scheduled, cut interest rates on main refinancing operations and marginal lending facility to 3.4 percent and 3.65 percent, respectively. Meanwhile, the ECB has started to reduce the pandemic emergency purchase programme (PEPP) portfolio by EUR7.5 billion per month since the second half of 2024, and planned to discontinue reinvestments under the PEPP at the end of 2024. The Bank of England (BOE) reduced its benchmark interest rate by 25 bps to 5 percent in August, marking the first rate cut since March 2020, and intended to gradually reduce its holdings of U.K. gilts by GBP100 billion over the period from October 2024 to September 2025. The Bank of Japan (BOJ) further tightened its monetary policy in July, increasing the short-term interest rate target to around 0.25 percent, and decided to gradually shrink its monthly purchases of Japanese government bonds from the current JPY6 trillion to around JPY3 trillion at the beginning of 2026. Additionally, in the third quarter, the Bank of Canada and the Reserve Bank of New Zealand cut interest rates by 50 bps and 25 bps, respectively, while the Reserve Bank of Australia and the Bank of Korea kept benchmark interest rates unchanged.

Monetary policies in the emerging economies diverged. In Q3, the Reserve Bank of India and the Bank Negara Malaysia kept benchmark interest rates unchanged, while the Central Bank of Nigeria and the Banco Central do Brasil raised interest rates by 100 bps and 25 bps, respectively. In addition, the Banco de México, the Bank Indonesia, and the South African Reserve Bank reduced interest rates by 50 bps, 25 bps, and 25 bps, respectively.

3. Issues and trends that merit attention

Global economic recovery remains weak. The 2024 global economic growth forecasts by the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD) are 3.2 percent, 2.6 percent, and 3.2 percent, respectively, still below the historical average of 3.8 percent between 2000 and 2019. Economic recovery dynamics remain weak in the major economies. Emerging Asian economies are seeing strong growth amid global value chain reconfiguration, which may have a substitution effect on China’s exports.

Rising commodity prices and continuing services inflation may impede a further decrease in inflation. Inflation in major advanced economies has fallen from the record high of around 10 percent in 2022 to the current rate of about 2-3 percent, but further reduction may still face challenges. First, the decrease in commodity prices is the main driver of the previous fall in inflation. However, as current geopolitics grew increasingly complex, international commodity prices face upward pressures. Since the beginning of 2024, the prices of commodities including copper and sugar have increased more than 10 percent. Second, the wage growth in the U.S. and Europe remains fast, higher than the increase in consumer prices, and the services inflation may still be sticky, imposing internal constraints on further price decreases.

Trade and investment growth faces great pressures. Influenced by multiple risk factors such as unilateralism, geopolitics, and global value chain reconfiguration, global trade investment growth has slowed drastically in recent years. The IMF forecast puts world trade growth at merely 3 percent for 2024, lower than the average growth rate of 4.9 percent over the period from 2000 to 2019. Data from the United Nations Conference on Trade and Development (UNCTAD) indicates that, after removing a few European countries that impose no or low taxes on capital transfer, the global foreign direct investment (FDI) fell by 18 percent in 2023. This year is a major election year globally, with over two thirds of the countries and regions having already completed elections. Advanced economies such as the U.S. may adjust their domestic and foreign policies in the future, and the influence on global trade and investment growth remains to be seen.

II. Macroeconomic developments in China

In the first three quarters of 2024, in the face of the complex and severe external environment and the new situations and problems in domestic economic development, all regions and departments earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, and increased the intensity of their macro adjustments, keeping national economic operations generally stable and steadily promoting high-quality development. According to preliminary statistics, GDP in the first three quarters grew by 4.8 percent year on year to RMB94.9746 trillion on a comparable basis. Specifically, GDP in Q3 grew by 4.6 percent year on year and 0.9 percent quarter on quarter.

1. Consumption continued to recover, investments were expanded, and imports and exports grew rapidly.

Residents' incomes continued to increase and consumption recovered steadily. In the first three quarters, China's per capita disposable income posted RMB30941, increasing by 5.2 percent year on year in nominal terms or 4.9 percent in real terms. The structure of income distribution continued to improve. The nominal and real growth rates of rural residents' per capita disposable income were both 2.1 percentage points higher than those of urban residents. In the first three quarters, total retail sales of consumer goods grew by 3.3 percent year on year. Sales of some basic living items and upgraded products saw rapid growth, and online consumption grew rapidly. Sales of automobiles and household electrical appliances improved due to the enhanced implementation of the trade-in policy.

Fixed-asset investments continued to expand, and investments in equipment purchase led overall investment growth. In the first three quarters, total fixed-asset investments throughout China (excluding those by rural households) increased by 3.4 percent year on year to RMB37.8978 trillion. In terms of sectors, investments in the manufacturing sector increased by 9.2 percent year on year, 5.8 percentage points higher than the total investment growth. Investments in infrastructure increased by 4.1 percent year on year. Investments in real estate development decreased by 10.1 percent year on year. Investments in the high-tech sector grew by 10.0 percent year on year, 6.6 percentage points higher than the total investment growth. Policies for large-scale equipment updates continued to be implemented and to produce some results. Investments in the purchase of equipment and tools increased by 16.4 percent year on year, accounting for 61.6 percent of the total investment growth and driving up total investment growth by 2.1 percent.

Imports and exports grew rapidly, with the trade structure continuously optimized. In the first three quarters, imports and exports of goods increased by 5.3 percent year on year to RMB32.3252 trillion. Specifically, exports grew by 6.2 percent year on year and imports grew by 4.1 percent year on year, with the trade surplus in goods posting RMB4.9043 trillion. The trade structure continued to improve. Imports and exports of private enterprises increased by 9.4 percent year on year, accounting for 55.0 percent of total imports and exports, an acceleration of 2.1 percentage points from the first three quarters of 2023. Exports of mechanical and electrical products increased by 8.0 percent year on year, accounting for 59.3 percent of total exports. Imports and exports with trading partners continued to increase. Specifically, imports and exports with countries along the Belt and Road grew by 6.3 percent year on year, accounting for 47.1 percent of total imports and exports.

The trade structure of foreign direct investment (FDI) continued to improve. In the first three quarters, actually utilized FDI totaled RMB640.6 billion. The quality of FDI continued to rise. Actually utilized FDI in the high-tech manufacturing sector grew to RMB77.12 billion, accounting for 12 percent of total actually utilized FDI, 1.5 percentage points higher than that of the same period last year. Actually utilized FDI in the medical equipment/instrument manufacturing sector and the technical service sector grew by 57.3 percent and 35.3 percent year on year, respectively.

2. Agricultural production was generally stable, industrial production grew steadily and the service industry continued to improve.

In the first three quarters, the value-added of the primary industry totaled RMB5.7733 trillion, up 3.4 percent year on year. The value-added of the secondary industry totaled RMB36.1362 trillion, up 5.4 percent year on year. The value-added of the tertiary industry totaled RMB53.0651 trillion, up 4.7 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In the first three quarters, the value-added of agriculture (farming) increased by 3.7 percent year on year. The autumn harvest progressed smoothly and the grain output in 2024 was likely to witness another bumper harvest. The output of pork, beef, lamb, and poultry grew by 1.0 percent year on year. Specifically, the output of pork fell by 1.4 percent year on year. At end-September, the number of hogs in stock decreased by 3.5 percent year on year and the number of hogs for slaughter decreased by 3.2 percent year on year.

Industrial production grew steadily and the equipment manufacturing industry grew rapidly. In the first three quarters, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 5.8 percent year on year. In terms of sectors, the value-added of the mining sector and of the manufacturing sector increased by 2.9

percent and 6.0 percent year on year, respectively. The value-added of the electricity, heat, gas, and water production and supply sector increased by 6.3 percent year on year. The value-added of the equipment manufacturing sector and the high-tech manufacturing sector increased by 7.5 percent and 9.1 percent, respectively, 1.7 and 3.3 percentage points higher, respectively, than that of the IEDS. In terms of products, the output of new energy vehicles, integrated circuits, and 3D printing equipment grew by 33.8 percent, 26.0 percent, and 25.4 percent year on year, respectively.

The service industry continued to recover, with the modern service industry growing soundly. In the first three quarters, the value-added of the service industry grew by 4.7 percent year on year. Specifically, the value-added of electronic information transmission/software/information technology services and the leasing/business service sector grew by 11.3 percent and 10.1 percent year on year, respectively, providing strong support for accelerating the formation of new forms of quality productivity. In September, the Index of Service Production (ISP) grew by 5.1 percent year on year. Specifically, the ISP of electronic information transmission/software/information technology services and the leasing/business service sector grew by 11.4 percent and 9.7 percent year on year, respectively. The Business Activities Index for the service industry posted 49.9 percent in September. From January to August, the revenue of enterprises above a designated size in the service industry registered a year-on-year increase of 7.7 percent.

3. Consumer prices rebounded moderately, while the decline in producer prices generally narrowed

Consumer prices rose moderately. In the first three quarters, the Consumer Price Index (CPI) increased by 0.3 percent year on year, an acceleration of 0.2 percentage points from H1. The CPI growth rates in July, August, and September were 0.5 percent, 0.6 percent, and 0.4 percent, respectively. Specifically, the reduction in hog production capacity and strong bullish expectations drove up pork prices, while high temperatures and heavy rainfall in some areas led to excess seasonal increases in vegetable prices. The growth in food prices turned positive, rising 2.0 percent in Q3, compared with a 2.3 percent decline in Q2. The rapid drop in international oil prices caused a noticeable decline in energy prices, while industrial goods prices, excluding energy, began to decline after undergoing an upward trend. Tourism and travel demand weakened, and the increase of non-food prices fell to 0.2 percent in Q3 from 0.8 percent in Q2. In the first three quarters, the core CPI, excluding food and energy, rose by 0.5 percent year on year, a declaration of 0.2 percentage points from H1.

Producer prices remained within a low range. Import-related factors led to a decline amidst fluctuations in prices in the domestic oil and nonferrous metals-related sectors. Coupled with weak demand and ample supply, prices of most industrial products operated in a weak manner. In the first three quarters, the Producer Price Index (PPI) fell by 2.0 percent year on year, a deceleration of 0.1 percentage points from H1. The decreases in July, August, and September were 0.8 percent, 1.8 percent, and 2.8 percent, respectively. The Purchasing Price Index for Industrial Products (PPIRM) decreased by 2.1 percent, narrowing by 0.5 percentage points from H1. The Corporate Goods Price Index (CGPI), monitored by the People's Bank of China, decreased by 1.3 percent year on year, a deceleration of 0.9 percentage points compared to the same period of last year.

4. Fiscal revenue declined slightly, while fiscal expenditure grew steadily

In the first three quarters, revenue in the general public budget reached RMB16.3 trillion, decreasing by 2.2 percent year on year. Revenue at the central government level decreased by 5.5 percent year on year, while revenue at the local government level increased by 0.6 percent year on year. National tax revenue totaled RMB13.2 trillion, decreasing by 5.3 percent year on year. Among this, the domestic value-added tax, the corporate income tax, and the personal income tax decreased by 5.6 percent, 4.3 percent, 4.9 percent, respectively, while the domestic consumption tax rose by 1.6 percent. Non-tax revenue reached RMB3.1 trillion, up 13.5 percent year on year.

In the first three quarters, general public budget expenditures reached RMB20.2 trillion, increasing by 2.0 percent year on year. Specifically, central government public budget expenditures and local government public budget expenditures increased by 8.4 percent and 1.0 percent, respectively. In terms of the expenditure structure, spending on agriculture, forestry, and water, urban and rural communities, and social security and employment grew rapidly, with year-on-year increases of 6.4 percent, 6.1 percent, and 4.3 percent, respectively.

5. The employment situation remained generally stable

The urban surveyed unemployment rate continued to decline. In the first three quarters, the national urban surveyed unemployment rate averaged 5.1 percent, decreasing by 0.2 percentage points from the same period of last year. In September, the national urban surveyed unemployment rate was 5.1 percent, decreasing by 0.2 percentage points from August. In the first three quarters, the surveyed unemployment rate in 31 major cities averaged 5.1 percent, on par with that in nationwide urban areas and decreasing by 0.4 percentage points from the same period of last year. Employment for migrant workers continued to improve, with a total of 190 million rural migrant workers employed as of end-September, increasing by 1.3 percent year on year.

6. Balance of payments remained generally balanced

In H1 2024, China's current account recorded a surplus of USD93.7 billion, accounting for 1.1 percent of Gross Domestic Product (GDP) over the same period, remaining within a balanced range. Specifically, trade in goods posted a surplus of

USD288.4 billion, increasing by 1 percent year on year. Trade in services recorded a deficit of USD123.0 billion, as expenditures on cross-border travel and overseas education had gradually returned to their pre-pandemic levels. Foreign investments in China steadily improved, while outbound investments operated in an orderly manner. Net inflows of various types of investment into China reached USD91.7 billion, significantly higher than inflows that over the same periods of 2022 and 2023. Specifically, direct investment continued their trend of net inflows. Investment in China’s securities market shifted from a net outflow in the previous two years to a net inflow of USD69.1 billion, marking a relatively high level during the same period in history. Other investment also showed net inflows, with the deleveraging of the external debt slowing. Outward investments by domestic enterprises and other entities totaled USD218.9 billion, maintaining a growth trend. In H1, China's non-reserve financial account (excluding reserve assets) recorded a deficit of $127.2 billion, forming an independent pattern of equilibrium with the current account surplus, while reserve assets remained relatively stable. As of end-June, the position of China’s gross external debt (denominated in both domestic and foreign currencies) was USD2.5 trillion, with the debt structure shifting from being mainly comprised of short-term debt to a balanced mix of short- and long-term debt. Specifically, the balance of medium- and long-term external debt accounted for 44 percent of the total, an increase of 13 percentage points from end-2014, better meeting the long-term financing needs of the real economy and expanding the funding channels for new infrastructure and the high-tech industries.

7. Analysis by sector

7.1 The Port Sector

Ports, a crucial transportation infrastructure, serve as vital hubs for cargo transportation and the flow of trade. In recent years, with the domestic economy achieving effective quality improvement and reasonable quantity growth, the demand for port services has been further enhanced, and the development of the port sector has exhibited a favorable trend. **First, port throughput has grown steadily.** In the first three quarters of 2024, China’s cargo throughput at ports reached 12.97 billion tons, up 3.4 percent year on year, and container throughput reached 250 million TEUs, increasing 7.7 percent year on year. **Second, port infrastructure has been continuously improved**. Driven by policies, effective investment in the port sector has steadily expanded, with fixed asset investment in water transport amounting to RMB157.6 billion in the first three quarters of 2024, a year-on-year increase of 9.4 percent, maintaining rather high growth. **Third, port resource integration has been deeply promoted.** Dependent on coastal resources, the port construction boasts geographical advantages and asset scarcity. Driven by policy guidance and healthy industrial competition, regional port resources have been continuously integrated in recent years, gradually forming the pattern of “one province, one port”, and continuously enhancing the operating efficiency.

As an important component of the comprehensive transportation system, ports are crucial to the strategy of building China into a transportation powerhouse, and the sector's development continues to receive strong financial support. **First, the financing needs of enterprises are better satisfied.** According to estimates from the financial data of major port enterprises that have issued bonds, port enterprises obtained incremental medium- and long-term credit totaling RMB28.2 billion in H1 2024, a year-on-year increase of 5 percent, better matching the construction and operation cycles of port infrastructure. **Second, financing costs have decreased.** In H1 2024, the comprehensive financing costs of all the debts for port enterprises were approximately 2.5 percent, a year-on-year decrease of 0.25 percentage points, lower than the weighted average interest rate on corporate loans, indicating strong financial support for key areas such as wharf construction. **Third, diversified and innovative financial products have been continuously enriched.** Financial institutions have actively introduced diversified and differentiated financial services, including electronic warehouse receipt financing and supply chain financial products, which are tailored to the operational needs and the green and intelligent construction needs of the ports, so as to meet the diversified financing needs of port enterprises.

The emphasis of future development strategy of the port sector will be placed on advancing the construction of a multi-level national port hub system, comprehensively enhancing the competitiveness, and promoting high-quality transformation and development of the ports in the new era. **First, support will be given to the construction of world-class port clusters.** Focusing on national regional strategic development requirements, port functional layouts will be optimized, and the linkage between river and coastal port systems will be deepened to promote the clustered and integrated development of ports in the regions. **Second, efforts will be actively made to promote construction of intelligent and green ports.** The application of automation, digitization, and decarbonization in ports will be expanded in both depth and breadth so as to enhance port operational efficiency and to support the high-quality development of water transport. **Third, the comprehensive hub functions of ports will be strengthened.** The supporting role of major ports in foreign trade and bulk cargo transportation will be fully leveraged. By utilizing the clustering advantages of port supplies, service chains will be extended and service networks will be expanded, promoting the integrated development of ports, shipping, and trade, and thereby achieving efficient business coordination.

7.2 The Household Appliance Sector

As a traditional leading sector in China, the household appliance sector is both a growth point for expanding domestic demand and a main force in implementing the strategy of "going global". Since the beginning of 2024, the prosperity in the household appliance sector has witnessed a rebound. **First, domestic retail sales**

have maintained growth. In the first three quarters of 2024, China's retail sales of household appliances and audio-visual equipment amounted to RMB683.9 billion, approaching a historical high over the same period, proving that the trade-in policies gradually took effect. **Second, exports have continued to grow rapidly.** Due to a recovery in overseas demand, inventory replenishment, and contributions from some emerging markets, China's exports of household appliances reached RMB534.6 billion in the first three quarters of 2024, a year-on-year increase of 15.5 percent, continuing to maintain high growth momentum. **Third, consumption of green and smart appliances has become a new trend in the household appliance sector.** Green and smart appliances are a key focus of policy support. In July, the Executive Meeting of the State Council decided on specific measures to support consumption of green and smart appliances, and local governments had successively unveiled detailed subsidy policies to drive the consumption growth in this area by providing subsidies to both enterprises and consumers. **Fourth, corporate profitability has improved.** Take domestic listed household appliance companies as a example. The revenue of the household appliance sector increased by 6.1 percent year on year, and total profits increased by 7.1 percent year on year.

The financial sector has continuously deepened the implementation of supporting measures for the household appliance industry, as it is a key focus for promoting consumption. **In terms of domestic sales,** in March the State Council issued the *Action Plan for Promoting Large-scale Equipment Renewal and Consumer Goods Trade-in*, encouraging financial institutions to increase financing support for enterprises involved in the recycling of waste household appliances and trade-in for new appliances. **In terms of exports,** the National Financial Regulatory Administration and two other departments jointly issued the *Notice on Deepening Financial Services for the Manufacturing Industry to Facilitate New-type Industrialization*, requiring the optimization of financial supply for foreign trade and the strengthening of export credit insurance to support the household appliance enterprises in going global. Under policy guidance, financial institutions have continuously optimized the financial products supply and service support, successively introducing innovative financial products such as consumer loans, credit card discounts, and interest-free installment payments so as to better meet the consumption needs of different customer groups.

In the future, the household appliance sector will remain an important engine for promoting China's stable growth and consumption, and will continue to accelerate its quality-oriented and international transition. **First,** the policy of trade-in for new consumer goods will continue to take effect in terms of subsidies and promotion, which is conducive to further activating the existing market and to promoting upgrading of consumption and the industrial structure. **Second,** the "Belt and Road" Initiative encourages household appliance enterprises to actively expand international markets, to integrate global industrial chain resources through mergers and acquisitions, to accelerate global layout and technological innovation, and to increase international influence and competitiveness. **Third**, taking advantage of the integrated development of information technology and the manufacturing sector, the industry will continue to deepen the process of domestic substitution, address shortcomings, strengthen advantages, and solidify its leading position in the sector.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In the first three quarters of 2024, China's economic operations were generally stable and made steady progress. Both production and demand maintained consistent growth, resulting in a 4.8 percent year-on-year increase in GDP. Market expectations gradually improved, and high-quality development has made solid advancement. Positive drivers for economic momentum continued to accumulate, fostering a sustainable upward trend.

China's economic development enjoys strong resilience, tremendous potential, and vigorous support. First, the shift from traditional to new economic drivers accelerated. Traditional industries, such as steel, coal, and cement, have been optimizing their production capacity, while the reduction in the real estate inventory has been advancing. At the same time, investment in high-tech industries has maintained a high growth rate, with continued increases in R&D funding and a steady rise in the share of value-added in high-tech manufacturing, signaling steady progress in economic transformation and upgrading. Second, there is room for improvements in demand. During the National Day holiday, the number of domestic tourists increased by 7.9 percent compared to the same period in 2019. Additionally, retail sales of home appliances in Q3 saw a substantial rise, with year-on-year growth of automobile and furniture sales turning positive. Third, the effects of the counter-cyclical policy measures emerged by degree. Implementation of earlier policies, such as those promoting major national strategies, security capacities in key areas, large-scale equipment renewal, and consumer goods trade-ins, has been gaining momentum. Recent incremental measures to stabilize growth, markets, and expectations have been delivering positive results to further expand domestic demand. As these large-scale highly-targeted policies take effect, the economy is projected to stabilize and maintain a trend of recovery in the fourth quarter.

The foundation for economic recovery still requires strengthening. Currently, both the internal and the external environments are complex and changing. With rising external uncertainties and increasing risks and challenges, global economic growth is slowing. Domestically, the economy is at a pivotal stage of structural adjustments and transformation, facing intertwined cyclical and structural challenges. Although the shift toward a new development model and economic restructuring may have short-term impacts on growth, China's economic fundamentals remain robust with favorable conditions, such as the vast market, resilient economy, and great potential. It is essential to confront these challenges, remaining confident and responding proactively, to nurture the drivers for economic growth, and to promote effective qualitative improvements and reasonable quantitative growth in the economy.

Prices are expected to continue a moderate rebound. Since the beginning of the year, the PBOC has strengthened counter-cyclical adjustments with macroeconomic policies. The economy has been recovering and growing, and aggregate demand has been improving. Price levels have risen moderately. In the first three quarters, the Consumer Price Index (CPI) rose 0.3 percent year on year, with a 0.5 percent increase in the third quarter alone. The fourth quarter will see heightened consumption due to seasonal demand peaks, driven by the upcoming "Double Eleven" and "Double Twelve" shopping festivals as well as by early preparations for the Spring Festival. The recent roll-out of a package of incremental policies will gradually stimulate effective demand and the macro economy, which is expected to support further moderate price increases. The CPI is expected to continue its moderate upward trend during this year, while the overall decline in the Producer Price Index (PPI) will narrow. From a medium- to long-term perspective, as China is steadily advancing in its economic transformation and industrial upgrading, supply and demand will become more balanced, monetary conditions will be appropriate, and household 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 guiding principles of the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Central Financial Work Conference. It will adhere to the general principle of seeking progress while maintaining stability, and it will apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will continue its efforts to promote high-quality financial development and build China into a financial powerhouse. It will deepen institutional reform in the financial sector, fasten the pace of making improvements to the central banking system, and further optimize the monetary policy framework. The PBOC will work to strike a balance between short-term and long-term concerns, between growth stability and risk prevention, and between the internal and external equilibria. Firmly pursuing an accommodative monetary policy stance, it will intensify monetary policy adjustments and enhance the precision of monetary policy to create a favorable monetary and financial environment for steady economic growth and high-quality development.

The sound 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 keep liquidity adequate at a reasonable level, and it will guide reasonable growth and a balanced supply of credit, thereby keeping aggregate financing and money supply to remain in step with the projected economic growth and CPI increase. Promoting reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. It will improve the market-based interest rate formation and transmission mechanism, enhance the guiding role of the central bank policy rate, and unleash the efficacy of the self-regulatory pricing mechanism for market interest rates and the mechanism for market-oriented deposit rate adjustments so as to help financial institutions enhance their ability to set prices independently and to keep the costs of business financing and of consumer credit stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will continue its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance. It will also step up efforts to provide high-quality financial services for major strategies, key areas, and weak links, aiming to make financial services more adaptive and better targeted for economic restructuring and dynamic balancing. The PBOC will smooth the transmission mechanism of monetary policy, diversify monetary policy tools, and enhance the efficiency of fund utilization. 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 formation of the exchange rate. Also, by taking a holistic approach to policy implementation and strengthening expectation guidance, it will prevent market expectations from becoming overly one-sided and self-realized, 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 improve the macro-prudential policy framework and the systemic financial risk prevention and resolution mechanism, 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. 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. Moreover, it will conduct open market operations (OMOs) in a flexible and effective manner, and it will use multiple tools, such as 7-day reverse repos, outright reverse repos, the medium-term lending facility (MLF), and purchases and sales of government bonds, in order to keep liquidity in the banking system adequate at a reasonable level and to maintain stable movement of money market rates. While guarding against funds sitting idle or circulating outside the real economy, the PBOC will support efforts by financial institutions to further tap into effective credit demand based on market principles and the rule of law. It will also support efforts to speed up the commercialization of projects in reserve in line with national policies for implementing major national strategies and building up security capacity in key areas, large-scale equipment renewal and consumer goods trade-in programs, as well as the package of support policies for the property sector. By doing so, it will maintain reasonable credit growth and work towards keeping aggregate financing and money supply in step with projected economic growth and the increase in the CPI. Furthermore, to adapt to the changing situation, the PBOC will conduct research on revising the measurement of money supply so that it will better reflect the true picture of money supply.

Second, the PBOC will give full play to the guiding role of monetary and credit policies. Carrying out the policies in a targeted, appropriate, and flexible manner, the PBOC will keep central bank lending and discount policies stable, make effective use of the inclusive lending facility for micro and small businesses (MSBs), and duly implement the special central bank lending facilities that are still in effect. Additionally, it will advance implementation of the securities, funds, and insurance companies swap facility (SFISF) and the central bank lending facility for share buybacks and shareholding increases. Focusing on key fields and weak links, such as major national sci-tech tasks and technology-based small and medium-sized enterprises, the PBOC will continue to improve provision of financial support for sci-tech innovation in terms of capacity, intensity, and quality. It will take orderly steps to implement the *Work Plan on Boosting the Development of Technology Finance*, and it will steadily move ahead with development of the pilot zones for sci-tech financial reforms. Meanwhile, the PBOC will optimize policy arrangements for the carbon emission reduction facility, establish and improve the mechanism for developing green finance to support the Beautiful China Initiative, and continue to advance high-quality development of the green bond market. Moreover, it will further promote the project for enhancing the capabilities of providing financial services for micro, small, and medium-sized enterprises (MSMEs) and the special campaigns aimed at providing financial support for all-round rural revitalization. Assessments will be conducted in a timely manner on the effectiveness of the credit policies encouraging financial support for the private economy and the MSBs while more emphasis will be placed on the use of the appraisal results regarding the performance of financial institutions in serving the needs of rural revitalization. The PBOC will effectively implement the policy on guaranteed loans for start-ups and the national student loan policy while also working to specify measures on providing financial support to stabilize and expand employment. It will continue to improve the policy system for old-age finance in support of the high-quality development of the silver economy. The PBOC will also push for increasing support for the consumer goods trade-in program to further stimulate consumption vitality. Moving ahead with implementation of the newly introduced real estate financial policies, it will guide financial institutions to beef up financial backing so as to meet the rigid housing demands of urban and rural residents as well as their diverse needs to improve living conditions. Meanwhile, the PBOC will work actively to support purchases of the commodity housing inventories for use as government-subsidized housing, and support mobilization of idle land inventories. These efforts are aimed at helping stabilize the property market and pushing for establishment of a new development model for the property 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 improve the market-oriented interest rate formation, regulation, and transmission mechanisms. It will work on appropriately narrowing the interest rate corridor, guide money market rates to move stably around policy rates, and gradually straighten out relations in the transmission of changes from short-term interest rates to long-term interest rates. Reinforcing implementation of the interest rate policies, the PBOC will give full play to the interest rate self-regulatory mechanism, regulate market competition, maintain a level playing field in the market, and put efforts into stabilizing bank liability costs. With continued reform and improvements in the loan prime rate (LPR), it will put special emphasis on raising the quality of LPR quotations so that they can better reflect loan rates in the market. 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 leverage the guiding role of reductions in the policy rates and the LPRs to stabilize and bring down corporate financing costs and household credit costs. The PBOC will work steadily 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 maintain exchange rate flexibility and 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 duly conduct monitoring and analysis of cross-border capital flows. By upholding bottom-line thinking and adopting a combination of policies to enhance expectation guidance, it will prevent the formation and self-realization of one-sided, unanimous expectations, and it will firmly prevent risks of exchange rate overshooting. With these efforts, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Moreover, 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 exchange rate risk hedging services for MSMEs with authentic needs based on a risk-neutral concept, thereby maintaining the stable and sound development of the foreign exchange market.

Fourth, the PBOC will pick up pace in advancing financial market institutional building and high-standard 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 market-makers and OMO primary dealers, and it will further improve the management of businesses, such as bond underwriting, valuation, and market-making, in order to enhance the pricing function and robustness of the bond market. While promoting 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. Adhering to market principles and the rule of law, the PBOC will continue to adopt a zero-tolerance approach, and it will step up efforts to crack down on illegal and irregular conduct in the interbank bond market, thereby maintaining order in bond market trading. It will remain firmly committed to opening up 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 for high-standard opening-up in the field, and it will steadily move ahead with the convertibility of the RMB under the capital account.

Fifth, the PBOC will work proactively and prudently to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning and to enrich the macro-prudential policy tools. The PBOC will continue to improve the regulatory framework for systemically important financial institutions. It will work on revising the methodology for assessing systemically important banks (SIBs) and organize the updating of recovery plans and proposed resolution plans. It will also consolidate additional regulation of SIBs and push for the making of rules for additional regulation of systemically important insurance companies. Giving play to the synergies between macro-prudential management and micro-prudential regulation, it will cement the foundation underpinning the stability of the financial system. While taking prudent and orderly steps to resolve the risks in key fields and the risk projects of primary concern, the PBOC will pay special attention to provinces or regions with a concentration of high-risk institutions. It will actively support the relevant local governments in formulating, improving, and implementing plans for reforming locally incorporated financial institutions to resolve risks. Additionally, it will improve the financial stability guarantee system, advance work on expanding the accumulation for the financial risk resolution fund, enhance the role of deposit insurance in resolving risks professionally, and move ahead with the launch of the *Law on Financial Stability*.