China Monetary Policy Report

Q4 2024

(February 13, 2025)

Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

The year 2024 marks a crucial year for achieving the objectives and tasks laid down in the 14th Five-Year Plan. In the face of a complex and severe environment of increasing external pressures and internal difficulties, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as its core, China intensified macro regulation and launched a range of policy packages to solidly promote high-quality development. The main goals and tasks of economic and social development for the entire year have been achieved. GDP grew 5 percent year on year, employment and prices were generally stable, social expectations were effectively boosted, and new driving forces and advantages grew steadily. 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. By pursuing a sound monetary policy in a flexible, moderate, precise, and effective manner, and by strengthening counter-cyclical adjustments, the PBOC supported the recovery and development of the real economy and the stable functioning of the financial market.

First, money and credit maintained reasonable growth. In 2024, the PBOC cut the required reserve ratio (RRR) on two occasions by a total of one percentage point, thus releasing over 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 encouraged a balanced supply of credit, and prevented and corrected idle funds 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 continued to improve the monetary policy framework, clarified central bank policy rate, and improved the loan prime rate (LPR) formation mechanism. In 2024, it cut the policy rate on two occasions by a total of 0.3 percentage points, guiding a decline in the one-year and the over-five-year LPR by a total of 0.35 percentage points and 0.6 percentage points, respectively. The solid implementation of the interest rate policy helped bring down both deposit and loan rates. **Third,** the credit structure was improved. The PBOC launched RMB500 billion of central bank lending for sci-tech innovation and technological transformation, expanded the list of financial institutions eligible for the Carbon Emission Reduction Facility (CERF), and continued its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance. It launched RMB300 billion of central bank lending for government-subsidized housing, removed the policy floor on mortgage rates, and further lowered interest rates on existing housing loans, thereby supporting the steady and sound development of the real estate market from both supply and demand sides. The PBOC also launched the Securities, Funds, and Insurance Companies Swap

Facility (SFISF) as well as central bank lending for share buybacks and shareholding increases, with an initial quota of RMB500 billion and RMB300 billion, respectively, in a bid to boost capital market expectations. **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. It strengthened expectation guidance and prevented risks of exchange rate overshooting so as to keep the RMB exchange rate basically stable against the background of a complex environment. **Fifth,** risk prevention and resolution were strengthened. The PBOC improved macro-prudential management of real estate finance, and efforts to resolve the debt risks of local government financing vehicles with financial support witnessed significant progress. Risk resolution of key institutions and regions was steadily promoted and the system of financial risk monitoring, assessment, and early warning was continuously improved.

Overall, the monetary policy stance was accommodative throughout 2024, providing strong support for economic recovery and development. Financial aggregates witnessed reasonable growth. At end-2024, outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) recorded year-on-year growth of 8.0 percent and 7.3 percent, respectively. Outstanding RMB-denominated loans registered RMB255.7 trillion. Loan rates witnessed an obvious decline. In December, the rate on new corporate loans and on new personal housing loans dropped by about 40 basis points and 90 basis points year on year, respectively. The credit structure continued to improve. At end-2024, loans extended to specialized, sophisticated, distinctive, and innovative enterprises and inclusive micro and small business (MSB) loans registered a year-on-year increase of 13 percent and 14.6 percent, respectively, outpacing, as before, the overall loan growth. The RMB exchange rate appreciated slightly against a basket of currencies. By end-2024, the China Foreign Exchange Trade System (CFETS) RMB Index had risen by 4.2 percent from the end of 2023.

Currently, the adverse effects brought about by the changes in the external environment have deepened and domestic difficulties and challenges remain, such as insufficient demand as well as many hidden risks. However, as the Chinese economy has a stable foundation, multiple strengths, strong resilience, and a great potential, the supporting conditions and fundamental trends for long-term sound economic development have not changed. 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 20th CPC National Congress, the Second and Third Plenary Sessions of the 20th CPC Central Committee, and the Central Economic Work Conference. It will adhere to the general principle of seeking progress while maintaining stability and apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with

Chinese characteristics, the PBOC will further deepen financial reform and high-standard opening-up, continue its efforts to promote high-quality financial development and build China into a financial powerhouse. It will 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. In addition, macro regulation will be more forward-looking, targeted, and effective, and macro policies will be better coordinated, in a bid to help expand domestic demand, stabilize expectations, and stimulate vitality, as well as to promote steady economic growth.

The PBOC will implement an appropriately accommodative monetary policy. Using a mix of monetary policy tools, it will adjust and improve the intensity and pace of policy in light of the economic and financial situations both at home and abroad as well as the performance of the financial market, in a bid to keep liquidity adequate and keep aggregate financing and money supply in step with the projected economic growth and CPI increase. Promoting a reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. The PBOC will smooth the transmission mechanism of monetary policy, better handle the relations between stock and increment, focus on revitalizing existing financial resources, and improve the efficiency of capital utilization. It will strengthen the guiding role of central bank policy rates and improve the market-based interest rate formation and transmission mechanism. Leveraging the self-regulatory mechanism for market interest rate pricing, it will strengthen the implementation of interest rate policies and boost the capacity of banks for independent and rational pricing so as to promote a reduction in financing costs for enterprises and credit costs for residents. The PBOC will give play to the role of monetary policy tools in adjusting both the aggregate and the structure, implement policies in a targeted, appropriate, and flexible manner, and optimize the tool system. While continuing its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance, it will intensify financial support for sci-tech innovation and the boosting of consumption. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate, in a bid to enhance the resilience of the foreign exchange market, stabilize market expectations, and strengthen market regulation. It will take resolute steps to correct pro-cyclical market behavior, address any conduct that disrupts market order, and guard against the risk of exchange rate overshooting, so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBOC will make exploration to expand its function in macro-prudential regulation and financial stability. It will firmly defend the bottom line whereby no systemic financial risks will occur.

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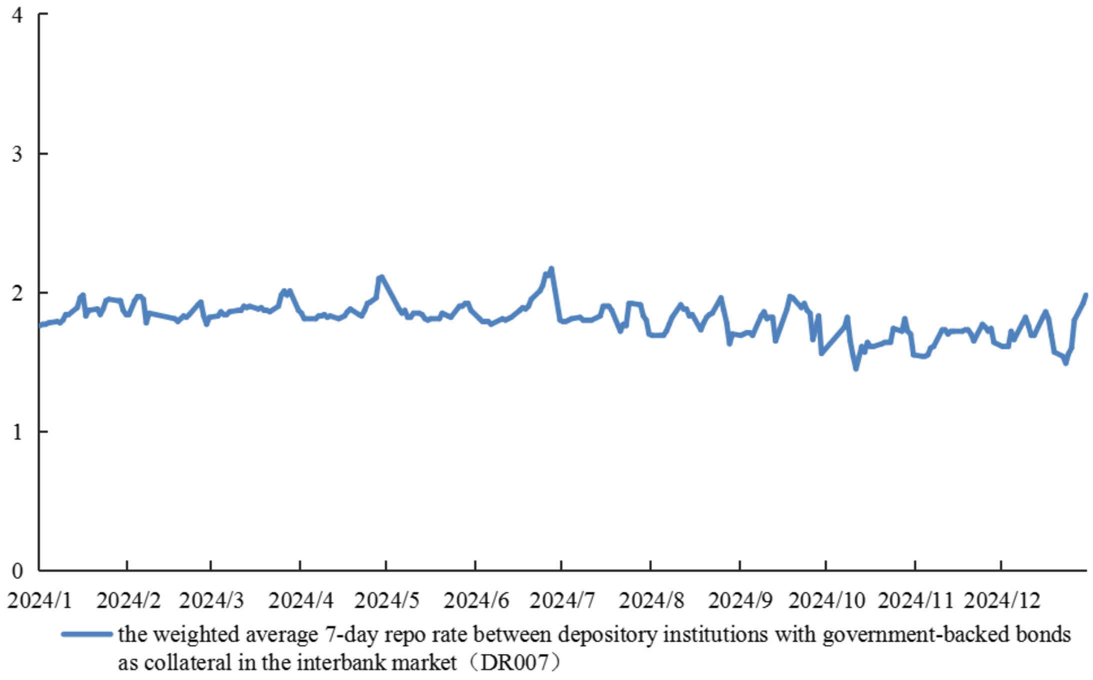
Part 1 Money and Credit Analysis

In 2024, in the face of the complex and serious situations both at home and abroad, the People's Bank of China (PBOC) followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully implemented the guiding principles of the 20th CPC National Congress, the Second and Third Plenary Sessions 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 implemented a sound monetary policy in a flexible, moderate, precise, and effective manner, and it significantly intensified counter-cyclical adjustments. Notably, since late September 2024, the PBOC has rolled out a package of incremental financial policies and redoubled efforts to implement these policies according to the arrangements of the CPC Central Committee, thus supporting achievement of the annual economic and social development targets. On the whole, money, credit, and aggregate financing to the real economy (AFRE) witnessed reasonable growth, overall financing costs declined notably, the credit structure improved continuously, and the RMB exchange rate remained basically stable at an adaptive and equilibrium level.

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

In 2024, the PBOC adhered to an accommodative monetary policy stance and employed a mix of monetary policy instruments to keep liquidity in the banking system adequate at a reasonable level and to guide the decline of overall social financing costs. It cut the RRR by 0.5 percentage points in February and September, respectively, cumulatively providing over RMB2 trillion in 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 medium-term lending facility (MLF) rate and the loan prime rate (LPR) to move down. In addition to injecting liquidity with monetary policy instruments such as the MLF, central bank lending, and central bank discounts, the PBOC included the purchase and sale of government bonds and outright reverse repos in its open market operations to further refine liquidity management. It also improved the framework for open market operations by conducting daily 7-day reverse repos to fully meet the demand of primary dealers, and it enhanced communications with and guidance to the market so as to keep money market rates stable and to further smooth the transmission from short-term rates to long-term rates. This provided a favorable liquidity environment for stable economic growth and high-quality development as well as vigorous support for the smooth issuance of special refinancing bonds by local governments during the fourth quarter of 2024. At end-2024, the excess reserve ratio for financial institutions registered 1.1 percent.

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. In 2024, the PBOC 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, to smooth the transmission mechanism of monetary policy, and to enhance the quality and efficiency of credit growth. Meanwhile, the PBOC convened a series of meetings to implement a raft of incremental policies and central bank lending for sci-tech innovation and technological transformation, and to guide financial institutions to tap into effective credit demand. Focusing on key areas such as technology finance, green finance, inclusive finance, old-age finance and digital finance, the real estate industry, major national strategies and security capabilities in critical areas, and a new round of large-scale equipment upgrades and consumer goods trade-ins, the PBOC worked to increase project reserves and credit supply and maintain stable credit growth so as to promote a sustained economic recovery. At end-2024, outstanding loans issued by financial institutions in domestic and foreign currencies grew 7.2 percent year on year to RMB259.6 trillion, increasing RMB17.3 trillion from the beginning of 2024. Outstanding RMB loans grew 7.6 percent year on year to RMB255.7 trillion, up RMB18.1 trillion from the beginning of 2024.

The credit structure has been improving. At end-2024, medium and long-term (MLT) loans to enterprises and public entities grew by RMB10.1 trillion from the beginning of 2024, accounting for 70.4 percent of total corporate loans. The year-on-year (YOY) growth of MLT loans to the manufacturing sector registered 11.9 percent, 4.3 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 14.6 percent year on year, 7 percentage points higher than the growth of total loans. A total of 60.99 million MSBs were supported, largely unchanged year on year.

Table 1 The Structure of RMB Loans in 2024

Unit: RMB100 million

	Outstanding amount at end-December	YOY growth	Increase from the beginning of the year
RMB loans to:	2556778	7.6%	180905
Households	828297	3.4%	27245
Enterprises and public entities	1697318	9.2%	143261
Non-banking financial institutions	10615	37.0%	2885
Overseas	20548	58.0%	7544

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 2024

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	107378
Chinese-funded small and medium-sized banks②	77390
Small-sized rural financial institutions③	21459
Foreign-funded financial institutions	-454

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 significant decline in lending rates. In December, the one-year LPR and the over-five-year LPR stood at 3.1 percent and 3.6 percent, respectively, down 0.35 and 0.6 percentage points from December 2023. In December, the weighted average interest rate on new loans recorded approximately 3.3 percent, down about 0.6 percentage points year on year. In December, the share of ordinary loans with rates above, at, or below the LPR registered 49.63 percent, 5.46 percent, and 44.91 percent, respectively.

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

Unit: %

	December	Change from September	YOY Change
Weighted average interest rate on new loans	3.28	-0.39	-0.55
on ordinary loans	3.82	-0.33	-0.53
of which: on corporate loans	3.34	-0.17	-0.41
on bill financing	1.02	-0.33	-0.45
on mortgage loans	3.09	-0.21	-0.88

Source: The People's Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to December 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
October	41.44	4.13	54.44	14.27	15.93	10.97	6.07	7.20
November	42.30	4.85	52.85	13.68	16.89	10.88	5.49	5.91
December	44.91	5.46	49.63	13.31	16.57	10.44	4.91	4.40

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and foreign-currency loans generally declined. In December, the weighted average interest rates on large-value USD-denominated demand deposits registered 2.48 percent, up 0.25 percentage points from December 2023, while the weighted average interest rates on large-value USD-denominated deposits with maturities within three months registered 4.05 percent, down 0.65 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 5.07 percent and 4.98 percent, a decrease of 0.74 and 0.82 percentage points compared to December 2023, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, January to December 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
October	2.62	4.40	4.61	4.41	4.29	4.53	5.34	5.10	4.69	4.95	5.46
November	2.60	4.14	4.50	4.05	4.27	4.48	5.20	5.08	4.71	5.09	4.90
December	2.48	4.05	4.28	4.51	4.42	4.81	5.07	4.98	4.67	5.33	5.23

Source: The People's Bank of China.

Deposits grew steadily. At end-2024, outstanding deposits in domestic and foreign currencies at all financial institutions increased 6.4 percent year on year to RMB308.4 trillion, up RMB18.5 trillion from the beginning of 2024. Outstanding RMB deposits grew 6.3 percent year on year to RMB302.3 trillion, an increase of RMB18 trillion from the beginning of 2024. Outstanding deposits in foreign currencies stood at USD852.9 billion, an increase of USD55.1 billion from the beginning of 2024.

Table 6 The Structure of RMB Deposits in 2024

Unit: RMB100 million

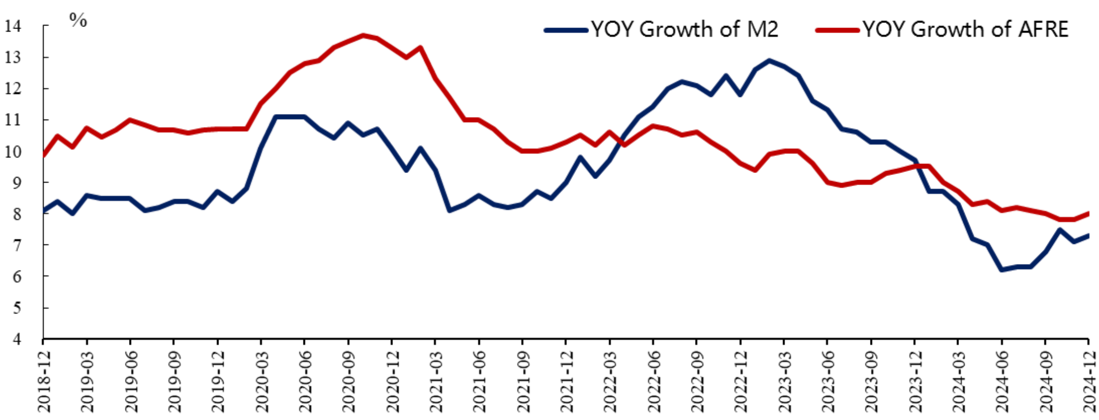
	Outstanding deposits at end-December	YOY growth	Increase from the beginning of the year
RMB deposits:	3022538	6.3%	179928
Household deposits	1512509	10.4%	142615
Non-financial enterprise deposits	783649	-0.5%	-2943
Public entity deposits	370166	4.8%	16433
Fiscal deposits	55812	-3.7%	-2125
Non-banking financial institution deposits	281865	10.4%	25943
Overseas deposits	18536	0.0%	5

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. By end-2024, outstanding broad money M2 registered RMB313.5 trillion, up 7.3 percent year on year; narrow money M1 stood at RMB67.1 trillion, down 1.4 percent year on year; currency in circulation M0 registered RMB12.8 trillion, representing a year-on-year increase of 13.0 percent. In total, 2024 witnessed a net cash injection of RMB1.475 trillion, RMB593.5 billion more than that in 2023.

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



Source: The People's Bank of China.

The AFRE maintained reasonable growth. Preliminary statistics show that by the end of 2024, the outstanding AFRE reached RMB408.3 trillion, with YOY growth of 8 percent. The total increment in the AFRE for the year amounted to RMB32.3 trillion. The AFRE was characterized by the following: first, RMB loans maintained reasonable growth. In 2024, new RMB loans issued by financial institutions to the real economy increased by RMB17 trillion. Second, government bond financing saw a higher YOY increase. The net financing amount of government bonds in 2024 amounted to RMB11.3 trillion, which was RMB1.7 trillion more than that in 2023. The net financing of corporate bonds in 2024 was RMB283.9 billion more than that in the previous year. Third, off-balance-sheet financing remained stable. In 2024, trust loans increased by RMB240.0 billion year on year, while entrusted loans and undiscounted bankers' acceptances decreased by RMB77.6 billion and RMB151.3 billion year on year, respectively. Fourth, loans were written off at a relatively rapid pace. In 2024, the increment of written-off loans stood at RMB1.3 trillion, up RMB232.6 billion year on year.

Table 7 Aggregate Financing to the Real Economy in 2024

	End-December 2024		2024
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)
AFRE	408.34	8.0	322559
of which: RMB loans	252.53	7.2	170496
Foreign currency loans (RMB equivalent)	1.29	-22.3	-3916
Entrusted loans	11.21	-0.5	-577
Trust loans	4.30	10.2	3976
Undiscounted bankers' acceptances	2.15	-13.3	-3295
Corporate bonds	32.30	3.8	19093
Government bonds	81.09	16.2	112955
Domestic equity financing by non-financial enterprises	11.72	2.5	2900
Other financing	11.49	7.0	7502
Of which: Asset-backed securities of depository institutions	0.79	-41.5	-5639
Loans written off	9.94	15.4	13293

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 its financial statistics. Accordingly, adjustments have been 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.

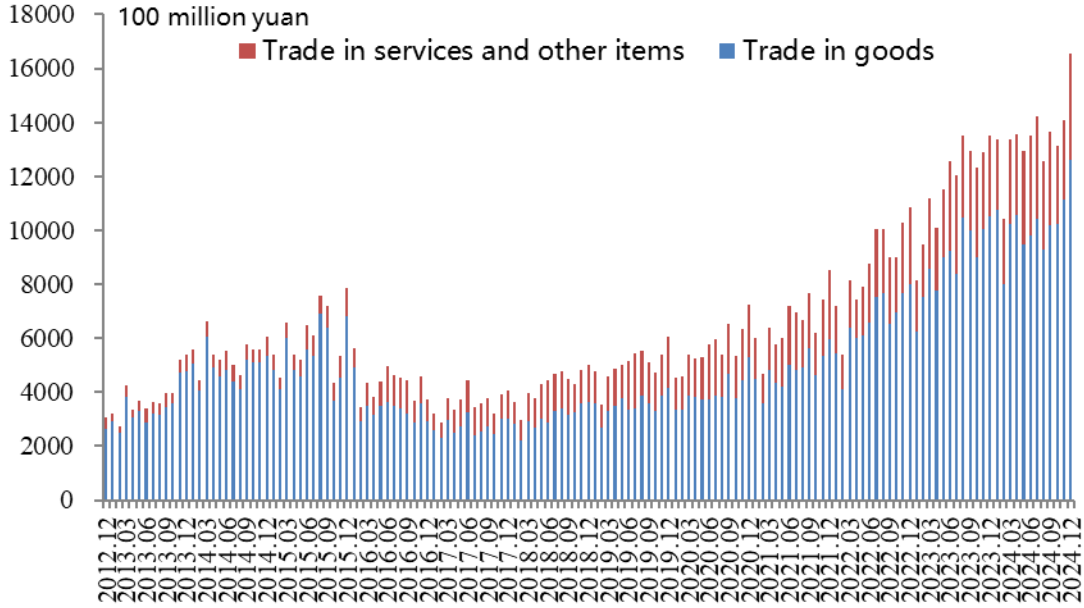
Sources: The People's Bank of China, National Financial Regulatory Administration, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

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

In 2024, cross-border capital flows remained stable and orderly, supply and demand in the foreign exchange market were basically in equilibrium, and RMB exchange rate expectations remained generally stable. With the international situation remaining complex and volatile, expectations of Federal Reserve interest rate cuts continued to fluctuate. As global geopolitical tensions intensified and the U.S. Dollar Index oscillated at a high level, the RMB exchange rate moved in both directions, remaining basically stable at an equilibrium level and performing relatively strongly among the major international currencies. In 2024, based on market supply and demand, the RMB exchange rate appreciated against a basket of currencies. At end-2024, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 101.47, appreciating by 4.2 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-2024, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 45.9 percent and 36.9 percent, respectively. At end-2024, the central parity of the RMB against the US dollar was 7.1884, depreciating 1.5 percent from end-2023 while appreciating 15.1 percent in total since the beginning of the reform in 2005.

Cross-border RMB businesses continued to grow, with receipts and payments basically reaching a balance. In 2024, cross-border RMB settlements increased 23 percent year on year to RMB64.1 trillion. Specifically, cross-border RMB receipts and payments registered RMB31.1 trillion and RMB33.0 trillion, respectively. Cross-border RMB settlements under the current account increased 16 percent year on year to RMB16.2 trillion. In particular, RMB settlements under trade in goods registered RMB12.4 trillion, and RMB settlements under trade in services and under other current account items registered RMB3.8 trillion. Cross-border RMB settlements under the capital account grew by 25 percent year on year to RMB47.9 trillion.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In 2024, the PBOC resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It firmly adhered to an accommodative monetary policy stance, strengthened counter-cyclical adjustments, and conducted significant monetary policy operations on multiple occasions. It promoted a reasonable growth of money and credit, and it guided a reduction in overall social financing costs. The PBOC continued to foster the development of technology finance, green finance, inclusive finance, old-age finance, and digital finance, and it improved financial services for major strategies, key sectors, and vulnerable areas so as to promote the sustainable economic recovery and to support high-quality development of the economy.

I. Conducting open market operations in a flexible manner

Cutting central bank policy rates on two occasions in 2024. In July and September, the 7-day open market reverse repo rate was lowered by 10 basis points and 20 basis points, respectively, reaching 1.5 percent at the end of the year. This adjustment was the most intense in recent years. In the fourth quarter, short-term factors influencing supply and demand of bank liquidity increased. The PBOC paid close attention to economic and financial performance, reinforced market monitoring and analysis, and effectively conducted reverse repo operations under the new open market operation framework. The central bank appropriately and moderately increased the intensity of its operations to counteract the impact of the issuance of RMB2 trillion in refinancing bonds for replacing local hidden debts and short-term factors, such as fiscal tax payments, and regulatory assessments at the quarter-end and year-end. This kept liquidity in the banking system adequate at a reasonable level and guided the money market rates to move steadily around the policy rate.

Gradually increasing transactions of government bonds in the central bank's open market operations. The purchases and sales of government bonds are positioned as a tool for base money injections and liquidity management. By flexibly coordinating government bond transactions with other tools, the PBOC made liquidity management more scientific and effective. From October to December, monthly net bond purchases registered RMB200 billion, RMB200 billion, and RMB300 billion, respectively. Net bond purchases for the year totaled RMB1 trillion. At the end of 2024, government bonds accounted for 6.5 percent of the central bank's assets, increasing by 3.2 percentage points from late 2023.

Launching outright reverse repo operation. To further enrich the monetary policy toolkit, in October the PBOC launched an outright reverse repo operation tool with a maturity of no more than one year. The operation adopts fixed-quantity interest rate bidding and a multiple-price winning mechanism. The range for the collateral of repo has been expanded to include central government bonds, local government bonds, financial bonds, corporate credit bonds, etc. The results of the operations were disclosed at the end of each month. From October to December, the PBOC conducted outright reverse repo operations of RMB500 billion, RMB800 billion, and RMB1.4 trillion, respectively. Specifically, the cumulative amount of outright reserve repo operations with a term of three months and six months registered RMB1.5 trillion and RMB1.2 trillion, respectively. The operations effectively smoothed out liquidity disturbances caused by cash injections at year-end and before the spring festival as well as fiscal revenue and expenditure fluctuations, thus maintaining stable liquidity in the market.

Box 1 Further Improving the System of Central Bank Open Market Operations

Open market operations serve as important means for central banks to implement monetary policies. Since the PBOC resumed open market operations in 1998, through continuous exploration and practice, the variety of operations has increased, and the frequency and transparency have also improved significantly. In 2024, the PBOC adhered to a supportive monetary policy stance and implemented the requirements of the Third Plenary Session of the 20th Central Committee of the CPC on "further deepening reform comprehensively" by improving the system of open market operations. These efforts enhanced the initiative and flexibility of liquidity management and further strengthened the adjustment and transmission of monetary policies.

First, the PBOC specified the main policy rate and promoted the transition to price-based adjustments. From an international perspective, central banks in advanced economies mostly select short-term interest rates as policy rates, adjusting them via open market operations and interest rate corridors, while mid- to long-term rates are determined through market transactions. The PBOC's monetary policy toolkit includes open market reverse repos, medium-term lending facility (MLF), and various central bank lending facilities, each with different interest rates and maturities and with complicated relations with other tools. In July 2024, the PBOC explicitly announced that the interest rate on 7-day open market reverse repo operations is the current policy rate. The operations are now conducted through quantity bidding at a fixed interest rate, which means the rates on reverse repo operations are no longer the results of the tender but rather are determined by the central bank based on the needs of monetary policy adjustments. The revision marked a transition toward a price-based monetary policy framework. Additionally, the introduction of ad hoc repo and reverse repo operations conducted in the afternoon—priced at the 7-day reverse repo rate with two-way adjustments—further reinforced the policy rate's role in anchoring money market rates within a certain range of fluctuations. Furthermore, the status of the MLF as a policy rate ebbed following the postponing of operational timing and the adjustment in the tender mechanism. These efforts smoothed the transmission of short-term interest rates to longer-term rates and delivered to the market clearer signals of interest rate adjustments.

Second, the PBOC carried out government bond purchasing and selling operations, enriching the channels for base money supply. At the Central Financial Work Conference held in 2023, it was proposed that "we should enrich the monetary policy toolbox by gradually increasing government bond purchasing and selling through open market operations." In recent years, the government bond market in China has developed considerably, now ranking third in size globally. The depth and liquidity of the market have also enhanced significantly, providing favorable conditions for the central bank's buying and selling of government bonds in the secondary market. Since August 2024, the PBOC has gradually increased government bond purchasing and selling in open market operations, positioning them as tools for base money supply and liquidity management and conducting both purchases and sales in a two-way manner. In 2024, net cumulative purchases of government bonds registered RMB1 trillion, which, combined with other tools, kept liquidity adequate at a reasonable level. Moreover, the PBOC strengthened communications with the market on long-term government bond yields to prevent potential systemic risks that may arise from the one-way downward movement of long-term government bond yields. In addition, to better balance bond supply and demand, the PBOC launched outright reverse repo operations in October 2024, effectively mobilizing bond collaterals and increasing the size of tradable bonds. With maturities of up to one year, outright reverse repo operations bridge the gap between 7-day reverse repos and the 1-year MLF, further refining liquidity management.

Third, the PBOC enriched its monetary policy toolbox to maintain stability in the financial market. The capital market serves as a barometer of confidence as well as an important channel for financial resource allocations. To promote the healthy and stable development of the capital market, the PBOC launched the Securities, Funds, and Insurance Companies Swap Facility (SFISF) in October 2024, opening a window for the central bank to provide liquidity support to non-bank financial institutions. The facility effectively improved market sentiment, significantly driving up the trading volume and indices in the stock market. To increase high-quality RMB asset supply in Hong Kong, the PBOC maintained regular issuance of central bank bills denominated in RMB in Hong Kong, which consolidated and bolstered Hong Kong's position as an international financial center. At end-2024, outstanding central bank bills in Hong Kong increased by RMB115 billion compared to end-2023. In January 2025, the PBOC issued another RMB60 billion of bills, marking the largest single issuance of central bank bills in history. Various investment agencies at home and abroad actively subscribed to the bills, showcasing confidence in offshore RMB assets and, more broadly, in China's financial markets.

Moving forward, the PBOC will continue to promote the relevant policy frameworks and improve the policy tool designs. It will flexibly adopt a combination of policy tools based on market conditions to keep liquidity adequate and to maintain stability in the financial markets, thereby providing a favorable monetary and financial environment for the sustained recovery of the economy.

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 to promote the healthy and stable development of the capital market, on October 1, the PBOC announced the launch of the SFISF to support 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. In October 2024 and January 2025, the PBOC conducted SFISF operations in the amount of RMB50 billion and RMB55 billion, respectively, which enhanced the financing and stock acquisition capabilities of financial institutions and effectively stabilized the market.

Box 2 Two Instruments to Support the Capital Market Were Implemented and Achieved Results

To implement the requirement of "establishing a long-term mechanism for enhancing the inherent stability of the capital market" put forward at the Third Plenary Session of the 20th CPC Central Committee, in September 2024 the PBOC, together with other financial regulatory authorities, launched two instruments to support the capital market, namely, the Securities, Funds, and Insurance Companies Swap Facility (hereinafter referred to as the SFISF) and central bank lending for share buybacks and shareholding increases in the package of incremental support policies. Within one month from their announcement to implementation, the two instruments effectively boosted market confidence both at home and abroad and established a preliminary mechanism featuring inherent stability and equilibrium in the capital market, marking a beneficial exploration by the central bank to expand the functions of monetary policy transmission and financial stability.

The two instruments demonstrate that monetary policy should stay on the right course and at the same time seek to make innovations. The SFISF allows eligible securities, funds, and insurance companies to swap stocks, stock ETFs, and bonds (serving as collateral) for highly liquid assets, such as government bonds and central bank bills, with the PBOC. These companies can then receive financing backed by these highly liquid assets. Therefore, the facility has created a channel for the PBOC to provide liquidity for non-bank financial institutions. Central bank lending for share buybacks and shareholding increases encourages and guides banks to grant relevant loans to eligible listed companies and major shareholders. The provided funds shall be used exclusively for share buybacks and shareholding increases on a closed-end basis. Both instruments have the inherent function of counter-cyclical adjustments. When the stock market is oversold and stock prices are undervalued, financial institutions, listed companies, and major shareholders will have a stronger willingness to buy stocks and use more quotas of the instruments. When stock prices rise and liquidity recovers, it will be more costly for listed companies and major shareholders to buy back and increase holding of shares, and it will be less necessary for financial institutions to provide financing through securities swaps, which will naturally lead to a decline in the use of the instruments. The mechanism of inherent stability established in the process plays a better role in rectifying the overshooting of the capital market and in stabilizing market expectations, thus supporting the long-term sound development of the capital market.

The two instruments adhere to the principles of marketization and the rule of law, and similar successful practices can be found internationally. Both instruments are designed to be market-oriented. Specifically, the SFISF is conducted through rate-bidding, with institutions participating in the tender voluntarily according to market conditions. Central bank lending for share buybacks and shareholding increases provides incentives by offering favorable rates. Banks can independently decide on whether to issue loans and the terms of the loans, and bear the risks on their own. Listed companies and financial institutions make independent decisions on the timing and volume of the purchase of shares, which will enhance market selection. Likewise, it is common for overseas listed companies to buyback shares. From 2009 to 2019, the share buyback volume of U.S. listed companies climbed continuously, one reason for which was that enterprises acquired a large amount of incremental funds through debt financing in the low interest-rate environment. As the share buyback and shareholding increase business has just started in China, the instruments launched by the PBOC to support the business in a targeted manner are conducive to accelerating development of the market and to meeting the demands of listed companies.

Financial regulators have also taken a series of measures in encouraging listed companies to assume primary responsibility for market value management and in giving play to the role of securities and funds companies in stabilizing the market. Proactive market value management by listed companies can send a signal to the market of being firmly optimistic about development prospects of the company and of the industry. In recent years, the China Securities Regulatory Commission (CSRC) has been supporting and guiding listed companies to continuously improve their operational efficiency and profitability. Through a combination of dividends, share buybacks, and increased holdings by major shareholders, companies have been encouraged to enhance shareholder returns, ensuring that their investment value reasonably reflects their underlying quality, and thus maintaining market stability and boosting investor confidence. In the meantime, to give full play to the professional investing capability of securities and funds institutions, the CSRC organized the relevant institutions to proactively participate in SFISF operations so as to support the stable development of financing and investment and to channel incremental funds into the A-share market. It also worked with the PBOC to expand the coverage of participants, to enrich the category of collateral, and to cut by half the registration fee for securities pledges involved in the SFISF so as to better motivate the participating institutions.

The two instruments have achieved preliminary results. In the next stage, the PBOC will continuously improve their design to better facilitate high-quality development of the capital market. By the end of January 2025, the SFISF had been conducted on two occasions, amounting to RMB105 billion. This contributed to remarkable growth in the scale of proprietary stock investment by securities companies. As of the end of 2024, listed companies in China disclosed plans to apply for stock repurchase and holding increase loans with a total upper limit of nearly RMB60 billion. Additionally, in 2024, the revealed maximum volume of share buyback and shareholding increase plans by major shareholders approached RMB300 billion, hitting a record high. The PBOC will work with the relevant departments to guide financial institutions to provide all-round and comprehensive financial services for listed companies and major shareholders and to urge insurance companies to participate in the SFISF. It will also continuously improve relevant policies and better facilitate the two instruments so as to safeguard the stability of financial markets.

Issuing more RMB-denominated central bank bills in Hong Kong. In 2024, the PBOC issued 12 batches of RMB-denominated central bank bills in Hong Kong, totaling RMB275 billion, up RMB115 billion from the previous year. In 2025, to expand the supply of high-quality RMB assets in the offshore market and to contribute to the healthy development of the offshore RMB money market and bond market, the PBC is scheduled to issue more RMB-denominated central bank bills in Hong Kong. RMB60 billion of central bank bills were issued in January, the highest monthly issuance in history. This issuance received active subscription from various domestic and overseas investment institutions, demonstrating the confidence of global investors in offshore RMB assets and the Chinese financial 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, the PBOC conducted MLF operations of RMB1.9 trillion, RMB0.4 trillion, RMB0.9 trillion, and RMB1.9 trillion from Q1 to Q4, respectively, with a term of one year. The outstanding MLF totaled RMB5.1 trillion at year-end, down RMB2.0 trillion from the beginning of the year. The MLF rate declined by 20 and 30 basis points in July and September, respectively, and witnessed an annual decrease of 50 basis points. The MLF rate stood at 2 percent at the end of 2024. Starting from July, to increase the volume of tradable bonds and to alleviate supply-demand stress in the bond market, the collateral requirements for the MLF were provisionally eased.

Conducting SLF operations in a timely manner. SLF operations provided 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. A total of RMB25.6 billion of SLF operations were implemented throughout the year. The operational volume in the four quarters was RMB6.2 billion, RMB2.6 billion, RMB3.9 billion, and RMB12.9 billion, respectively. At end-2024, the outstanding SLF stood at RMB11.7 billion. Serving as the ceiling of the interest rate corridor, SLF rates assisted the money market to operate smoothly. The SLF rate was reduced by 10 and 20 basis points in July and September, respectively, or 30 basis points throughout 2024. At year-end, the overnight, 7-day, and 1-month SLF rate 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 on two occasions within the year. On February 5 and September 27, the PBOC reduced the RRR for financial institutions by 0.5 percentage points, respectively, providing long-term liquidity of more than RMB2 trillion. The RRR cuts enhanced the intensity of counter-cyclical adjustments of monetary policy, sent strong signals of stabilizing the economy, helped bolster confidence in growth, and promoted a sustained economic recovery and development. Currently, the weighted average RRR for financial institutions is 6.6 percent.

Box 3 Evolution of the Required Reserve Regime

Since China's required reserve regime establishment in 1984, it has always served the objectives of macroeconomic adjustment and the needs of economic development. The PBOC has been constantly improving the required reserve regime and flexibly adjusting the required reserve ratio (RRR) in response to changing circumstances, creating a favorable monetary and financial environment for stable economic growth.

The flexible adjustment of the RRR has played a significant role in ensuring moderate growth of money supply. In 1998, as the PBOC lifted controls on the scale of loans, the regulatory mechanism of monetary policy shifted from direct control to indirect adjustment, and the required reserve regime underwent major reforms. First, the required reserve account and the excess reserve account were merged into a single "reserve deposit" account. Second, the RRR was reduced from 13 percent to 8 percent. The total amount and distribution of excess reserves in the reserve deposit account were determined by the financial institutions themselves. Third, the required reserves of financial institutions were assessed on a unified legal entity basis. The reform not only strengthened the payment and clearing functions of the required reserves but also enhanced their role in adjusting the liquidity aggregates. It allowed for the "deep" freezing of liquidity by raising the RRR as well as swiftly releasing liquidity to address liquidity shortages. Beginning in 2003, China's economy emerged from the impact of the Asian financial crisis and entered a new growth cycle. With a persistent surplus in the balance of payments and a large influx of foreign exchange, the central bank was compelled to purchase foreign exchange to maintain basic stability in the RMB exchange rate, thereby injecting a substantial amount of base currency into the market. The move led to an ongoing accumulation of excess liquidity in the banking system. From September 2003 to June 2011, the PBOC raised the RRR 32 times, lifting the average RRR from 6 percent to 20.1 percent. The increases in the RRR effectively offset the majority of the liquidity injected into the market through foreign exchange purchases and played a positive role in guiding the reasonable growth of money and credit and in effectively managing inflation expectations. Since 2013, as the balance of payments and the RMB exchange rate moved toward equilibrium, liquidity supply through foreign exchange purchases has decreased significantly. The PBOC subsequently lowered the RRR 29 times, reducing the average RRR from 20.1 percent to 6.6 percent. The adjustments met the long-term liquidity needs of the banking system and provided strong support for economic development.

While adjusting liquidity aggregates, the required reserve regime has undergone reforms to enhance the effectiveness of macroeconomic adjustments. In order to better coordinate the goals of stabilizing growth, adjusting structure, and promoting reform, and to explore new strategies and methods for macroeconomic adjustments, in April 2014 the PBOC designed a targeted RRR reduction policy. The policy established a positive incentive mechanism to guide financial institutions to increase the proportion of loans to agriculture, rural areas, and farmers, as well as to micro and small businesses, continuously optimizing the credit structure of financial institutions. Meanwhile, with the continuous deepening of China's financial reforms and development of the payment and settlement system, the assessment method for required reserves has also undergone further reforms. In September 2015 and July 2016, the PBOC implemented a two-step reform to change the assessment method for required reserves from the point-in-time method to the averaging method. The averaging method not only more accurately reflects the scale of deposits of financial institutions and reduces deposit fluctuations at the time of assessment, which makes the assessment more scientific. It also increases financial institutions' flexibility to manage liquidity. It helps to smooth out fluctuations in the money market, improve the monetary policy transmission mechanism, and create conditions for transformation of the operational framework for monetary policy. In September 2017, in order to support the development of inclusive finance, the PBOC expanded the scope of the targeted RRR reduction policy and launched a targeted RRR reduction policy for inclusive finance, with a greater focus on the vulnerable sectors in the real economy. In April and October 2018, further improvements were made to the targeted RRR reduction policy. The medium-term lending facility (MLF) that had not yet matured was replaced with the liquidity obtained by cutting the RRRs of some financial institutions or it was not renewed upon maturity. Therefore, the liquidity aggregates were controlled and adjusted while the liquidity structure was optimized. The preferential policies of proportional assessments and targeted RRR reductions for inclusive finance were phased out in 2021 after the policy objectives had been achieved. The PBOC has imposed the current most favorable RRRs on all financial institutions, which directly increase the long-term funding sources available to financial institutions in their efforts to support the real economy. The role of the RRR policy instrument in adjusting liquidity aggregates has become more focused, and the required reserve regime has been evolving from complex to simple. It can be seen that the evolution of the required reserve regime is in line with the characteristics and needs of the development of China's financial sector, and the policy choices made at the various stages have served the policy support priorities in a better way. In the past, a multi-layered RRR regime effectively injected liquidity into the financial market, enhancing financial support for key sectors and vulnerable areas. The current simplified RRR regime is conducive to reflecting the relationship between changes in reserves and changes in monetary aggregates, and it helps to achieve the intermediate goals of monetary policy.

Overall, the reform and refinement of the required reserve regime have consistently been centered on the core mission of macroeconomic adjustment. In the future, the PBOC will continue to improve the required reserve regime in response to changes in the economic and financial landscape and financial market developments, and it will give full play to the role of the RRR in policy adjustments.

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

Giving full play to the guiding role of the macro-prudential assessment (MPA). In 2024, the PBOC continued to refine the MPA framework and guided financial institutions to maintain stable growth in credit supply. It also provided robust credit support for inclusive micro and small businesses (MSBs) and medium- and long-term financing for the manufacturing sector so as to channel more credit resources to key sectors and vulnerable areas.

Continuing to refine the regulatory framework for systemically important financial institutions. The PBOC closely tracked the marginal changes in the performance of systemically important banks (SIBs) and strengthened monitoring and analysis of typical risks and vulnerable areas. The PBOC urged SIBs to implement additional capital requirements, organize reviews and drills of recovery and resolution plans, and enhance their risk resistance and response capabilities. In 2024, the PBOC also held a group meeting on cross-border crisis management of global systemically important banks (GSIBs) to strengthen cross-border crisis management and cooperation. Moreover, the PBOC continuously strengthened additional supervision for systemically important financial institutions and leveraged the synergy 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

Making continuous efforts to develop inclusive finance. Central bank lending as well as central bank discounts for rural development and for micro and small businesses (MSBs) were utilized to guide locally incorporated financial institutions to expand their credit supply for agriculture-related businesses, MSBs, and private enterprises. The PBOC cut interest rates on central bank lending for rural development and MSBs and central bank discount rates of all maturities by 0.25 percentage points, respectively, in January 2024. In addition, in August it increased central bank lending quotas for rural development and for MSBs by RMB100 billion, supporting flood control, disaster relief, and post-disaster reconstruction in twelve provinces (autonomous regions, or municipalities). Central bank lending for poverty alleviation was rolled out 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-2024, outstanding central bank lending for rural development, in support of MSBs, and for poverty alleviation posted RMB671.5 billion, RMB1.75 trillion, and RMB60.9 billion, respectively, and outstanding central bank discounts registered RMB575.8 billion. The PBOC continued to implement the inclusive MSB loan facilities, while it expanded policy coverage to more MSBs by extending their credit line from up to RMB10 million to up to RMB20 million per borrower. At end-2024, the facility cumulatively provided RMB70.2 billion as incentive funds, up RMB14.8 billion from the beginning of 2024, supporting locally incorporated financial institutions in the issuance of inclusive MSB loans worth RMB4.8 trillion cumulatively, up RMB1.5 trillion from the beginning of 2024.

Maintaining consistent support for green finance. The PBOC continued to implement the carbon emission reduction facility (CERF) and to ensure the effective use of existing funds from the special-lending program for clean and efficient coal utilization. At end-2024, the outstanding amount of these two facilities registered RMB438.5 billion and RMB207.3 billion, respectively, with the CERF cumulatively supporting financial institutions in the granting of carbon emission reduction loans worth over RMB1.2 trillion.

Reinforcing financial support for technology. In April 2024, the PBOC launched RMB500 billion of central bank lending for sci-tech innovation and technological transformation to guide financial institutions to provide credit support to technology-based small and medium-sized enterprises (SMEs) and for technological transformation and equipment renewal projects, thus assisting key sectors to become more digitized, smart, advanced, and green. By the end of 2024, financial institutions had signed loan contracts worth over RMB900 billion with enterprises (projects), strongly supporting first-time loans of technology-based SMEs as well as financing for technological transformation and equipment renewal projects in key areas. The outstanding funds from the expired special central bank lending for sci-tech innovation and for equipment upgrading remain effective. At end-2024, the outstanding balances in these two facilities registered RMB68.5 billion and RMB129.2 billion, respectively.

Advancing development of old-age finance at a solid pace. In April 2024, 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.

Supporting the stable and healthy development of the real estate market. In June 2024, the PBOC launched RMB300 billion of the central bank lending facility for government-subsidized housing, incentivizing and guiding financial institutions to support local state-owned enterprises (SOEs) in their purchase of completed but unsold commercial housing, with the aim of accommodating rental and sales needs. After the launch of the facility, it was merged with the loan support scheme for rental housing. In September, 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 to support policy-backed and development-oriented financial institutions in the granting of loans for the development of government-subsidized housing, renovation of urban villages, and construction of public infrastructure for both normal and emergency uses. At end-2024, the outstanding amount of the PSL posted RMB2.36 trillion.

Maintaining stable operations in the capital market. In October 2024, the PBOC established a central bank lending facility for share buybacks and shareholding increases, with an initial quota of RMB300 billion and an interest rate of 1.75 percent, in order to guide financial institutions to grant loans to eligible listed companies and major shareholders and to encourage listed companies to manage their market value through active use of share buybacks and shareholding increases, thus further safeguarding the stable operation of the capital market. By the end of 2024, financial institutions had signed loan contracts for share buybacks and shareholding increases with over 700 listed companies and major shareholders, in a total amount exceeding RMB30 billion. Listed companies disclosed plans to apply for loans up to around RMB60 billion, supporting share buybacks and shareholding increases up to over RMB80 billion. In 2024, the total amount of disclosed plans for share buybacks and shareholding increases across the entire market approached RMB300 billion, an increase of over 50 percent compared to 2023.

Box 4 The Mechanism, Evolution, and Development of Central Bank Lending

Central bank lending refers to the loans provided by the People's Bank of China (PBOC) to commercial banks, serving as a conventional monetary policy tool to manage base money supply. In 1984, the PBOC began functioning as China’s central bank, and, at that time, central bank lending was the primary channel for the PBOC to inject and withdraw base money. During the first decade of the 21st century, due to persistent large surpluses in the balance of payments, foreign exchange purchases became the dominant source of base money supply. As a result, central bank lending declined, with its lowest balance at about RMB 0.6 trillion, accounting for only 4 percent of the PBOC’s total assets. Since 2014, with the decline in foreign exchange purchases, central bank lending has re-emerged as the main channel for base money supply. By the end of 2024, the balance of central bank lending (including the Medium-term Lending Facility, or MLF) reached RMB12.7 trillion, representing 28.8 percent of the PBOC’s total assets. It thus is playing an important role in adjusting monetary aggregates.

The PBOC has innovated central bank lending instruments to optimize the credit structure. In recent years, to adapt to and guide the economic restructuring, the PBOC has introduced several new central bank lending instruments. These instruments are designed to stimulate and guide financial institutions to provide financial services to major national strategies, key sectors, and vulnerable areas. Examples include the Carbon Emission Reduction Support Facility (CERF) for green development and special central bank lending for sci-tech innovation. The policy goal of these instruments is to optimize the credit structure by designing appropriate incentive mechanisms that guide the optimal allocation of financial resources. Although these instruments are classified as structural monetary policy tools, they also exhibit aggregate effects. They adhere to the principle of "targeted, moderate, and dynamic" implementation and are subject to the overall monetary policy goals. At the end of 2024, a total of 10 structural monetary policy instruments were in operation, and the outstanding balance of central bank lending reached RMB6.3 trillion, accounting for 14.2 percent of the PBOC’s total assets. In terms of supporting areas, these tools have achieved basic coverage of the five major financial initiatives, including technology finance, green finance, inclusive finance, old-age finance, and digital finance, and they have also provided support for key sectors, such as the real estate market and the capital market.

Central bank lending can enhance the banks' capacity for credit supply and money creation but it cannot replace commercial loans. According to the Law of the People’s Bank of China, central bank lending refers to loans provided by the

PBOC to commercial banks for implementation of monetary policy. The PBOC is prohibited from lending to non-bank financial institutions, businesses, or individuals. Only banks with accounts at the central bank are eligible to use central bank lending funds to meet reserve requirements or to facilitate inter-bank clearing and settlements, thereby enhancing their capacity for credit supply and money creation. As these funds do not directly enter the real economy, enterprises must obtain loans from banks to access additional capital. In terms of the operating mechanism, commercial banks independently select enterprises, evaluate relevant risks, and issue loans based on market-oriented principles. Subsequently, the PBOC provides central bank lending to commercial banks in accordance with the applications of the commercial banks and the pre-designed incentive mechanisms. By properly designing structural monetary policy instruments, central bank lending steers commercial banks to issue loans to enterprises in key sectors, thereby promoting economic restructuring and serving the real economy.

Central bank lending works in concert with other policies to promote economic restructuring. Through years of reform, development, and practices of macroeconomic regulation, China has established a variety of effective structural policy systems. These include macro-credit guidance policies, macro-prudential policies, and financial market reform and development policies led by the PBOC as well as fiscal policies, industrial policies, and regulatory policies. In recent years, innovations in central bank lending tools have provided new policy options for promoting economic restructuring and for enriching the structural policy mix. For example, both special central bank lending for equipment upgrading launched in 2022 and special central bank lending for sci-tech innovation launched in 2024 involve coordinated efforts of central bank lending and fiscal interest subsidies. It is worth noting that in sectors where fiscal funds fall short, social capital is reluctant to step in, and where urgent financial support is required, central bank structural lending can play a guiding role and offer a moderate supplement. However, in a bid to address the financing needs of key sectors and vulnerable areas, commercial banks need to further leverage their autonomy and foresight, continuously improve the adaptability of credit allocations to the economic structure, and support development of the real economy, while achieving their own healthy development. Furthermore, it is essential to refine collaborative mechanisms between the PBOC and other government departments in order to jointly advance economic structural adjustments.

VI. Enhancing the quality and effectiveness of credit policies

Enhancing technology finance policy support. Banking institutions were guided to establish a special working mechanism, strengthen resource support, and facilitate funding matchmaking and due diligence services so as to step up credit support based on market principles. At end-2024, outstanding loans to technology-based SMEs and "specialized, sophisticated, distinctive, and innovative" enterprises grew 21.2 percent and 13.0 percent year on year, respectively, both higher than the growth of total loans during the same period.

Giving full play to the role of green finance as policy guidance. The *Opinions on Leveraging Green Finance to Support the Beautiful China Initiative* were issued with the aim of channeling more financial resources to green development and low-carbon transition areas. 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 system, and market entities and promoting the rapid development of green loans. At end-2024, outstanding green loans reached RMB36.6 trillion, with a year-on-year increase of 21.7 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. At end-2024, the issuance of green bonds reached a cumulative RMB4.1 trillion, of which green financial bonds reached RMB1.7 trillion, providing stable sources of funding for financial institutions to grant green credit.

Ramping up support for inclusive finance. In order to strengthen financial support for all-round rural revitalization, the *Notice on Strengthening Financial Support Measures to Boost Development and Growth of the Private Economy* was fully implemented, and the *Notice on Carrying Out Special Actions to Strengthen Financial Support for All-round Rural Revitalization by Learning and Using the Experience of the Green Rural Revival Program* was released. At end-2024, outstanding agriculture-related loans grew 9.8 percent year on year to RMB51.4 trillion, while inclusive MSB loans increased 14.6 percent year on year to RMB32.9 trillion. The PBOC effectively implemented the policy on guaranteed loans for start-ups, promoting start-ups and employment for key groups. It also improved the national student loan policy to further increase support for college students with financial difficulties. At end-2024, outstanding guaranteed loans for start-ups registered RMB270 billion, while outstanding student loans grew by 28.7 percent year on year to RMB281.1 billion.

Improving the top-level design for old-age finance. The PBOC, the National Financial Regulatory Administration (NFRA), and seven other ministries jointly released the *Guidelines on Financial Support for China's Elderly Care Initiatives and High-Quality Development of the Silver Economy*, which set phased development goals for old-age finance, coordinated all types of financial resources, established a mechanism for incentives and constraints, and promoted financial institutions to actively support the national strategy in response to the aging of the population, in terms of the organizational structure, product innovation, and mechanism establishment.

Enhancing the top-level design for digital finance. The PBOC, the National Development and Reform Commission, and five other ministries jointly unveiled the *Action Plan for Promoting High-Quality Development of Digital Finance* (hereinafter referred to as the *Action Plan*). Giving play to the driving role of data elements and digital technologies, the *Action Plan* focuses on accelerating the digital transformation of financial institutions, consolidating the foundation for the development of digital finance, improving the governance system for digital finance, and supporting financial institutions in using digital technology to improve the quality and effectiveness of financial services in five key areas, namely, technology finance, green finance, inclusive finance, old-age finance, and digital finance, thereby promoting the high-quality development of a digital economy.

Continuing to improve the quality and effectiveness of consumer finance policy. Financial support for demand in key consumption areas and the trade-in of consumer goods was strengthened. Financial institutions were guided to improve internal mechanisms and enhance their capacity to provide financial services in areas such as automobiles, home appliances, home furnishings, culture, tourism, and sports. At end-2024, outstanding household consumer loans (excluding personal housing loans) reached RMB21.0 trillion, an increase of RMB1.2 trillion from the beginning of the year.

Box 5 Establishing a Long-term Mechanism for the Development of Old-age Finance

To deeply implement the strategic arrangements for actively responding to the aging of the population made by the CPC Central Committee and the State Council and to be fully committed to strengthening the key area of old-age finance, the PBOC adheres to a people-centered development philosophy, firmly upholds the general requirements for improving the system and enhancing the people's well-being, and accelerates the establishment of a sound system for old-age finance so as to support the Chinese-style elderly-care sector and to serve the high-quality development of the silver economy.

Development of old-age finance is a key focus point for a virtuous cycle in the high-quality development of the financial system with Chinese characteristics and the elderly-care sector. Currently, the aging of China's population demonstrates a large-scale, deep-rooted, and rapidly growing trend. Development of the elderly-care sector is pivotal to the nation's overall development and the well-being of hundreds of millions of people. Based on China's situation, acceleration of the establishment of a sound elderly-care services system urgently requires improvements and innovations in financial services, enhancement of financial support, and increases in social pension savings, which will ensure realization of the strategic goal of "all elderly are properly cared for." Meanwhile, effectively satisfying the rapidly growing demands for financial services in the elderly-care sector is a key growth area for broadening financial businesses and a crucial way to optimize the financial structures, which is aligned with the intrinsic requirements for transformation and upgrading of the financial sector.

The capacity of old-age financial services has been steadily enhanced. First, the pension system has been continuously improved. Development of a multi-pillar pension system has been consistently promoted. The quality and coverage of enterprise and occupational annuities, the second pillar, have been increased. Financial institutions actively establish specialized organizations and launch professional digital services and platforms, and they will diligently strengthen custody services for enterprises and occupational annuities and pensions. The private pension scheme has been implemented in a steady manner, and the third-pillar old-age financial products have been enriched, with more than 900 private pension products launched cumulatively by financial institutions. **Second, central bank lending has led to an increase in credit supply for the elderly-care sector.** In 2022, the PBOC launched special central bank lending for inclusive elderly-care services, with an initial quota of RMB40 billion, supporting financial institutions to provide concessional loans to inclusive elderly-care service institutions in five pilot provinces. In April 2024, the PBOC extended the term of the policy to the end of the year, expanded the coverage of the pilot program to the entire nation, and included additional items to the support catalog, such as public-welfare and inclusive elderly-care institutions, development of home- and community-based elderly-care systems, and manufacturing of elderly products. The central bank lending policy has led to over RMB100 billion of loans to the elderly-care industry. **Third, the pension financial service product system has been gradually improved.** Innovations in old-age financial products have been steadily advanced. Pilot programs in pension wealth management products, dedicated pension savings, and commercial pension products have been implemented in an orderly manner, while pension target funds and exclusive commercial pension insurance have been steadily promoted. A diversified spectrum of pension financial service products with distinct risk-return characteristics to meet the needs of different groups for the preservation and appreciation of their pension assets has been gradually established.

In December 2024, the PBOC and eight other ministries jointly issued the *Guidelines on Financial Support for China's Elderly Care Initiatives and High-Quality Development of the Silver Economy.* In the next stage, the PBOC will continuously increase the supply of old-age financial resources and accelerate the establishment of a long-term mechanism for old-age finance so as to support the implementation of the national strategy of actively responding to the aging of the population. **First, strengthening organizational leadership and improving institutional support.** At the central government level, the PBOC and the relevant departments will jointly establish an implementation mechanism for old-age finance and will guide financial institutions to create working groups for old-age financial services. At the local government level, the PBOC will guide its provincial branches to advance coordination with the relevant departments so as to strengthen policy support in areas such as monetary policy, insurance regulation, complementary financing, and tax incentives. **Second, increasing the supply of old-age finance and expanding the financing channels for the silver economy.** The PBOC will support financial institutions to establish dedicated old-age finance business units, develop specific pension credit policies, explore new business model for funding services, increase credit supply to support the development of business entities and industry clusters in the silver economy, and assist qualified enterprises in the silver economy to issue corporate debenture bonds or go public to raise funds, which will expand the channels for diversified funding resources. **Third, exploring new financial products and services in a targeted manner, and satisfying the diversified demands for old-age finance.** The PBOC will explore new pension financial products that offer stable cash flows and flexible withdrawal options, develop financial products that are aligned with healthcare and elderly-care services, expand pilot programs for dedicated pension savings and pension wealth management, further promote innovations in commercial insurance annuities products, and gradually increase the types of assets eligible for investments by private pension accounts. **Fourth, strengthening financial literacy education and consumer rights protection for senior citizens, and improving age-friendly financial services.** The PBOC will adopt multiple approaches to intensify the promotion of basic financial and anti-fraud knowledge among the elderly, and it will further regulate financial marketing and promotional practices. It will also encourage financial institutions to strengthen age-friendly renovations of physical outlets, develop age-friendly mobile-phone APPs, and continuously optimize cash services and the cash payment environment.

VII. Improving the formation and transmission mechanism for market-oriented interest rates

Deepening the market-oriented interest rate reform, smoothing the transmission mechanism for interest rates, and promoting a reduction in overall financing costs. Greater emphasis was placed on leveraging interest rate adjustments to implement significant interest rate cuts. In 2024, the 7-day reverse repo operation rate in the open market was lowered on two occasions by a total of 0.30 percentage points, guiding the 1-year and over-5-year Loan Prime Rates (LPR) to decline cumulatively by 0.35 percentage points and 0.6 percentage points, respectively, thereby driving down lending rates. In September 2024, pilot programs were launched in five provinces—Shanxi, Jiangxi, Shandong, Hunan, and Sichuan—explicitly disclosing the total financing costs of corporate loans to promote the reduction of funding expenses and the overall financing costs for enterprises. In December, interest rate for newly issued corporate loans by financial institutions was approximately 3.4 percent, a year-on-year decrease of about 0.4 percentage points and a further decline from the historical low. The market-based adjustment mechanism for deposit rates was utilized to guide the decline in deposit rates. Major banks proactively lowered the deposit rates on two occasions, in July and October, in response to changes in the market interest rates, helping to stabilize the banks' liability costs and creating favorable conditions for reducing overall social financing costs. Meanwhile, the PBOC strengthened implementation of the interest rate policies to smooth transmission of the policy rates. In April, the PBOC guided the self-regulatory mechanism for interest rates to rigorously rectify irregular manual interest subsidies, thereby saving banks over RMB80 billion in interest expenses. In July, a reporting mechanism for deposit bidding rates was established, regulating deposit rate pricing practices and guiding banks to rationally set deposit rates in compliance with the regulations. Banks were urged to adhere to a risk-based pricing principle to reasonably determine loan rates. In November, self-disciplined management of corporate deposit and interbank demand deposit rates was optimized.

Optimizing mortgage rate policies, reducing interest rates on existing housing loans, and promoting steady and healthy development of the real estate market. In May, the PBOC revamped macro-prudential policies related to the real estate sector. The policy floor for the commercial individual housing loan interest rate policy was abolished, the down payment ratio was reduced, and the housing provident fund loan interest rate was cut. In September, the PBOC announced an improved pricing mechanism for loan rates on commercial individual housing, promoting a reduction in the interest rates on existing housing loans. Currently, the batch adjustment of interest rates on existing housing loans has been completed, benefiting more than 50 million households and 150 million people and reducing the housing loan interest costs for borrowers by RMB 150 billion each year. This has provided strong support for stabilizing market confidence and has promoted an expansion of consumption and investment.

VIII. Deepening the 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 2024, the highest and lowest RMB central parities against the US dollar were 7.0074 and 7.1996, respectively. During the 243 trading days, the RMB appreciated on 122 days and depreciated on 121 days. The biggest intraday appreciation and depreciation were 0.5 percent (339 basis points) and 0.9 percent (666 basis points), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. At end-2024, the central parity of the RMB against the US dollar and pound sterling depreciated 1.5 percent and 0.4 percent, respectively, from end-2023, while the central parity of the RMB against the euro and Japanese yen appreciated 4.4 percent and 8.6 percent, respectively, from end-2023. From the beginning of the reform of the RMB exchange rate formation regime in 2005 to end-2024, the RMB appreciated by a cumulative 15.1 percent, 33.1 percent, 58.8 percent, and 58.0 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 2024

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	670,808.63	7,710.27	3,584.46	2,541.46	467.44	768.33
Currency	NZD	SGD	CHF	CAD	MOP	MYR
Trading volume	278.73	1,074.02	297.32	667.40	50.35	37.17
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading volume	101.62	22.41	51.96	207.50	13.78	1.20
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	5.07	12.07	62.27	9.47	1.38	10.29
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	256.94	41.24	0	0.00	0.00	0

Source: China Foreign Exchange Trade System.

IX. Forestalling and defusing financial risks

Continuously monitoring, assessing, forestalling, and defusing financial risks. The PBOC deepened its efforts to enhance systemic risk assessments and research with detailed risk assessments conducted across various sectors. A comprehensive review of the financial system's soundness was carried out, yielding publication of the *China Financial Stability Report* (2024). Systematic measures were taken to address key risk projects and mitigate risks in critical areas, while risks associated with small and medium-sized financial institutions were prudently resolved. The PBOC has conducted Central Bank Ratings of Financial Institutions on a regular basis. For previously identified high-risk institutions, multiple measures have been taken to reduce their number through coordinated efforts by all parties. For newly identified high-risk institutions, a pilot early correction mechanism with hard constraints has been established to prevent the accumulation of risks.

Reinforcing the system safeguarding financial stability. The PBOC continued to improve the deposit insurance mechanism, ensuring that the compensation limit of RMB500,000 can provide full protection for over 99 percent of depositors. Efforts were also made to enhance risk resolution resources, including research on expanding the accumulation of risk resolution funds to better support the defusing of risks of high-risk institutions. The PBOC advanced implementation of the *Administrative Measures on the Total Loss-absorbing Capacity (TLAC) of Global Systemically Important Banks*, encouraging large banks to issue TLAC bonds to reinforce their capacity to withstand risks.

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

Making all-round efforts to promote facilitation of cross-border trade payments and receipts. The PBOC continued to carry out the pilot program for the high-level opening-up of cross-border trade and investment, expanding policy coverage and ensuring the policy transmission effects so as to improve the supply of foreign exchange services. Cross-border financing was further facilitated, benefiting 1.3 million sci-tech enterprises. The PBOC further optimized the pilot cash pooling program integrating domestic and foreign currency management for multinationals, making it easier for these companies to centralize and utilize their funds. Over 18,000 member companies of multinational enterprises have benefited from the fund pool policies.

Deepening international monetary and financial cooperation. The PBOC continued to steadily advance its progress in bilateral currency swap arrangements, improve the currency swap framework, and give 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-2024, under the bilateral currency swap agreements between the PBOC and overseas monetary authorities, the overseas monetary authorities had drawn RMB80.6 billion and the PBOC had drawn foreign currencies equivalent to about RMB400 million. These initiatives have played an active role in promoting bilateral trade and investment.

Part 3 Financial Market Conditions

In 2024, the financial market functioned in an overall stable manner. Money market rates declined, and market transactions were stable and orderly. Bond issuance rates fell while the volume of issuances increased. The stock market indices rebounded, foreign exchange market transactions remained brisk, and the volume of gold transactions grew significantly.

I. Financial market overview

1. Money market interest rates continued to decrease, and market transactions were stable and orderly

Money market interest rates declined. In December 2024, the monthly weighted average interest rate for interbank lending was 1.57 percent, and the monthly weighted average interest rate for pledged repos posted 1.65 percent, 21 basis points and 18 basis points lower than those in September 2024, respectively. The average monthly weighted interest rate for government-backed bond pledged repos among depository institutions posted 1.45 percent, 20 basis points lower than the monthly weighted average interest rate for pledged repos. At year-end, the overnight Shibor stood at 1.45 percent, down 30 basis points year on year, while the 7-day Shibor registered 1.97 percent, up 10 basis points year on year.

Repo transactions remained stable on the money market. In 2024, cumulative bond repos transactions on the interbank market totaled RMB1,680.7 trillion, with a daily average trading volume of RMB6.7 trillion, comparable to the level in 2023. The cumulative volume of interbank lending transactions registered RMB103.1 trillion, representing a daily average turnover of RMB410.9 billion and a decrease of 28.2 percent year on year. In terms of the term structure, overnight repos accounted for 85.3 percent of the total volume of bond repos, down 2.2 percentage points year on year, while overnight interbank lending made up 84.2 percent of the total volume of interbank lending, down 5.3 percentage points year on year. The cumulative trading volume of exchange-traded bond repos increased 11.4 percent year on year to RMB509.7 trillion.

Table 9 Fund Flows Among Financial Institutions in 2024

Unit: RMB100 million

	Repos		Interbank lending	
	2024	2023	2024	2023
Chinese-funded large banks①	-7243061	-7547504	-402284	-559860
Chinese-funded medium-sized banks②	-1042685	-1080044	24755	-33055
Chinese-funded small-sized banks③	540509	605794	31807	101333
Securities institutions④	2491318	2282209	326763	424875
Insurance institutions⑤	298405	249533	1473	1952
Foreign-funded banks	-14789	63531	-28694	-14810
Other financial institutions and vehicles⑥	4970302	5426481	46181	79566

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 2024, about 26,000 interbank CDs were issued on the interbank market, raising a total of RMB31.4 trillion. The total trading volume on the secondary market registered RMB257.8 trillion. At year-end, the outstanding balance of interbank CDs reached RMB19.4 trillion. The weighted average interest rate of 3-month interbank CDs was 2.0 percent, 1 basis point higher than that of the 3-month Shibor. Financial institutions issued 75,000 CDs during the year, totaling RMB19.9 trillion, up RMB5.7 trillion year on year.

The interest rate swap market enjoyed stable performance. In 2024, the RMB interest rate swap market witnessed about 337,000 transactions (including standard interest rate swap transactions), with the volume of the notional principal totaling RMB36.0 trillion, an increase of 13.4 percent year on year. In terms of the term structure, contracts with maturities of up to one year traded most briskly, and the volume of the notional principal posted RMB26.0 trillion, accounting for 72.2 percent of the principal of all maturities. The reference rates for the floating leg of the RMB interest rate swaps include the 7-day repo fixing rate, the Prime Negotiable Certificate of Deposit (Prime NCD) issuance rate of major nationwide banks, and the Shanghai Interbank Offered Rate (Shibor). The notional principal shares of the interest rate swaps linked to these benchmarks were 87.9 percent, 8.5 percent, and 3.0 percent, respectively. A total of 658 interest rate swaps with the LPR as the underlying asset were traded throughout the year, with a notional principal of RMB109.76 billion.

Table 10 Interest Rate Swap Transactions in 2024

	Transactions	Notional principal (RMB100 million)
2024	336,774	359,512
2023	352,279	317,072

Source: China Foreign Exchange Trade System.

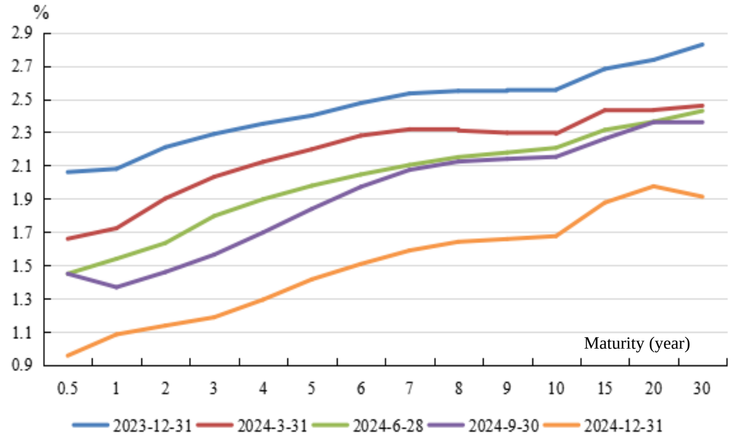
The interest rate options business developed at a steady pace. In 2024, a total of 306 interest rate option transactions were concluded, totaling RMB61.45 billion, all of which were linked to the LPR. Among these, interest rate cap/floor options amounted to RMB59.65 billion, while interest rate swap options amounted to RMB1.8 billion.

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

Bond issuance rates declined. In December, the rate on 10-year government bonds issued by the Ministry of Finance was 1.80 percent, 21 basis points lower than the rate in September; the average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 2.04 percent, down 25 basis points from September.

The yields on government bonds marked a downward trend, with narrowed term spreads. At end-2024, the yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds decreased by 28 basis points, 38 basis points, 42 basis points, 48 basis points, and 48 basis points to 1.08 percent, 1.19 percent, 1.42 percent, 1.59 percent, and 1.68 percent from end-September, respectively; and the term spread on 1-year and 10-year government bonds was 59 basis points, representing a narrowing of 19 basis points from end-September.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Bond issuances increased year on year. The cumulative value of bonds issued in 2024 grew by 12.4 percent year on year to RMB79.6 trillion, RMB8.8 trillion more than that in the last year, mainly due to the large increase in government bonds, interbank certificates of deposits, and debt financing instruments for non-financial enterprises. At end-2024, outstanding custodian bonds amounted to RMB177.0 trillion, representing an increase of 12.1 percent year on year.

The trading volume of spot bonds increased. In 2024, the value of spot bonds traded on the bond market reached RMB419.4 trillion, registering an increase of 18.5 percent year on year. Specifically, the value of spot bonds traded on the interbank market was RMB377.8 trillion, representing an increase of 23.0 percent year on year. The value of spot bond transactions on the stock exchanges totaled RMB41.6 trillion, a decrease of 10.8 percent year on year.

Table 11 Bond Issuances in 2024

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	124699	13743
Local government bonds	97761	4507
Central bank bills	0	0
Financial bonds①	424201	59785
Of which: Financial bonds issued by the CDB and policy financial bonds	56789	-1971
Interbank certificates of deposits	314619	56804
Corporate credit bonds②	147714	9508
Of which: Debt-financing instruments of non-financial enterprises	99026	12047

Enterprise bonds	700	-3108
Corporate bonds	36914	457
Bonds issued by international institutions	1858	428
Total	796233	87970

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 issuances witnessed rapid growth

The bill acceptance business remained stable with an upward trend. In 2024, commercial drafts issued by enterprises totaled RMB38.3 trillion, increasing by 22.2 percent year on year. At end-2024, outstanding commercial drafts stood at RMB18.7 trillion, increasing by 9.0 percent year on year. The balance of bill acceptances increased. At end-2024, outstanding commercial draft acceptances had increased by RMB1.5 trillion from end-2023. Bankers' acceptances issued by micro, small, and medium-sized enterprises (MSMEs) accounted for 74.6 percent, up 5 percentage points from 2023.

Bill financing remained stable, while interest rates declined. In 2024, total discounts by financial institutions amounted to RMB64.8 trillion, increasing by 3.4 percent year on year. At end-2024, the balance of bill financing was RMB14.7 trillion, up 11.9 percent year on year. The balance accounted for 5.8 percent of the total outstanding loans, up 0.3 percentage points year on year. In 2024, interest rates for bill financing generally witnessed a downward trend.

4. The stock market index went up, total turnover increased, 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-2024, the Shanghai Stock Exchange Composite Index closed at 3,352 points, up 12.7 percent from end-2023. The Shenzhen Stock Exchange Component Index closed at 10,415 points, up 9.3 percent from end-2023. In 2024, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB254.8 trillion, and the average daily turnover was RMB1.1 trillion, up 20.1 percent year on year. In 2024, cumulative funds amounting to RMB389.2 billion were raised through the Shanghai Stock Exchange and the Shenzhen Stock Exchange, a decrease of 57.6 percent year on year.

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

In 2024, total premium income in the insurance sector amounted to RMB5.7 trillion, up 11.2 percent year on year and an acceleration of 2.1 percentage points compared to that recorded in 2023. Claim and benefit payments totaled RMB2.3 trillion, representing a year-on-year increase of 21.8 percent. Specifically, total property insurance claims and benefit payments increased by 7.0 percent year on year, and total personal insurance claims and benefit payments increased by 35.9 percent year on year.

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

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-2024	End-2023	End-2024	End-2023
Total assets	359058	299573	100.0	100.0
of which: Bank deposits	31530	27243	8.8	9.1
Investments	301051	249495	83.8	83.3

Source: National Financial Regulatory Administration.

The growth of assets in the insurance sector accelerated. At end-2024, total assets in the insurance sector increased by 19.9 percent year on year to RMB35.9 trillion, an acceleration of 9.5 percentage points from end-2023. Specifically, bank deposits increased by 15.7 percent year on year, while investment assets increased by 20.7 percent year on year.

6. The trading volume of foreign exchange transactions went up

In 2024, the cumulative turnover of spot RMB/foreign exchange transactions registered USD9.6 trillion, an increase of 9.6 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD24.3 trillion, an increase of 17.8 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD16.2 trillion, accounting for 66.8 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD192.5 billion, increasing by 60.5 percent year on year. The turnover of foreign currency pair transactions totaled USD2.4 trillion, increasing by 30.9 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 40.0 percent of the total market share.

7. Gold prices went up and the trading volume increased

At end-2024, international gold prices closed at USD2,609.1 per ounce, representing an increase of 25.5 percent from end-2023. The Au99.99 on the Shanghai Gold Exchange closed at RMB614.8 per gram, increasing by 28.2 percent from end-2023. In 2024, the volume of gold traded on the Shanghai Gold Exchange was 62,000 tons, an increase of 49.9 percent year on year. The turnover reached RMB34.7 trillion, up 86.6 percent year on year.

II. Development of Institutional Arrangements in the Financial Markets

1. Institutional Arrangements in the Bond Market

Steadily expanding high-level opening of the bond market. In January 2024, the PBOC collaborated with the Hong Kong Monetary Authority (HKMA) to include RMB-denominated bonds held under the Bond Connect as eligible collateral for the HKMA's RMB liquidity facility. In July, at the 7th Bond Connect Anniversary Summit, the PBOC announced its support for overseas institutions to use bonds held under the Bond Connect as margin collateral for Swap Connect transactions. In December, the PBOC facilitated the launch of China-UK over-the-counter bond business to promote China-UK bond market connectivity. At end-2024, overseas institutions held a custody balance of RMB4.2 trillion in domestic bonds, accounting for 2.4 percent of the total custody balance in China's bond market.

Strengthening supervision and management in the interbank bond market. In February, the PBOC released the *Notice on Over-the-Counter Business for the Interbank Bond Market*, further clarifying the requirements on bond categories, transaction methods, and investors' account opening for over-the-counter bond business. In July, the PBOC released the *Notice on Strengthening Supervision and Management and Improving Law Enforcement Efficiency in the Interbank Bond Market*, which outlined the roles and responsibilities of financial infrastructures, the NAFMII, and the PBOC and its branches in managing the interbank bond market as well as the procedures for identifying, transferring, and penalizing activities in violation of laws and regulations.

2. Institutional Arrangements in the Securities Market

Improving the institutional framework for capital market development. In 2024, the State Council issued the *Opinions on Strengthening Regulation, Forestalling Risks, and Promoting High-Quality Development of the Capital Market*, which provided clear guidelines on the regulation of issuances, listed companies, delistings, securities and fund institutions, and trading, as well as on the entry of medium- and long-term funds into the market. The State Council also approved the *Regulations on Standardizing the Intermediary Services for Public Stock Offerings (Draft)*, emphasizing the role of intermediaries as gatekeepers to the capital market, cracking down on financial fraud and false issuances, protecting investors' legitimate rights and interests, and promoting healthy and stable development of the capital market. Additionally, the CSRC released various documents, including the *Opinions on Strengthening the Supervision of Listed Companies (Trial)*, the *Opinions on Deepening Mergers, Acquisitions, and Restructurings of Listed Companies*, and the *Guiding Opinions on Promoting the Entry of Medium- and Long-term Funds into the Market*, all aiming to build a capital market with Chinese characteristics through strong supervision, risk prevention, and high-quality development.

Improving the institutional framework for serving technological innovation in the capital market. In April, the CSRC issued the *Sixteen Measures for Serving the High-Level Development of Technology Enterprises in the Capital Market*, covering comprehensive supportive measures in IPO financing, mergers and acquisitions, bond issuances, and private equity investments. The CSRC also amended the *Guidelines for the Evaluation of Sci-Tech Innovation Attributes (Trial)*, raising the requirements for R&D investment, number of patents, and compound revenue growth rates for companies planning to list on the STAR Market, and encouraging them to prioritize R&D input and industrialization of scientific research achievements. In June, the CSRC issued the *Eight Measures on Deepening the STAR Market Reforms to Serve Sci-Tech Innovation and the Development of New Quality Productive Forces*, enhancing inclusiveness for new industries, emerging business formats, and innovative technologies.

Promoting the two-way opening of the capital market. In April, the CSRC announced five measures for capital market cooperation with Hong Kong, aiming to strengthen Hong Kong's status as an international financial center and to promote the coordinated development of Mainland–Hong Kong capital markets. Specifically, the measures include: (i) expanding the scope of eligible exchange-traded funds (ETFs) under the Stock Connect; (ii) incorporating real estate investment trusts (REITs) into the Stock Connect; (iii) supporting the inclusion of RMB-denominated stocks into the southbound Stock Connect; (iv) enhancing the scheme of mutual recognition of funds; and (v) supporting the listing of leading Mainland companies in Hong Kong. In November, the Ministry of Commerce and five other departments revised and issued the *Measures for the Administration of Strategic Investments in Listed Companies by Foreign Investors*, lowering the investment thresholds through relaxed asset requirements, reduced shareholding ratios, and shortened shareholding lock-up periods for foreign investors, thus broadening the investment channels and encouraging long-term and value investing by foreign capital.

3. Institutional Arrangements in the Insurance Market

Strengthening the institutional framework of the insurance market. In November 2024, the NFRA issued the *Interim Measures for Risk Classification of Insurance*

Assets, expanding the scope of asset risk classification and improving classification standards for fixed-income assets, equity assets, and real estate assets. In December, the NFRA released the *Notice on Extending the Transition Period for Implementation of the Solvency Supervisory Rules (II) for Insurance Companies*, extending the transition period, initially set to conclude at the end of 2024, to the end of 2025. Also in December, the NFRA issued the *Guidelines for Internal Controls of Insurance Funds Investments (Nos. 4-6)*, specifying the operational requirements for non-standard assets, such as unlisted company equities, real estate, and financial products in project selections, approvals, and other business processes so as to regulate internal control practices in the management of insurance funds.

Promoting high-quality development in key sectors of insurance. In April, the NFRA issued the *Guiding Opinions on Promoting High-Quality Development of Green Insurance*, outlining clear requirements for enhancing green insurance coverage in key areas, enhancing insurance fund support in green investments, and strengthening the management capabilities of green insurance. In June, the NFRA issued the *Guiding Opinions on Promoting the High-Quality Development of Inclusive Insurance*, emphasizing the principles of broad coverage, public benefits, fairness, and sound operations. It proposed to establish a high-quality inclusive insurance system over the next five years and to advance the high-quality development of inclusive insurance. In October, the NFRA released the *Notice on Promoting the Development of Commercial Insurance Annuities*, introducing policy measures and regulatory requirements to optimize the supply of personal pension products, strengthen regulatory systems, and foster the development of commercial insurance annuities.

Enhancing regulation and service quality of life and property insurance. In March, the NFRA issued the *Measures for the Supervisory Ratings of Life Insurance Companies*, establishing a comprehensive risk assessment system to determine the overall risk level of insurance companies through multi-dimensional evaluations so as to strengthen the classified supervision of life insurance companies. In August, the NFRA released the *Notice on Improving the Pricing Mechanism for Life Insurance Products*, introducing a mechanism to link preset interest rates with market rates and to adjust the former dynamically, and emphasizing management of sales behaviors. In August, the NFRA also issued the *Notice on Strengthening and Improving the Regulation of Online Property Insurance Services*, outlining the scope and operating conditions for online property insurance services and setting the regulatory requirements for risk management, internal controls, and service delivery. In December, the NFRA released the *Action Plan on Strengthening Supervision, Preventing Risks, and Promoting Reform for the High-Quality Development of the Property Insurance Industry*, reinforcing comprehensive and strict regulation to prevent and resolve risks, further deepening reform and openness, and enhancing quality and efficiency to serve the real economy.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

In 2024, the global economic growth was weak, with increasing disparities among nations. Inflationary pressures eased in the major advanced economies, but inflation rose once again after the easing cycle began. This makes it more challenging for the central banks to strike a balance between promoting economic growth and containing inflation. In 2025, geopolitical uncertainties remain elevated, a number of countries face fiscal and debt risks, and there are constraints on global trade and investment growth.

1. Economic and financial market performance in the major economies

The pace of economic recovery varied across major economies. The U.S. economy remained resilient. From Q1 to Q4 of 2024, annualized quarter-on-quarter GDP growth in the U.S. was 1.6 percent, 3.0 percent, 3.1 percent, and 2.3 percent, respectively. In December, the Manufacturing Purchasing Managers' Index (PMI) of the Institute for Supply Management (ISM) came in at 49.3. It has been on the rise since Q4. Growth in the euro area and the U.K. was weak. In the euro area, GDP registered year-on-year growth of 0.4 percent, 0.5 percent, 0.9 percent, and 0.9 percent from Q1 to Q4, respectively. Year-on-year GDP growth in the U.K. was 0.4 percent, 0.7 percent, and 0.9 percent from Q1 to Q3, respectively, with weak demand and sluggish industrial production being the main constraints. The economic recovery in Japan is not yet entrenched. In Q2, GDP grew at an annualized rate of 2.2 percent on a quarterly basis, marking a significant improvement compared with the –2.2 percent in Q1. But, growth in Japan slowed down again to 1.2 percent in Q3.

Inflationary pressures edged up again. In the U.S., the consumer price index (CPI) was up by 2.9 percent year on year in December, 0.2 percentage points higher than the previous month, which was the third successive increase. In the euro area, the Harmonized Index of Consumer Prices (HICP) rose by 2.4 percent year on year, up by 0.7 percentage points since September. In the U.K., the CPI went up by 2.5 percent year on year, 0.1 percentage points lower than its growth in November, but up by 0.8 percentage points compared with September. In Japan, the CPI increased by 3.6 percent year on year in December, up by 1.1 percentage points compared with September.

The labor market remained generally stable In December, the U.S. unemployment rate dropped from 4.2 percent in November to 4.1 percent. It increased slightly compared with the 3.7 percent earlier in the year, but it remained at historical lows. The labor force participation rate was 62.5 percent, still 0.8 percentage points lower than the pre-COVID level. Nonfarm payrolls increased by 256,000, up by 44,000 compared with November. The year-on-year growth rate of average hourly earnings for nonfarm payrolls dropped by 0.1 percentage points from the previous month to 3.9 percent. The number of job openings was 7.6 million, down by 560,000 from the prior month. The unemployment rate in the euro area was 6.3 percent in December, still a record low.

Global financial markets increased. Despite volatility, global stock indices went up. Since 2024, booming new technologies such as artificial intelligence (AI) have driven up global stock markets. In August, the rate hike by the Bank of Japan (BOJ) and other factors unsettled the market, but global stock markets gradually stabilized and resumed their upward trend. By the end of the year, the S&P 500 Index of the U.S., the STOXX50 Index of the euro area, and the Nikkei 225 Index of Japan had increased by 23.3 percent, 8.3 percent, and 19.2 percent, respectively. Government bond yields fell, as the major advanced economies entered a rate-cutting cycle. The 10-year U.S. treasury yield had gone up since October, driven by the election expectations. At end-2024, the 10-year U.S. treasury yield closed at 4.58 percent, 70 basis points higher than that at end-2023. The 10-year government bond yield of the U.K., France, and Germany closed at 4.52 percent, 3.19 percent, and 2.39 percent, respectively, up by 90 basis points, 63 basis points, and 37 basis points compared with end-2023. A stronger U.S. economy and geopolitical shifts pushed up the U.S. Dollar Index in 2024. At the end of the year, it was 108.5, 7.0 percent higher than that at end-2023.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q4 2023			Q1 2024			Q2 2024			Q3 2024			Q42024		
		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	Real GDP Growth (annualized quarterly rate, %)	3.2			1.6			3.0			3.1			2.3		
	Unemployment Rate (%)	3.9	3.7	3.8	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1
	CPI (year-on-year, %)	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	2.9
	DJ Industrial Average (end of the period)	33053	35951	37690	38150	38996	39807	37816	38686	39119	40843	41563	42330	41763	44911	42544

Euro Area	Real GDP Growth (year-on-year, %)	0.1			0.4			0.5			0.9			0.9		
	Unemployment Rate (%)	6.6	6.5	6.5	6.5	6.5	6.5	6.4	6.5	6.4	6.4	6.3	6.3	6.3	6.2	6.3
	HICP (year-on-year, %)	2.9	2.4	2.9	2.8	2.6	2.4	2.4	2.6	2.5	2.6	2.2	1.7	2.0	2.2	2.4
	EURO STOXX 50 (end of the period)	4061	4382	4522	4648	4878	5083	4921	4984	4930	4874	4958	5067	4828	4978	4896
United Kingdom	Real GDP Growth (year-on year, %)	-0.3			0.4			0.7			0.9					
	Unemployment Rate (%)	4.0	4.0	3.9	4.1	4.2	4.3	4.4	4.4	4.2	4.2	4.1	4.3	4.3	4.4	
	CPI (year-on-year, %)	4.6	3.9	4.0	4.0	3.4	3.2	2.3	2.0	2.0	2.2	2.2	1.7	2.3	2.6	2.5
	FTSE 100 (end of the period)	7322	7454	7733	7631	7630	7953	8144	8275	8164	8368	8377	8237	8110	8287	8173
Japan	Real GDP Growth (annualized quarterly rate, %)	0.7			-2.2			2.2			1.2					
	Unemployment Rate (%)	2.5	2.5	2.5	2.4	2.6	2.6	2.6	2.6	2.5	2.7	2.5	2.4	2.5	2.5	2.4
	CPI (year-on-year, %)	3.3	2.8	2.6	2.2	2.8	2.7	2.5	2.8	2.8	2.8	3.0	2.5	2.3	2.9	3.6
	Nikkei 225 (end of the period)	30859	33487	33464	36287	39166	40369	38406	38488	39583	39102	38648	37920	39081	38208	39895

Sources: Statistical bureaus and central banks of the relevant economies.

2. Monetary policies of the major economies

Most advanced economies entered a rate-cutting cycle. The U.S. Federal Reserve (Fed) started to cut rates in September 2024. It lowered the target range for the federal funds rate by 100 basis points on three consecutive occasions, from 5.25–5.5 percent to 4.25–4.5 percent. Meanwhile, starting from June 2024, the Fed reduced the monthly redemption cap on Treasury securities to USD25 billion and the monthly redemption cap on agency debt and agency mortgage-backed securities (MBS) to USD35 billion. The European Central Bank (ECB) began to cut rates ahead of the Fed, and it reduced interest rates on four occasions by a total of 100 basis points in 2024. The deposit facility rate was cut to 3.0 percent. In line with the adjusted operational framework for implementing monetary policy, the ECB also cut interest rates on the main refinancing operations and the marginal lending facility to 3.15 percent and 3.4 percent, respectively. Meanwhile, the ECB reduced the pandemic emergency purchase programme (PEPP) portfolio by an average of EUR7.5 billion per month over the second half of 2024, and it discontinued reinvestments under the PEPP at the end of 2024. The Bank of England (BOE) reduced its benchmark interest rate on two occasions by 50 basis points in total to 4.75 percent in 2024, and it 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) tightened its monetary policy, putting an end to the negative interest rate policy and the yield curve control policy. It increased the short-term interest rate target to about 0.25 percent, and it decided to gradually shrink its monthly purchases of Japanese government bonds from about JPY6 trillion to about JPY3 trillion from August 2024 to early 2026. In 2024, the Bank of Canada, the Reserve Bank of New Zealand, and the Bank of Korea cut interest rates five times, three times, and twice, by a total of 175 basis points, 125 basis points, and 50 basis points, respectively.

Monetary policies in the emerging market economies diverged. In 2024, the Reserve Bank of India and the Bank Negara Malaysia kept their benchmark interest rates unchanged. The Bank of Russia raised rates by 500 basis points, while the Banco de México and the South African Reserve Bank reduced rates by 125 basis points and 50 basis points, respectively. The Banco Central do Brasil cut interest rates by 125 basis points in the first half of 2024, and it raised rates by 175 basis points in the second half of the year.

3. Issues and trends that merit attention

Global economy sustains weak growth momentum. The 2024 global economic growth forecasts by the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD) are 3.2 percent, 2.6 percent, and 3.2 percent, respectively, lower than the historical average of 3.8 percent between 2000 and 2019. Since the outbreak of the COVID-19 pandemic, falling household income expectations, public debt risks, and globalization headwinds have become more prominent. And the global economy will maintain a weak recovery trend for the short term. Most international organizations project global growth in 2025 to be somewhat the same as that in 2024.

The growth of trade faces several challenges. On the one hand, rising unilateralism and protectionism, major shifts in global industrial chains, and post-election trade policy uncertainties in the major economies may have implications for the recovery of global trade. On the other hand, the still-high geopolitical risks may bring uncertainties to global trade and investment growth, and the global economic recovery will face greater challenges.

Policy makers need to remain vigilant to inflation risks. Inflation in the major advanced economies has fallen from the peak of around 10 percent in 2022 to about 2–3 percent in 2024, but recently it has started to rise again as the central banks have eased their monetary policies. In 2025, geopolitics may push up commodity prices, wage growth in the U.S. and Europe remains higher than consumer price growth, services inflation remains sticky, and post-election trade policy shifts in some countries may drive up product prices.

II. Macroeconomic developments in China

In 2024, in the face of complex and severe situations of increasing external pressures and difficulties 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. As a result, the national economy was generally stable and new progress was made in terms of high-quality development. According to preliminary statistics, GDP in 2024 grew by 5.0 percent year on year to RMB134.9 trillion on a comparable basis. Specifically, GDP in Q1, Q2, Q3, and Q4 grew by 5.3 percent, 4.7 percent, 4.6 percent, and 5.4 percent year on year, respectively.

1. Consumption grew steadily, investments were expanded, and imports and exports grew rapidly.

Residents' incomes continued to increase and consumption recovered steadily. In 2024, China's per capita disposable income posted RMB41300, increasing by 5.3 percent year on year in nominal terms or 5.1 percent in real terms, synchronized with the economic growth. The structure of income distribution continued to improve. The nominal and real growth rates of rural residents' per capita disposable income were 2 percentage points and 1.9 percentage points higher than those of urban residents, respectively. In 2024, total retail sales of consumer goods grew by 3.5 percent year on year. Sales of basic living items and some upgraded products saw rapid growth, and the service consumption market grew rapidly.

Fixed-asset investments continued to expand, and investments in the high-tech sector grew rapidly. In 2024, total fixed-asset investments throughout China (excluding those by rural households) increased by 3.2 percent year on year to RMB51.4 trillion. In terms of sectors, investments in the manufacturing sector increased by 9.2 percent year on year, 6.0 percentage points higher than the total investment growth. Investments in infrastructure increased by 4.4 percent year on year, 1.2 percentage points higher than the total investment growth. Investments in real estate development decreased by 10.6 percent year on year. Investments in the high-tech sector grew by 8.0 percent year on year, 4.8 percentage points higher than the total investment growth. Specifically, investments in high-tech manufacturing and high-tech services grew by 7.0 percent and 10.2 percent year on year, respectively.

Imports and exports grew rapidly, with the trade structure continuously optimized. In 2024, imports and exports of goods increased by 5.0 percent year on year to RMB43.8 trillion. Specifically, exports grew by 7.1 percent year on year and imports grew by 2.3 percent year on year, with the trade surplus in goods posting RMB7.1 trillion. The trade structure was continuously optimized. Exports of mechanical and electrical products increased by 8.7 percent year on year, accounting for 59.4 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 6.4 percent year on year, accounting for 50.3 percent of total imports and exports.

Foreign direct investment (FDI) was generally stable and the quality of FDI continued to improve. In 2024, actually utilized FDI totaled RMB826.25 billion. The quality of FDI also continued to improve. Actually utilized FDI in the high-tech manufacturing sector stood at RMB96.29 billion, accounting for 11.7 percent of total actually utilized FDI. Actually utilized FDI in medical equipment/instrument manufacturing and professional technical services grew by 98.7 percent and 40.8 percent year on year, respectively.

2. Agricultural production saw a bumper harvest, industrial production grew rapidly, and the service industry continued to grow.

In 2024, the value-added of primary industry totaled RMB9.1 trillion, up 3.5 percent year on year. The value-added of secondary industry totaled RMB49.2 trillion, up 5.3 percent year on year. The value-added of tertiary industry totaled RMB76.6 trillion, up 5.0 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In 2024, the value-added of agriculture (farming) increased by 1.6 percent year on year to 710 million tons, surpassing 700 million tons for the first time. The output of summer grain and autumn grain grew by 2.6 percent and 1.4 percent year on year, respectively. The output of pork, beef, lamb, and poultry grew by 0.2 percent year on year. Specifically, the output of pork fell by 1.5 percent year on year. In 2024, the number of hogs for slaughter decreased by 3.3 percent year on year. At end-2024, the number of hogs in stock decreased by 1.6 percent year on year.

Industrial production saw good growth momentum and equipment manufacturing grew rapidly. In 2024, 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 mining was up by 3.1 percent, that of manufacturing up by 6.1 percent, and that of.production and supply of electricity, thermal power, gas, and water up by

5.3 percent. Specifically, the value-added of equipment manufacturing and high-tech manufacturing increased by 7.7 percent and 8.9 percent, respectively, 1.9 and 3.1 percentage points higher than that of the IEDS, respectively. In terms of products, the output of new energy vehicles, integrated circuits, and industrial robots grew by 38.7 percent, 22.2 percent, and 14.2 percent year on year, respectively.

The service industry continued to grow and modern services enjoyed sound development. In 2024, the value-added of the service industry grew by 5.0 percent year on year. Specifically, the value-added of information transmission/software/ information technology services and leasing/business services grew by 10.9 percent and 10.4 percent year on year, respectively. In December, the Index of Service Production (ISP) grew by 6.5 percent year on year. Specifically, the ISP of leasing/business services, financial services, and information transmission/software/ information technology services grew by 9.5 percent, 9.3 percent, and 8.8 percent year on year, respectively. From January to November, the revenue of enterprises above a designated size in the service industry registered a year-on-year increase of 8.2 percent.

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

Consumer prices rose moderately. In 2024, the Consumer Price Index (CPI) increased by 0.2 percent year on year, on par with that in the previous year and with an overall trend of starting low, peaking in the middle, and subsequently slowing down. The CPI growth rates for October, November, and December were 0.3 percent, 0.2 percent, and 0.1 percent, respectively. For the entire year, prices of pork and fresh vegetables reversed from a downward trend to an upward trend, witnessing significant growth, while prices of most other food items remained weak. Prices of food decreased by 0.6 percent year on year, a further decline of 0.3 percentage points compared to the previous year. Prices of energy decreased amidst fluctuations, though the year-on-year decline narrowed significantly. Prices of industrial goods excluding energy, showed a slightly bigger decline. Price trends for tourism, education, and healthcare services exhibited some divergence, with service prices showing a slight decline. Prices of non-food items rose by 0.4 percent year on year, almost on par with that in the previous year. The core CPI, excluding food and energy, increased by 0.5 percent year on year, a deceleration of 0.2 percentage points compared to the previous year.

The decline in production prices narrowed. Due to weak demand and sufficient supply, the Producer Price Index (PPI) continued its decline in 2024, with a year-on-year decrease of 2.2 percent, narrowing by 0.8 percentage points from the previous year. Overall, the PPI displayed an inverted U-shape, with the decline narrowing to a minimum of 0.8 percent in June and July, and a deeper decline of 2.3 percent in December. The Purchasing Price Index of Raw Material (PPIRM) decreased by 2.2

percent year on year, narrowing by 1.4 percentage points from the previous year. The Corporate Goods Price Index (CGPI) monitored by the PBOC decreased by 1.3 percent year on year, narrowing by 0.8 percentage points compared to the previous year.

4. Fiscal revenue and expenditure grew steadily

In 2024, national general public budget revenue amounted to RMB22.0 trillion, a year-on-year increase of 1.3 percent. Specifically, central government revenue grew by 0.9 percent and local government revenue grew by 1.7 percent. National tax revenue reached RMB 17.5 trillion, a decrease of 3.4 percent year on year. Among these, the domestic value-added tax declined by 3.8 percent, the domestic consumption tax increased by 2.6 percent, the corporate income tax fell by 0.5 percent, and the personal income tax decreased by 1.7 percent. Non-tax revenue reached RMB 4.5 trillion, an increase of 25.4 percent year on year.

In 2024, national general public budget expenditure reached RMB28.5 trillion, an increase of 3.6 percent year on year. Specifically, expenditure in the central level general public budget and in the local level general public budget grew by 6.5 percent and 3.2 percent, respectively. In terms of the expenditure structure, expenditure for agriculture, forestry, and water conservancy, urban and rural community affairs, and science and technology increased substantially, rising by 12.4 percent, 5.9 percent, and 5.7 percent, respectively.

5. The employment situation remained generally stable

The urban surveyed unemployment rate decreased. In 2024, the national urban surveyed unemployment rate averaged 5.1 percent, a decrease of 0.1 percentage points from the previous year. In December, the urban surveyed unemployment rate was 5.1 percent, increasing by 0.1 percentage points from the previous month. In 2024, the average urban surveyed unemployment rate in 31 major cities was 5.1 percent, a decrease of 0.3 percentage points from the previous year. Employment for key groups remained stable, with the unemployment rate for migrant workers in urban areas averaging 4.6 percent, a decrease of 0.3 percentage points year on year.

6. The balance of payments remained generally balanced

In the first three quarters of 2024, China's current account recorded a surplus of USD241.3 billion, accounting for 1.8 percent of GDP and remaining within a reasonable and balanced range. Specifically, trade in goods recorded a surplus of USD518.3 billion, hitting a historic high for the same period. Trade in services recorded a deficit of USD181.5 billion, with residents' cross-border travel expenditures basically returning to the pre-pandemic levels. Cross-border two-way investment and financing proceeded smoothly. In the first three quarters, all types of foreign investments in China showed stable growth, and financial account assets rose by USD314.9 billion. Foreign investments in China registered a net inflow, with foreign securities investments reaching USD93.1 billion, marking four consecutive quarters of net inflows and reflecting an increase in the allocation of foreign capital into RMB-denominated assets. As of September 2024, the total external debt denominated in both domestic and foreign currencies stood at USD2.5 trillion, with foreign currency debt accounting for 50 percent, an increase of 1 percentage point compared to the previous quarter. The currency structure of external debt further improved, and the financing costs for domestic institutions declined.

7. Analysis by sector

7.1 The Cultural and Tourism Sector

With its extensive coverage and long industrial chain, the cultural and tourism sector has witnessed a continuous rise in its strategic position in China's economic and social development. Expanding domestic demand is a key task for 2025 as outlined at the Central Economic Work Conference and promoting the development of the cultural and tourism sector is one of its important pathways. In recent years, the cultural and tourism sector has resumed normalized growth, serving as a significant force in driving the economic recovery and growth. **First, the domestic cultural and tourism market has accelerated its growth.** In 2024, the number of domestic trips stood at 5.615 billion, with total expenses standing at RMB5.75 trillion, registering year-on-year growth of 14.8 percent and 17.1 percent, respectively, recovering to over 90 percent of that during the same period in 2019. **Second, the inbound tourism market has experienced fast growth.** Driven by policies such as visa-free entry to China and payment facilitation, growth of the inbound tourism market has been way beyond expectations, with approximately 95 million inbound tourist trips in the first three quarters of 2024 and registering a year-on-year increase of 78.8 percent. **Third, business operations of cultural and tourism enterprises have continued to recover.** In the first three quarters of 2024, the operating income and total profits of domestic listed cultural and tourism companies increased by 8.9 percent and 6.6 percent year on year, respectively.

Finance empowers the cultural and tourism sector in multiple ways, supporting the high-quality development of the sector. **On the one hand, financial products are continuously being optimized.** Financial institutions have actively introduced innovative financial products and services, such as "homestay loans" and "beautiful countryside loans", to meet the diversified financing needs of cultural and tourism enterprises. This has effectively reduced their financing costs, with the comprehensive financing costs of the listed cultural and tourism companies standing at approximately 3.47 percent for the first three quarters of 2024 and with a year-on-year decrease of 0.25 percentage points. **On the other hand, payment facilitation has been steadily promoted.** Since 2024, in collaboration with the related departments, the PBOC has continuously advanced the optimization of payment services, significantly enhancing payment facilitation for foreign tourists. In the first half of 2024, over 5 million inbound visitors used mobile payment, a fourfold increase year on year, with both the number and volume of transactions growing sevenfold year on year.

Going forward, we will further strengthen the competitiveness and influence of the domestic cultural and tourism sector. Measures will be taken to support high-quality development of the sector, cultivating it to be one of the pillar sectors of the domestic economy. **First, we will accelerate development of the tourism sector via inbound tourism.** We will put forward new measures to facilitate foreign tourists' travel and payment in China, effectively addressing bottlenecks in inbound tourism. **Second, we will promote the deep integration of culture and tourism.** We will eliminate the traditional boundaries between the cultural and tourism sectors, creating new scenarios and experiences to achieve resource sharing, complementary advantages, and collaborative innovation. **Third, we will promote cross-sectoral collaboration between cultural tourism and technology and digital sectors.** We will make tourism services more intelligent and personalized, supporting the high-quality development of the cultural and tourism sector through technological empowerment.

7.2 The Express Delivery Sector

As an integral part of the modern service industry, the express delivery sector provides strong support for the development of the online economy, the expansion of new consumption, and the smooth circulation of the economy. In recent years, the rapid growth of China's e-commerce sector has also driven the vigorous development of the express delivery sector. **First, the volume of express delivery has been steadily expanded.** In 2024, the volume of China's express delivery exceeded 170 billion parcels, with a year-on-year increase of 21 percent and ranking first globally for eleven consecutive years. **Second, business revenue has witnessed continuous growth.** In 2024, cumulative revenue of the express delivery sector reached RMB1.4 trillion, marking a year-on-year increase of 13 percent and maintaining its high-growth trend since 2023. **Third, technology empowerment promotes cost reduction and efficiency improvement.** Express delivery companies have actively adopted technological solutions to deepen intelligent and digital transformation, reducing operational costs, improving logistics efficiency, and continuously enhancing service quality and efficiency. In December 2024, the quality index of China's express delivery services posted 649.4, marking a year-on-year increase of 15.6 percent.

The financial sector has provided continuous support for the high-quality development of the express delivery sector under the new consumption models. **First, the financing environment for enterprises has been continuously improved.** According to estimates based on financial data from the major express delivery companies issuing bonds, in the first three quarters of 2024, incremental financing support for enterprises increased 7 percent year on year, with the comprehensive financing cost posting approximately 3.6 percent, decreasing 0.18 percentage points year on year. **Second, the loan terms are more appropriately matched.** In the first three quarters of 2024, medium- and long-term credit support for express delivery companies increased 28 percent year on year, with the ratio of long-term to short-term debt optimized to 6:4, enabling more precise funding support for the construction and operation of logistics hubs and bases. **Third, financial products and services have been further optimized.** Financial institutions continued to increase financing support for logistics enterprises, introducing innovative products and services such as "digital railway freight loans" and "railway document financing", and providing stable financing support for logistics companies.

Going forward, the express delivery sector is poised to play a more significant role in expanding domestic demand, injecting additional fresh momentum into the economic development. **First, in terms of specialized facilities,** rapid improvement in cold chain logistics, integrated facilities for warehousing and distribution, and continuous promotion of the construction of aviation hubs will continuously enhance comprehensive transport and cross-border transport capacity, better aligning with the trend of globalization in the industry. **Second, in terms of industrial coordination, by** leveraging digital and intelligent innovations in service models and technological applications, express delivery companies will be further integrated into the automobile, consumer goods, and electronic information and other manufacturing sectors, thus promoting the transformation and upgrading of related industries. **Third, in terms of green development,** express delivery companies have incorporated energy conservation and emission reduction into their core assessment. With the widespread adoption and application of energy-saving and emission-cutting technologies, eco-friendly packaging materials, and waste recycling, the express delivery sector is set to achieve sustainable development.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In 2024, China effectively navigated complex and severe domestic and international challenges, successfully achieving its main goals and tasks of economic and social development for the year. The economy demonstrated strong resilience, with steady progress in high-quality development and a notable improvement in social confidence. GDP grew by 5 percent year on year, surpassing RMB130 trillion.

China's economy is expected to maintain stable growth in 2025. First, the conditions for economic recovery continue to improve with more positive factors. Since the fourth quarter of 2024, the effects of a series of incremental policy measures have gradually emerged, leading to positive changes in the major indicators, such as production, demand, prices, income, and expectations. Efforts to stabilize the real estate market are also yielding results, with increased market transactions and gradually stabilizing housing prices, which in turn are bolstering market confidence and supporting related industries. Additionally, the cultivation of new drivers for growth has accelerated, the momentum for high-quality development has strengthened, and the intensity of R&D investment has further increased. **Second, domestic demand has significant potential for further growth.** In 2024, the large-scale equipment renewal and consumer goods trade-ins significantly stimulated consumer spending and drove investment, with growth of home appliance retail sales accelerating by 11.8 percentage points over the previous year. In 2025, comprehensive efforts to expand domestic demand will intensify, with broader implementation, increased funding, and expanded coverage for the two policies. Meanwhile, the advantages of China's vast market will continue to emerge as new consumption patterns and business models further develop, ensuring strong support for steady growth of consumption. **Third, macroeconomic policies will be more proactive and impactful.** In line with the directives of the Central Economic Work Conference, fiscal policy in 2025 will be more proactive, with a higher fiscal deficit ratio, increased government spending, and an optimized expenditure structure. Simultaneously, an appropriately accommodative monetary policy will be implemented alongside a coordinated policy mix to underpin the economy's continued recovery. The overall effectiveness of these measures is expected to improve further.

To drive economic recovery, it is essential to transform all positive factors into actual achievements in development. The external environment remains complex and volatile, with the global economic recovery facing significant challenges and uncertainties, which in turn create spillover effects on China's economy. Domestically, insufficient demand, production and operational difficulties for some enterprises, and pressures on employment and income growth all pose substantial risks. To ensure a sustained economic recovery, it is crucial to confront these difficulties with confidence and determination. We must fully leverage China's strong capacity for innovation, vast market size, comprehensive industrial system, well-developed infrastructure, and abundant high-quality human resources. Alongside steadfastly deepening reform and expanding openness, we will also focus on boosting domestic demand—particularly consumer demand—while ensuring a smooth transition between old and new growth drivers. These efforts will help achieve an optimal combination of stable growth, stable employment, and a reasonable recovery in prices.

Prices are expected to continue a moderate rebound. Since February 2024, the CPI has maintained positive growth, rising by 0.2 percent year on year in 2024. Meanwhile, the PPI declined by 2.2 percent year on year, narrowing by 0.8 percentage points compared to the previous year. The decline in food and energy prices had a significant impact on CPI growth in 2024. However, the core CPI excluding food and energy, has remained generally stable and has shown a slight rebound for three consecutive months since the fourth quarter. As the effects of previous incremental policy measures continue to materialize and more proactive and impactful macroeconomic policies are introduced in 2025, the economic recovery is expected to gain further momentum, providing stronger support for a price rebound. In the medium to long term, China's economic structural transformation and industrial upgrading will progress steadily, leading to a more balanced supply-demand relationship in the real economy. A smoother economic cycle, sound and appropriate monetary conditions, and overall stable consumer expectations will help lay a solid foundation for overall price stability.

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 20th CPC National Congress, the Second and Third Plenary Sessions of the 20th CPC Central Committee, and the Central Economic 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 further deepen financial reform and high-standard opening-up, continue its efforts to promote high-quality financial development, and build China into a financial powerhouse. It will fasten the pace of making improvements to the central banking system, and it will 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. In addition, macro regulation will be more forward-looking, targeted, and effective, and macro policies will be better coordinated in a bid to help expand domestic demand, stabilize expectations, and stimulate vitality, as well as to promote steady economic growth.

The PBOC will implement an appropriately accommodative monetary policy. Using a mix of monetary policy tools, it will keep liquidity adequate and keep aggregate financing and money supply in step with the projected economic growth and the CPI increase. Promoting a reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. The PBOC will smooth the transmission mechanism of monetary policy, better handle relations between stock and increment, focus on revitalizing existing financial resources, and improve the efficiency of capital utilization. It will strengthen the guiding role of central bank policy rates, and it will strengthen implementation of interest rate policies so as to promote a reduction in financing costs for enterprises and credit costs for residents. The PBOC will give play to the role of monetary policy tools in adjusting both the aggregate and the structure. It will continue its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance. 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 in a bid to stabilize market expectations, and to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. While strengthening counter-cyclical adjustments, the PBOC will optimize policy intensity and pace, when appropriate, based on the economic and financial situations at home and abroad as well as on the performance of financial markets. Keeping a close watch on the monetary policy shifts in the major central banks abroad, it will continue to reinforce monitoring and analysis of financial market movements as well as liquidity supply and demand in the banking system. Moreover, the PBOC will conduct open market operations (OMOs) in a flexible and effective manner, and it will use a combination of monetary policy tools, such as the interest rate and the required reserve ratio, to keep liquidity adequate. While guarding against funds sitting idle or circulating outside the real economy, the PBOC will guide financial institutions to further tap into effective credit demand. It will maintain reasonable growth in money and credit to ensure that the rises in aggregate financing and money supply are in step with the projected economic growth and the increase in the CPI.

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, and it will duly implement the special central bank lending facilities that are still in effect. Focusing on the weak links and key fields, such as the major national sci-tech tasks and technology-based small and medium-sized enterprises, it will continue to improve the provision of financial support for sci-tech innovation in terms of capacity, intensity, and quality. Meanwhile, the PBOC will establish a sound mechanism for developing green finance to support the Beautiful China Initiative, and it will continue to advance high-quality development of the green bond market. Moreover, it will further promote the project for enhancing the capability of providing financial services for micro, small, and medium-sized enterprises (MSMEs). Effectiveness assessments will be conducted in a timely manner on the financial services provided for the private economy and also on the credit policies encouraging financial support for micro and small businesses. Additionally, the PBOC will carry out special campaigns aimed at providing financial support for all-round rural revitalization, while more emphasis will be placed on the use of 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 to support the priority groups in starting businesses, getting jobs, and receiving education. Picking up the pace to establish and improve the system of old-age finance, it will build a long-term mechanism for old-age finance to support the high-quality development of the silver economy. The PBOC will also put into practice the *Action Plan for Promoting High-Quality Development of Digital Finance* to advance the digital transformation of financial institutions, financial products, and financial services. It will increase support for the consumer goods trade-in program and ensure effective financial services for key fields of consumption to further stimulate the vitality of consumption. Moving ahead with implementation of the financial policy measures already introduced, the PBOC will step up efforts to mobilize commodity housing and land inventories, and promote the stabilization of the property market. It will also improve the foundational system for real estate finance to help build 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 guide money market rates to move stably around the policy rates, and it will 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 and will see to it that the interest rate self-regulatory initiatives are effectively put into practice so as to maintain a level playing field in the market. 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, it will straighten out the relationship between loan rates and market rates, such as bond yields, to help bring down corporate financing costs and household credit costs. Moreover, 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 give play to the role of the exchange rate as an automatic stabilizer for the macro economy and the balance of payments. At the same time, it will duly conduct monitoring and analysis of cross-border capital flows. Upholding bottom-line thinking, it will adopt a combination of policies to stabilize expectations and to enhance the resilience of the foreign exchange market. Furthermore, the PBOC will strengthen management of the foreign exchange market. It will take firm action to redress pro-cyclical behaviors in the market, to deal with conduct that disrupts market order, and to prevent the risks of exchange rate overshooting. With these efforts, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level. 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 fostering a stable exchange rate environment for development of the real economy.

Fourth, the PBOC will pick up pace in advancing financial market institutional building and high-standard opening-up. Continued efforts will be made to enhance the functionality of the bond market and its capacity to serve the real economy. Working to diversify the products in the interbank bond market, the PBOC will further beef up support from the bond market to promote sci-tech innovation and consumption. It will also improve the legal system for the bond market and push forward with the development of the legal system for corporate bonds. Additionally, the PBOC will accelerate steps to develop the multi-tiered bond market while further moving ahead with the expansion and well-regulated development of the over-the-counter bond business. It will set up a sound mechanism linking market-makers and OMO primary dealers, improve the rules and regulations on bond underwriting, valuation, and market-making, and enhance the pricing function activity as well as robustness of the bond market. Moreover, the PBOC will take prudent and solid steps to advance the internationalization of the RMB. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary cooperation, and develop offshore RMB markets. It will further liberalize and facilitate cross-border trade and investment by carrying out pilot programs 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. It will make explorations to expand the role of the central bank regarding macro-prudential management and financial stability, and it will launch innovative financial tools to keep financial markets stable. 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 strengthen macro-prudential management of systemically important financial institutions. It will urge systemically important banks to implement the additional capital and leverage ratio requirements, organize recovery plan drills on a regular basis, and enhance cooperation among global systemically important banks on cross-border crisis management. Steadily expanding additional regulation to cover non-bank institutions, the PBOC will push for the introduction of a list of systemically important insurance companies and promote additional corresponding regulatory rules. Taking prudent and orderly steps to resolve risks in key fields and projects of primary concern, it will support efforts to resolve the risks of small and medium-sized banks based on market principles and the rule of law. Moreover, the PBOC will improve the accountability mechanism for risk resolution that matches power with responsibility and ensures compatibility between incentives and constraints. At the same time, a scientific and reasonable mechanism will be set up for cost sharing in the resolution of financial risks. The PBOC will step up research and assessment of systemic financial risks and consolidate the financial stability guarantee system to effectively prevent and control systemic risks. It will further study expansion of the risk resolution fund accumulation and it will enhance the role of deposit insurance in resolving financial risks professionally.