China Monetary Policy Report

Q1 2025

(May 9, 2025)

Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2025, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as its core, the Chinese economy has developed steadily on a positive trajectory, underpinned by macro policy coordination. In Q1, the Gross Domestic Product (GDP) grew 5.4 percent year on year, with a sustained uplift in social confidence as well as solid progress in high-quality development, marking a robust beginning for the year. 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 an appropriately accommodative monetary policy and by strengthening counter-cyclical adjustments, the PBOC has created a favorable monetary and financial environment for sustained economic recovery and development.

First, money and credit maintained reasonable growth. The PBOC kept liquidity adequate by using a mix of tools, including the required reserve ratio (RRR), open market operations (OMOs), medium-term lending facility (MLF) operations, and central bank lending and discounts. Financial institutions were encouraged to fully satisfy the effective credit needs of the real economy and to enhance the efficiency of fund utilization so as to improve the quality and efficiency of financial services for the real economy. **Second,** overall social financing costs were guided to move downward. The PBOC continued to improve the market-oriented interest rate adjustment framework and lowered the policy rate and the rates on structural monetary policy instruments, while strengthening the implementation of the interest rate policy, to bring down both deposit and loan rates. **Third,** the credit structure was improved. The PBOC improved central bank lending for sci-tech innovation and technological transformation, and it made good use of the two facilities supporting the capital market. While ensuring effective use of the structural monetary policy instruments that are still in effect, it also launched new policy instruments in a bid to continue its efforts to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance. **Fourth,** the RMB 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 implemented a mix of policies to keep expectations stable, and the RMB exchange rate remained basically stable despite the complex circumstances. **Fifth,** risk prevention and resolution were strengthened. Risk resolution in key areas was steadily promoted and the system of financial risk monitoring, assessments, and early warnings was continuously improved.

The counter-cyclical adjustments of monetary policy achieved significant results. Financial aggregates witnessed steady growth. At end-March, outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) recorded year-on-year growth of 8.4 percent and 7.0 percent, respectively. Outstanding RMB-denominated loans registered RMB265.4 trillion. Social financing costs were at a historic low. In March, the rate on new corporate loans and on new personal housing loans dropped by about 50 basis points and 60 basis points year on year, respectively. The credit structure continued to improve. At end-March, loans extended to specialized, sophisticated, distinctive, and innovative small- and medium-sized enterprises (SMEs) and loans to inclusive micro and small businesses (MSBs) registered a year-on-year increase of 15.1 percent and 12.2 percent, respectively, outpacing, as before, the overall loan growth. The RMB exchange rate remained basically stable at an adaptive and equilibrium level. At end-March, the central parity of the RMB against the U.S. dollar registered 7.1782, roughly on a par with that at end-2024.

Currently, the impact of external shocks is growing, with insufficient momentum for global economic growth, a rise in trade protectionism, and persistent geopolitical conflicts. The foundation for China's sustained economic recovery and development still needs to be further consolidated. However, it should also be noted that China has numerous advantages, including a super-large market, a comprehensive industrial system, and abundant talent resources. The fundamental trend of long-term economic growth remains unchanged. We must strengthen confidence in development and address external uncertainties with the certainty of high-quality development. Looking ahead, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully implement the guiding principles of the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Two Sessions. 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 reforms and high-standard opening-up, and it will continue its efforts to promote high-quality financial development and to build China into a financial powerhouse. It will quicken the pace of improving 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 considerations, between growth stability and risk prevention, between internal and external equilibria, and between supporting the real economy and maintaining the soundness of the banking system. 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. Every effort will be made to consolidate the foundation for economic development and social stability.

The PBOC will implement an appropriately accommodative monetary policy. It will flexibly adjust the intensity and pace of policy implementation 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 the increase in the Consumer Price Index (CPI). 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, further improve the interest rate adjustment framework, strengthen the implementation and oversight of interest rate policies, reduce the banks' liability costs, and promote a decline in overall financing costs. It will give play to the role of monetary policy tools in adjusting both the aggregate and the structure, and it will implement policies in a targeted, appropriate, and flexible manner. Financial institutions will be guided to enhance their support for sci-tech finance, green finance, inclusive financing for SMEs, consumption expansion, and foreign trade stabilization. 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, to enhance the resilience of the foreign exchange market and stabilize market expectations. It will take resolute steps to correct pro-cyclical market behavior, address any conduct that disrupts market order, and guard against the risks of exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. While exploring to expand its functions in macro-prudential regulation and financial stability, the PBOC will safeguard financial market stability and firmly defend the bottom line whereby no systemic financial risks will occur.

Contents

Boxes

Tables

Figures

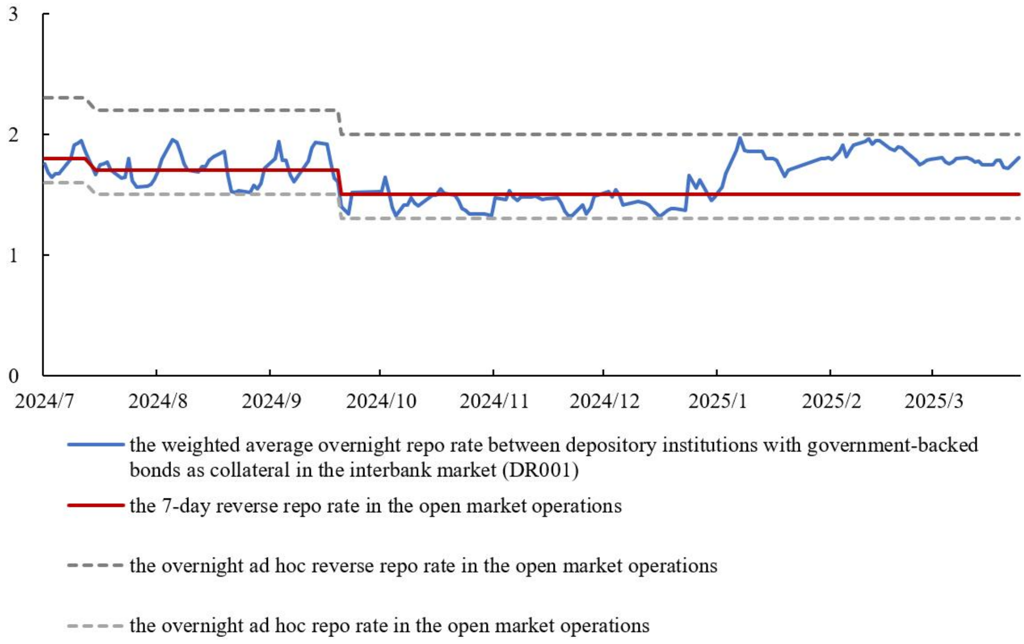
Part 1 Money and Credit Analysis

Since the beginning of 2025, the People's Bank of China (PBOC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully implemented 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. In line with the arrangements in the *Report on the Work of the Government*, the PBOC implemented an appropriately accommodative monetary policy. As a result, money, credit, and aggregate financing to the real economy (AFRE) witnessed reasonable growth, overall financing costs declined further from their subdued levels, 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

In Q1 2025, the PBOC implemented an appropriately accommodative monetary policy and employed a mix of monetary policy instruments to keep liquidity adequate in the banking system. The PBOC flexibly managed the intensity and pace of open market operations (OMOs), promptly smoothing out short-term fluctuations caused by seasonal factors such as Spring Festival cash injections, fiscal tax payments, and government bond issuances so as to maintain stable money market rates and to create an appropriate liquidity environment to support a sustained economic recovery. At end-March, the excess reserve ratio for financial institutions registered 1.0 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

There was reasonable growth of credit aggregates. Since the beginning of 2025, the PBOC has guided financial institutions to fully meet the effective financing needs of the real economy, improve the quality and efficiency of credit growth, and create a conducive monetary and financial environment for stable economic growth. At end-March, outstanding loans issued by financial institutions in domestic and foreign currencies grew 6.9 percent year on year to RMB269.3 trillion, increasing RMB9.7 trillion from the beginning of 2025. Outstanding RMB loans grew 7.4 percent year on year to RMB265.4 trillion, up RMB9.8 trillion from the beginning of 2025.

The credit structure has been improving. At end-March, medium and long-term (MLT) loans to enterprises and public entities grew by RMB5.6 trillion from the beginning of 2025, accounting for 64.4 percent of total corporate loans. The year-on-year (YOY) growth of MLT loans to the manufacturing sector registered 9.3 percent, 1.9 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 12.2 percent year on year, 4.8 percentage points higher than the growth of total loans. A total of 61.9 million MSBs were supported, largely unchanged year on year.

Table 1 The Structure of RMB Loans in Q1 2025

Unit: RMB100 million

	Outstanding amount at end-March	YOY growth	Increase from the beginning of the year
RMB loans to:	2654137	7.4%	97754
Households	838733	3.0%	10435
Enterprises and public entities	1783491	9.3%	86569
Non-banking financial institutions	9749	-3.4%	-866
Overseas	22164	55.7%	1616

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 Q1 2025

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	58504

Chinese-funded small and medium-sized banks②	40612
Small-sized rural financial institutions③	9865
Foreign-funded financial institutions	-209

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 lending rate for corporate loans remained at a historic low. The PBOC has continuously advanced the market-oriented reform of interest rates, tapping into the loan prime rate (LPR) reform and bringing into play the key role of the market-based adjustment mechanism for deposit interest rates so as to promote a significant decline in lending rates. In March, the one-year LPR and the over-five-year LPR stood at 3.1 percent and 3.6 percent, respectively, both down 0.35 percentage points year on year. In March, the weighted average interest rate on new loans recorded approximately 3.4 percent, down about 0.6 percentage points year on year, which fostered a sound financial environment for high-quality economic development.

Table 3 Weighted Average Interest Rates on New Loans Issued in March 2025

Unit: %

	March	Change from December	YOY Change
Weighted average interest rate on new loans	3.44	0.16	-0.55
on ordinary loans	3.75	-0.07	-0.52
of which: on corporate loans	3.26	-0.08	-0.47
on bill financing	1.55	0.53	-0.71
on mortgage loans	3.13	0.04	-0.56

Source: The People's Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to March 2025

Unit: %

Month Year	LPR-bps				LPR	LPR+bps				
	Below LPR-1%	[LPR-1%, LPR-0.5%)	[LPR-0.5%, LPR)	Subtotal	LPR	Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	LPR+3% and above

August 2019	3.19	1.79	10.57	15.55	0.32	84.13	20.26	26.96	16.69	20.23
January 2025	6.03	18.28	19.84	44.15	5.88	49.97	13.75	17.94	9.93	8.35
February 2025	8.53	15.22	19.87	43.61	6.09	50.30	13.36	16.38	9.83	10.74
March 2025	7.11	18.90	21.16	47.17	6.43	46.40	13.12	15.73	9.58	7.98

Notes: In August 2019, the PBOC reformed and improved the LPR formation mechanism.

Source: The People’s Bank of China.

Interest rates on foreign-currency deposits and foreign-currency loans generally declined. In March, the weighted average interest rates on large-value USD-denominated demand deposits registered 2.67 percent, up 0.19 percentage points from December 2024, while the weighted average interest rates on large-value USD-denominated deposits with maturities within three months registered 3.85 percent, down 0.20 percentage points from December 2024. 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 5.04 percent and 4.53 percent, a decrease of 0.03 and 0.45 percentage points compared to December 2024, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, January to March 2025

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	2.60	3.75	4.19	4.33	4.26	4.46	4.89	4.72	4.48	4.62	5.19
February	2.66	3.89	4.22	4.43	4.17	4.42	4.88	4.71	4.44	4.35	4.70
March	2.67	3.85	4.18	3.75	4.09	4.18	5.04	4.53	4.22	4.37	5.06

Source: The People’s Bank of China.

Deposits grew steadily. At end-March, outstanding deposits in domestic and foreign currencies at all financial institutions increased 6.9 percent year on year to RMB322.1 trillion, up RMB13.8 trillion from the beginning of 2025. Outstanding RMB deposits grew 6.7 percent year on year to RMB315.2 trillion, an increase of RMB13.0 trillion from the beginning of 2025. Outstanding deposits in foreign currencies stood at USD959.8 billion, an increase of USD106.9 billion from the beginning of 2025.

Table 6 The Structure of RMB Deposits in Q1 2025

Unit: RMB100 million

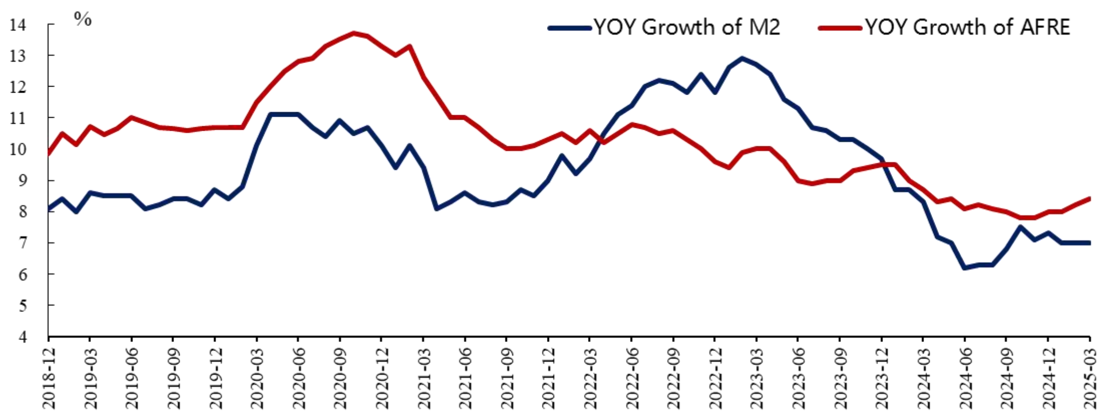
	Outstanding deposits at end-March	YOY growth	Increase from the beginning of the year
RMB deposits:	3152232	6.7%	129927
Household deposits	1604707	10.3%	92199
Non-financial enterprise deposits	799857	1.4%	17370
Public entity deposits	378687	4.0%	8058
Fiscal deposits	64428	17.0%	8190
Non-banking financial institution deposits	284994	5.0%	3090
Overseas deposits	19559	-2.4%	1019

Source: The People's Bank of China.

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

Monetary aggregates grew at a reasonable pace. At end-March 2025, outstanding broad money M2 registered RMB326.1 trillion, up 7.0 percent year on year; narrow money M1 stood at RMB113.5 trillion, up 1.6 percent year on year; currency in circulation M0 registered RMB13.1 trillion, up 11.5 percent year on year. In the first quarter of 2025, net cash injections totaled RMB249.8 billion, RMB126.8 billion less than those in 2024.

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 at end-March 2025, the outstanding AFRE stood at RMB423.0 trillion, representing YOY growth of 8.4 percent, 0.4 percentage points higher than that at end-2024. In Q1 2025, the increment in the AFRE totaled RMB15.2 trillion, RMB2.4 trillion more than that during the same period of 2024. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In Q1 2025, RMB loans issued by financial institutions to the real economy increased by RMB9.7 trillion, RMB586.2 billion more than that in Q1 2024, and accounting for 63.9 percent of the AFRE increment during the same period. Second, government bond financing saw a higher YOY increase. Net financing of government bonds reached RMB3.9 trillion in Q1 2025, RMB2.5 trillion more than that in Q1 2024. Domestic equity financing by non-financial enterprises also registered a higher YOY increase. Third, off-balance-sheet financing increased at a slower pace year on year. In Q1 2025, entrusted loans increased by RMB105.0 billion more than that during the same period of 2024, while trust loans and undiscounted bankers' acceptances decreased by RMB145.2 billion and RMB20.2 billion, respectively. Fourth, loans were written off at a relatively rapid pace. In Q1 2025, written-off loans increased by RMB290.5 billion, up RMB35.6 billion year on year.

Table 7 The AFRE in Q1 2025

	End-March 2025		Q1 2025
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)
The AFRE	422.96	8.4	151771
Of which: RMB loans	262.18	7.2	96956
Foreign currency loans (RMB equivalent)	1.19	-34.5	-967
Entrusted loans	11.24	0.6	55
Trust loans	4.35	6.2	531
Undiscounted bankers' acceptances	2.67	-12.1	5300
Corporate bonds	32.59	2.4	5251
Government bonds	84.96	19.4	38738
Domestic equity financing by non-financial enterprises	11.82	2.7	962
Other financing	11.7	7.6	2151
Of which: Asset-backed securities of depository institutions	0.74	-41.4	-572
Loans written off	10.23	15.4	2905

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,

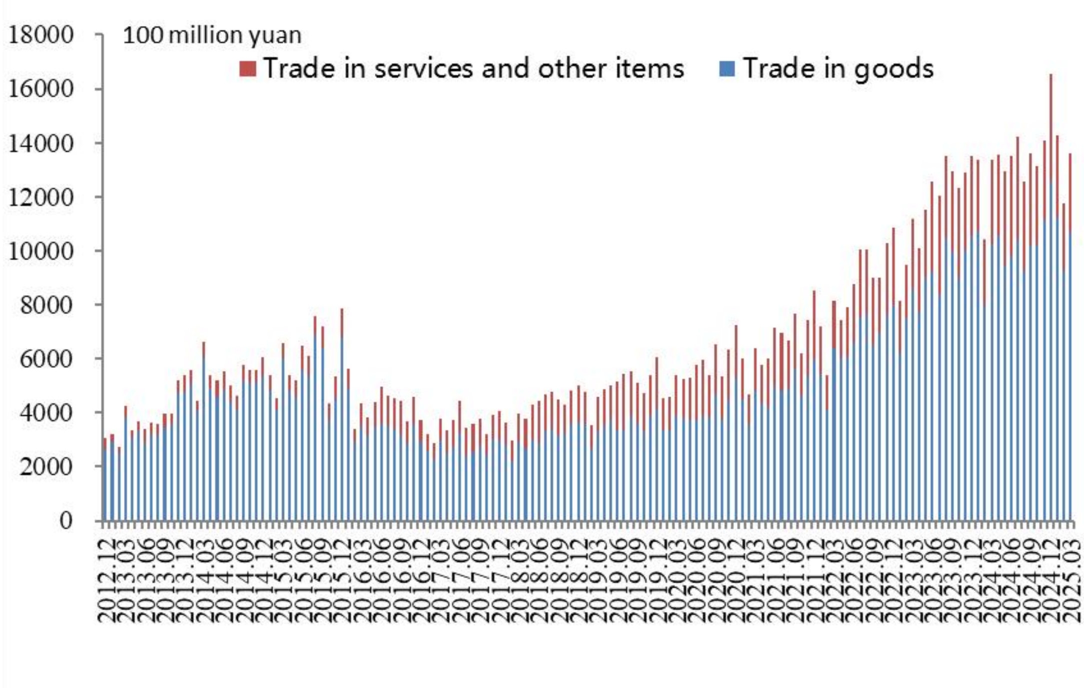
the PBOC has included three types of non-depository financial institutions, namely, consumer finance companies, wealth management companies, and financial asset investment companies, into the scope of its financial statistics. Accordingly, adjustments have been made to the data on "RMB loans issued by 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

Since the beginning of 2025, cross-border capital flows have remained stable and orderly, supply and demand in the foreign exchange market have been basically in equilibrium, and expectations for the RMB exchange rate have remained generally stable. The international environment has been complex and challenging, with a marked increase in the uncertainty of macroeconomic policies among the major economies, weighing on global economic growth and triggering sharp fluctuations in global financial markets. As the U.S. Dollar Index showed a general downward trend with volatility, the RMB exchange rate moved in both directions and remained basically stable at an equilibrium level. In Q1 2025, based on market supply and demand, the RMB exchange rate depreciated against a basket of currencies. At end-March 2025, the China Foreign Exchange Trade System (CFETS) RMB Exchange-Rate Index closed at 99.00, depreciating by 2.4 percent from end-2024. According to calculations by the Bank for International Settlements (BIS), from 2005, when the reform of the RMB exchange-rate formation regime began, to end-March 2025, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated by 44.6 percent and 34.4 percent, respectively. At end-March 2025, the central parity of the RMB against the U.S. dollar stood at 7.1782, up 0.14 percent from end-2024 and up a cumulative 15.3 percent since the 2005 exchange-rate reform.

Cross-border RMB businesses continue to grow. In Q1 2025, cross-border RMB receipts and payments totaled RMB17.1 trillion, up 17.2 percent year on year. Specifically, receipts stood at RMB8.3 trillion and payments stood at RMB8.8 trillion. Under the current account, cross-border RMB receipts and payments totaled RMB4.0 trillion, up 6.7 percent year on year, including RMB3.1 trillion for trade in goods and RMB0.9 trillion for trade in services and other current account items. Under the capital account, cross-border RMB receipts and payments reached RMB13.2 trillion, up 21 percent year on year, including RMB2.1 trillion in direct investments, an increase of 5.6 percent from the previous year.

Figure 3　Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In Q1 2025, the PBOC resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It implemented an appropriately accommodative monetary policy, kept liquidity adequate, maintained reasonable growth in financial aggregates, and promoted a further decline in overall social financing costs. The PBOC solidly advanced technology finance, green finance, inclusive finance, old-age finance, and digital finance, and it stepped up financial services for major strategies, key sectors, and weak links so as to promote a sustained economic recovery.

I. Conducting OMOs in a flexible manner

The open market 7-day reverse repo operations fully meet the demand of primary dealers. In Q1, the domestic economy was generally stable. The PBOC kept the policy rate (open market operation 7-day reverse repo rate) unchanged at 1.5 percent. There were multiple factors affecting liquidity conditions preceding the Spring Festival. The PBOC promptly initiated 14-day reverse repo operations and injected a total of RMB2.6 trillion of liquidity during the Spring Festival period, ensuring smooth operation of all types of institutions. Announcement details have been optimized. Starting from March 25, data on the submitted bids and winning bids volume have been included in the announcements of the results of daily operations, signaling full allotment for primary dealers. Additionally, the operation rate has been moved ahead of the bid volume to highlight the role of the policy rate, conveying clearer interest rate adjustment signals to the market.

Increasing the scale of outright reverse repo operations to address the medium- and long-term liquidity gaps. From January to March, the PBOC conducted monthly outright reverse repo operations of RMB1.7 trillion, RMB1.4 trillion, and RMB800 billion, respectively. Specifically, the cumulative amounts of outright reserve repo operations with a term of three months and with a term of six months registered RMB2.6 trillion and RMB1.3 trillion, respectively. As of the end of March, outstanding outright reverse repos totaled RMB5.1 trillion, up RMB2.4 trillion from the end of 2024.

Provisionally suspending government bond transactions. In early 2025, the supply-demand imbalance in the government bond market further intensified, with the yield of 10-year government bonds once falling below the historic low of 1.6 percent. In January, the PBOC announced a temporary suspension of treasury bond purchases in the open market to avoid affecting the demands of investors, while utilizing other monetary policy tools to inject base money to maintain stable liquidity conditions and the stable functioning of the bond market. The PBOC will continue to monitor and assess bond market operations from a macro-prudential perspective, closely track changes in government bond yields, and resume operations at appropriate times based on market supply-demand conditions.

Continuing to leverage the Securities, Funds, and Insurance companies Swap Facility (SFISF). In October 2024, the PBOC launched the SFISF, supporting security companies and funds to better play the role of market stabilizer. In January 2025, the PBOC conducted a second SFISF operation, in the amount of RMB55 billion. At end-March, the cumulative amount of SFISF operations reached RMB105 billion, supporting 28 institutions to increase their holdings of stocks and exchange-traded funds (ETFs) by approximately RMB82 billion, and promoting the construction of an internal stability mechanism for the capital market.

Issuing more RMB-denominated central bank bills in Hong Kong. In recent years, the internationalization of the RMB has continued to advance. As global trade frictions intensified volatility in the financial market , the safe-haven appeal of U.S. dollar assets has diminished. Recognition of and demand for RMB-denominated assets have risen significantly in the offshore market. To enrich the supply of high-quality RMB assets in Hong Kong, the PBOC increased the issuance of RMB-denominated central bank bills in Hong Kong, issuing a total of RMB120 billion in 3 batches. Meanwhile, to further enhance the flexibility of the issuance mechanism and to better match market supply and demand, the PBOC issued RMB60 billion of 6-month central bank bills in January. This marked the first-ever issuance in history during the opening month of a quarter, with the single-issue amount also setting a new record. Various domestic and overseas investment institutions participated actively in the subscription, demonstrating confidence in offshore RMB assets and the Chinese financial market.

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

Adjusting the tendering manner for the MLF. In 2024, the PBOC officially established the open market 7-day reverse repo rate as the policy rate and took a series of measures to gradually decrease the policy-rate function of the MLF and other maturity-based tools. On March 24, 2025, the PBOC announced that the MLF would be adjusted from a single-price auction model to a multiple-price auction model. The MLF rate has shed its policy-rate attribute and has reverted to its role as a liquidity injection tool, further streamlining the transmission mechanism from short- to long-term rates. Meanwhile, the differentiated pricing among institutions helped to reduce funding costs, alleviated pressure on the net interest margins of banks, and better met the differentiated liquidity needs of participating institutions. In Q1, the PBOC conducted MLF operations in the amount of RMB950 billion with a term of one year. The outstanding MLF totaled RMB4.2 trillion at end-March, down RMB932 billion from the beginning of the year.

Box 1 Evolution of the MLF during the Past Decade

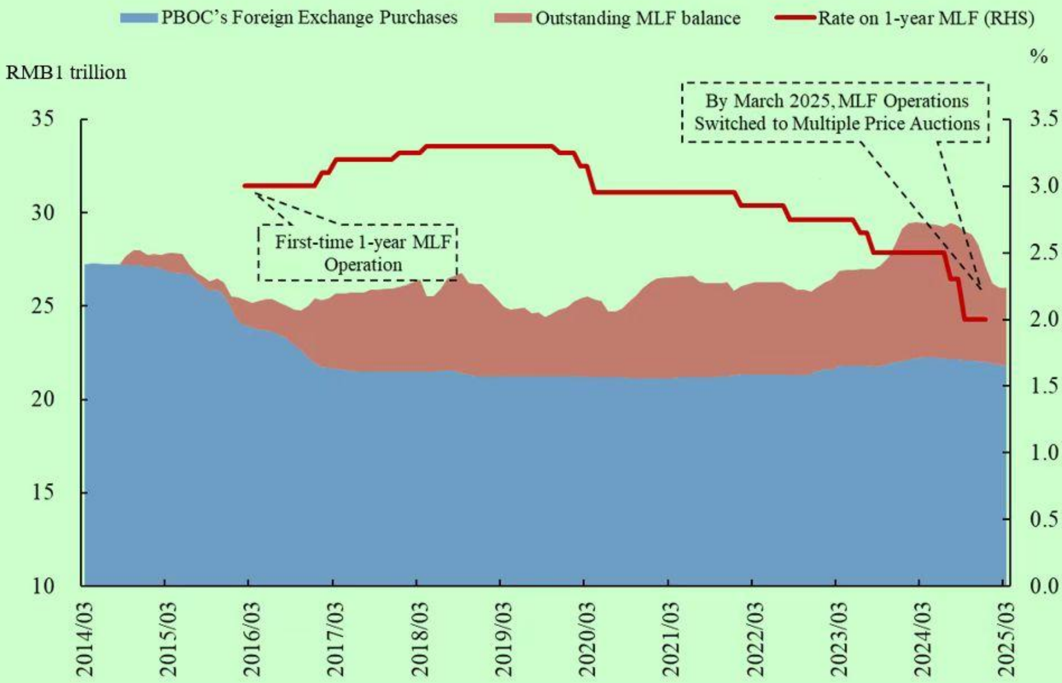
In September 2014, the PBOC introduced the Medium-term Lending Facility (MLF), to counteract the decline in the central bank's foreign exchange purchases and to ensure base money supply. Throughout the decade, the design, positioning, and characteristics of the tool all underwent significant transformations, which not only mirrored the rapid development of China's financial markets in recent years but also manifested China's practice in building a modern central bank system.

The evolution of the MLF over the decade can be divided into the following three phases:

In its early stages, the MLF was transformed from a supplementary tool specializing in liquidity provision to an aggregate monetary policy tool. Initially, the MLF offered three different maturities, which were 3-month, 6-month, and 1-year. The outstanding volume did not exceed RMB1 trillion from 2014 to 2015, when the PBOC predominantly relied on lowering the required reserve ratio (RRR) to provide mid- to long-term liquidity to the market. Since June 2017, MLF operations have been standardized to a single 1-year maturity. This move highlighted the MLF's role as an aggregate monetary policy tool, while its structural function petered out. After rapid development, the MLF has become an important monetary policy tool with a relatively high volume. In 2023, the net increase in MLF operations reached RMB2.5 trillion, accounting for over one-half of the provision of liquidity (including RRR cuts, open market reserve repos, and structural monetary policy tools) by the PBOC throughout the year. In 2024, the outstanding MLF approached RMB7.3 trillion, accounting for around 15 percent of the PBOC's total assets, reaching the highest level since its inception. Over the past two years, the PBOC has used a mix of policy tools in a flexible manner to meet the liquidity needs in the market. It cut the RRR more intensively, allowing the MLF balance to retreat from its peak.

During the second period, the MLF was transformed from a solely quantitative instrument to a tool guiding market interest rates during a certain phase. Since 2019, the PBOC has progressively institutionalized the regular operational framework for the MLF, which was then conducted in the middle of each month, to reinforce the transparency, regularity, and predictability of policy operations. At that time, the interest-rate transmission from money markets to credit markets remained suboptimal, prompting the PBOC to reform the pricing mechanism for the LPR in August 2019. According to the new mechanism, the LPR is priced by adding a spread over the MLF rate. The spread is determined by multiple factors, such as the funding cost of each bank, the market supply and demand balance, and the risk premium. The LPR has become a market-based benchmark indirectly steered by the PBOC, better reflecting market supply and demand. Throughout the transition, the 7-day open market reverse repo rate solidified its role as a short-term policy rate, and, to some extent, the 1-year MLF rate signaled a medium-term policy rate.

Figure MLF Balance, MLF Rate, and PBOC Foreign Exchange Purchases



During the most recent period, the MLF has shed its policy-rate attributes and has returned to its mandate to provide liquidity . In recent years, the PBOC has been continuously deepening the market-based interest rate reform, smoothing the transmission from the PBOC's policy rates to market benchmark rates and then to various financial market rates, and, in general, these efforts have materialized. However, challenges, such as the excessive number of policy rates and the complex relationships among the rates across different monetary policy tools, still persist. To address these challenges, the PBOC crystalized the role of the 7-day open market reverse repo rate as the policy rate, while gradually diluting the policy signaling role of rates on tools with other maturities. Since July 2024, the PBOC has decoupled the LPR from the MLF rates by rescheduling MLF operations to a date after the release of the LPR, guiding quotations of the LPR to generally refer to the 7-day open market reverse repo rate. Beginning from September 2024, MLF operations were conducted through variable-rate tenders (Dutch auction) instead of the previous fixed-rate quantity tenders, with the highest and lowest bidding rates as well as the bid-winning rate disclosed, thereby further diluting the MLF's role in signaling the policy rate. In October 2024, the PBOC introduced outright reserve repo operations, adopting multiple-price auctions (American auction). The PBOC accumulated tendering expertise through six months of outright reverse repo operations before applying it to MLF operations. Since March 2025, MLF operations have switched to multiple-price auctions, abolishing the previous uniform bid-winning rate as well as the MLF rates' policy signaling role.

The PBOC has been continuously pressing ahead with the transformation of the monetary policy framework, with the MLF serving as a tool providing medium- to long-term liquidity for financial institutions. Following the refinement of the MLF auction mechanism, an MLF tendering announcement is now published before the operations rather than the previous practice of an announcement of the result on the operation date, thus allowing participants to better plan short-, medium-, and long-term liquidity arrangements in advance. A variable-rate multiple-price auction not only enables financial institutions to rationally determine the bidding rate based on their funding needs, thereby enhancing their independent market-based pricing capabilities but also helps the PBOC dynamically monitor the liquidity conditions of the institutions. Meanwhile, as the channels for base money provision diversify, monetary policy operations gradually rely less on the MLF. Currently, the PBOC has an ample liquidity toolbox, with a more balanced distribution of maturities. For long-term operations, it has RRR cuts and government bond transactions. For medium-term operations, the MLF, outright reverse repos, and various structural policy tools are available. For short-term operations, it employs 7-day open market reverse repo operations, ad hoc overnight repos, and reverse repos. With the new framework, the MLF's role has been refined to focus on providing 1-year liquidity, with its outstanding balance declining significantly.

Moving forward, the PBOC will proceed to enrich and refine the ways to provide base money, and it will guide the MLF to return to its primary mandate of providing medium-term liquidity. The goal is to create a multi-dimensional framework for ensuring ample liquidity, with the MLF complementing other policy tools and thus better supporting the high-quality development of the economy.

Conducting SLF operations in a timely manner. SLF operations provide locally incorporated financial institutions with sufficient short-term liquidity support as needed, help to stabilize market expectations, strengthen the stability of liquidity in the banking system, and prevent liquidity risks. In Q1, the PBOC conducted SLF operations in the amount of RMB21.78 billion. At end-March, the outstanding SLF registered RMB2.54 billion. Serving as the ceiling of the interest rate corridor, SLF rates assisted in the smooth operation of the money market. At end-March, the overnight, 7-day, and 1-month SLF rate stood at 2.35 percent, 2.50 percent, and 2.85 percent, respectively.

III. Further improving the macro prudential system and the management framework

Giving full play to the guiding role of the macro prudential assessment (MPA). By optimizing the MPA evaluation framework, the PBOC guided financial institutions to maintain stable credit growth, thereby enhancing the sustainability of support for the real economy. It also increased credit support for inclusive micro and small businesses (MSBs) and medium- and long-term financing for the manufacturing sector, channeling more credit resources to key sectors and vulnerable areas.

Refining the macro-prudential governance mechanisms. To implement the decision of the Central Economic Work Conference to explore and expand the role of the central bank in macro-prudential regulation and financial stability, the PBOC established the Macro-Prudential and Financial Stability Committee in January 2025. The committee is responsible for strengthening the analysis and assessment of systemic financial risks, formulating policies relevant to macro-prudential and financial stability, and conducting research, coordination, and implementation of major matters related to macro-prudential management and financial stability.

Continuing to implement additional supervision of systemically important financial institutions (SIFIs). The PBOC closely traced marginal changes in the operations of systemically important banks (SIBs) and intensified monitoring and analysis of typical risks and vulnerable areas. It urged SIBs to meet additional capital requirements, reviewed the 2024 recovery and resolution plans, and provided feedback to further improve the contingency plan system, thereby enhancing risk resistance and response capabilities. Moreover, the PBOC leveraged the synergy of macro-prudential management and micro-prudential supervision so as to consolidate the foundation for financial stability.

Raising the macro-prudential adjustment parameter for cross-border financing. On January 13, to further improve gross macro-prudential management of cross-border financing, enrich capital sources for enterprises and financial institutions and guide them to optimize their asset-liability structures, the PBOC and the State Administration of Foreign Exchange (SAFE) decided to raise the macro-prudential adjustment parameter of enterprises and financial institutions for cross-border financing from 1.5 to 1.75.

Supporting the stable and healthy development of the real estate market. The PBOC continued to utilize the central bank lending facility for government-subsidized housing, encouraging and guiding financial institutions to support local state-owned enterprises (SOEs) in acquiring completed but unsold commercial housing for rental and sale purposes. The pledged supplementary lending (PSL) facility was leveraged to support policy-backed and development-oriented financial institutions in granting loans for the development of government-subsidized housing, the renovation of urban villages, and public infrastructure for both normal and emergency use. At end-March, the amount of the outstanding PSL reached RMB2.1 trillion.

Maintaining stable operations in the capital market. By continuously implementing the central bank lending facility for share buybacks and shareholding increases, the PBOC directed financial institutions to grant loans to eligible listed companies and their major shareholders. It encouraged listed companies to actively use share buybacks, shareholder stake increases, and other related tools to manage their market value, thereby safeguarding the smooth operation of the capital market. By the end of March, listed companies had disclosed plans to apply for loans for share buybacks and stake increases with the aggregate ceiling approaching RMB90 billion, while financial institutions signed loan contracts totaling over RMB70 billion for these purposes, with approximately RMB42 billion already disbursed. The PBOC firmly supported Central Huijin Investment in increasing its holdings of stock market index funds and stood ready to provide sufficient central bank lending support to Central Huijin Investment as needed, thereby resolutely safeguarding the stable functioning of the capital market.

IV. Giving play to the role of monetary policies for structural optimization

Enhancing support for inclusive finance. Central bank lending as well as central bank discounts for rural development and for MSBs were utilized to guide locally incorporated financial institutions to expand their credit supply for agriculture-related businesses, MSBs, and private enterprises. On January 20, the PBOC issued the *Administrative Measures on PBOC Lending to Support Rural Development and MSBs*. It was decided that starting from April 1, two separate central bank lending facilities for rural development and for MSBs would be consolidated into central bank lending to support rural development and MSBs, supporting six types of local financial institutions, namely, city commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives, village banks, and private banks, to enhance the supply of credit for agriculture-related businesses, MSBs, and private enterprises. 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-March, outstanding central bank lending to support rural development and MSBs as well as for poverty alleviation posted RMB2.4 trillion and RMB56 billion, respectively, and outstanding central bank discounts registered RMB497.4 billion.

Maintaining consistent support for green finance, technology finance, and old-age finance. The PBOC continued to implement the carbon emission reduction facility (CERF) and central bank lending for sci-tech innovation and technological transformation. Outstanding funds, such as special central bank lending for inclusive elderly care, continued to play their role. As of end-March, the outstanding amount of these structural monetary instruments registered RMB883.9 billion, with the CERF supporting financial institutions in the granting of carbon emission reduction loans worth over a cumulative RMB1.3 trillion.

Expanding the scope of institutions supported by selected structural monetary policy tools. To better promote the role of structural monetary policy tools and strengthen the capability of SIFIs in serving the real economy, the PBOC has included five SIFIs, namely, Bank of Beijing, Bank of Shanghai, Bank of Jiangsu, Bank of Nanjing, and Bank of Ningbo, in the scope of eligible institutions for central bank lending for sci-tech innovation and technological transformation, the CERF, central bank lending for government-subsidized housing, and central bank lending for share buybacks and shareholding increases.

V. Enhancing the quality and effectiveness of credit policies

On March 5, the General Office of the State Council issued the *Guidelines on Advancing Technology Finance, Green Finance, Inclusive Finance, Old-age Finance and Digital Finance* (hereinafter referred to as the *Guidelines*) to strengthen the top-level institutional design of the five key areas. The *Guidelines*, together with specific documents in each of the five areas previously issued by the PBOC, constitute a comprehensive policy framework. The PBOC has actively promoted implementation of the *Guidelines*, enhancing coordination between financial policies and science and technology, industry, as well as fiscal and taxation policies, thereby effectively improving high-quality financial services for major strategies, key sectors, and vulnerable areas.

Strengthening the capacity of financial services for sci-tech innovation. Central bank lending for sci-tech innovation and technological transformation has been effectively used to stimulate and guide financial institutions to ramp up support for first-time loans of technology-based small- and medium-sized enterprises (SMEs) and for loans in support of equipment renewal projects in key areas. At the end of March, the amount of loan contracts signed between banks and technology-based enterprises or equipment renewal projects exceeded RMB1.4 trillion. Meanwhile, outstanding loans to specialized, sophisticated, distinctive, and innovative SMEs increased by 15.1 percent year on year, significantly higher than the growth of total loans.

Giving play to the leading role of green finance. Giving full play to the policy-guiding role of structural monetary policy instruments and green bonds. The incentive and constraint mechanism was improved, and a green finance evaluation mechanism for financial institutions was implemented to promote the enrichment of green financial products and market development and to channel 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, the 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. As of end-March, the cumulative issuance of green bonds reached RMB4.3 trillion, of which green financial bonds reached RMB1.8 trillion, providing stable sources of funding for financial institutions to grant green credit.

Optimizing the service capacity of inclusive finance. The PBOC, together with the All-China Federation of Industry and Commerce (ACFIC), the National Financial Regulatory Administration (NFRA), the China Securities Regulatory Commission (CSRC), and the SAFE, held a symposium on financial support for the high-quality development of private enterprises. It also further promoted the project for enhancing capability to provide financial services for micro, small, and medium-sized enterprises (MSMEs), and it conducted quarterly effectiveness assessments of the credit policies, encouraging financial support for MSBs with announcements of the results. Moreover, the PBOC carried out special campaigns aimed at providing financial support for all-round rural revitalization. Together with the NFRA, it conducted 2024 annual appraisals and evaluations for financial institutions serving rural revitalization. Jointly with the Ministry of Agriculture and Rural Affairs (MARA), it optimized the connection of the financing project database to increase financial support for agricultural and rural infrastructure. In collaboration with the Ministry of Finance (MOF), the PBOC extended the policy of interest exemptions and principal repayment deferrals for national student loans through 2025. Additionally, it effectively implemented the policy on guaranteed loans for start-ups, guiding financial institutions to launch innovative “job stabilization and expansion” loan products. The PBOC also encouraged financial institutions to develop exclusive credit products to meet the financing needs of key groups, such as veterans and women. At end-2024, outstanding student loans reached RMB281.1 billion, registering a 28.7 percent year-on-year increase, while outstanding guaranteed loans for start-ups stood at RMB270 billion. At end-March, outstanding inclusive MSB loans had grown by 12.2 percent year on year to RMB34.8 trillion, while outstanding agriculture-related loans had increased by 8.4 percent year on year to RMB52.9 trillion.

Improving the old-age financial system. Financial institutions continued to be guided to increase the credit supply to the elderly care industry. The Statistical System for Elderly Care Industry Loans (Trial) was released to clarify the statistical scope and indicator definitions of elderly care industry loans, laying a solid data foundation for policy formulation and work implementation, thereby guiding financial institutions to better support the development of the elderly-care industry.

Box 2 Continuously Improving Financial Services to Support, Boost, and Expand Consumption

Boosting consumption currently serves as the key to expanding domestic demand and stabilizing economic growth. The Central Economic Work Conference has identified "vigorously boosting consumption, improving investment efficiency, and comprehensively expanding domestic demand" as the top priority for 2025. Against the backdrop of intensifying global trade frictions and weakening support from external demand for economic growth, China's economy is accelerating its transition to an internal demand-driven growth model. Consumption has become a crucial engine in the building of the new development paradigm, and it is playing a significant role in driving national economic growth. In recent years, while domestic consumption growth has slowed down, under the dual effects of policy guidance and market mechanisms, consumer market vitality is gradually being unleashed, with growth rates showing a steady recovery and demonstrating positive signs of a rebound. Structurally, the consumption growth of traditional goods faces increasing pressures due to market saturation and supply-demand mismatches, whereas the demand for service consumption continues to rise. The proportion of service consumption in household expenditures is steadily increasing, and its role in expanding domestic demand and advancing high-quality economic development is becoming more prominent.

Financial support for consumption has established a solid foundation, but it still has room for further enhancements. China has built a relatively comprehensive multi-tiered consumer financial service system comprised of banks, consumer finance companies, and auto finance companies. This provides important support for the stable development of the consumer market. Financial institutions have continuously explored diverse consumer credit products and service models tailored to consumption scenarios, such as trade-in programs and winter sports, effectively stimulating market vitality and sustaining growth in total retail sales of consumer goods nationwide. However, structural contradictions in the consumption sector remain pronounced. There are gaps in personalized and high-quality supply for service consumption areas, like culture, sports, tourism, the elderly and childcare, and healthcare services, while the county-level service consumption infrastructure and the logistics distribution systems remain underdeveloped. From the perspective of financial support for consumption, reliance on traditional credit remains high, while the proportion of direct financing, such as equities and bonds, is relatively low, and credit products lack sufficient adaptability. There is a need to build a financial product and service system better aligned with consumer demand, expand high-quality financial supply in the consumption sector, and ultimately establish a development paradigm in which consumption and finance mutually empower each other, are deeply integrated, and form a virtuous cycle, thereby continuously unleashing momentum for growth in the consumer market.

Going forward, the PBOC will implement an appropriately accommodative monetary policy, leverage the role of structural monetary policy tools, strengthen macro credit policy guidance, and urge financial institutions to actively meet the diverse funding needs of various entities. **First,** the PBOC will effectively implement an appropriately accommodative monetary policy to create a favorable financial environment for the expansion of consumption. In accordance with the central government's requirement of "implementing more proactive macroeconomic policies," we will adjust and optimize the policy intensity and pace in a timely manner. We will comprehensively utilize various policy tools, such as adjustments of the RRR, central bank lending and discounts, and OMOs, to maintain ample liquidity. We will explore the use of various structural monetary policy tools to increase low-cost funding support for key consumption areas. **Second,** the PBOC will **i**ntroduce a comprehensive package of financial policies to promote consumption. We will research and issue guiding documents on financial support for consumption, guiding financial institutions to strengthen consumer financial services with a focus on supply-side improvements. This includes enhancing high-quality supply for key service consumption sectors, such as tourism, hospitality, entertainment, education and training, and household services, while increasing financial support for the construction of the consumption infrastructure and commercial circulation systems. **Third,** the PBOC will continuously optimize consumer credit products and services.

We will encourage financial institutions, under the premise of controllable risks, cost coverage, and compliant fund usage, to optimize credit products and services targeting key scenarios, major strategies, and priority demographics, thereby strengthening consumer credit support. **Fourth,** the PBOC will enhance the funding capacity of consumer finance institutions. We will support auto finance companies and consumer finance companies in issuing financial bonds, explore appropriate increases in registration quotas for the securitization of consumer credit assets, promote a moderate expansion of the scope of securitizable assets in the consumption sector, and increase credit supply support. **Five,** the PBOC will build an efficient and convenient payment ecosystem. Focusing on consumption scenarios, such as "dining, accommodations, transportation, tourism, shopping, entertainment, and healthcare," we will continue to advance payment convenience initiatives and enhance payment service facilitation for overseas visitors to China.

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

Deepening the market-oriented interest rate reform, strengthening the implementation of interest rate policies, and smoothing the transmission mechanism for interest rates. The effectiveness of the LPR reform was continuously leveraged, promoting a steady decline in loan rates. In March, the weighted average interest rate on corporate loans was approximately 3.3 percent, down 0.5 percentage points year on year and remaining at a historical low. The linkage adjustment mechanism for deposit rates was effectively utilized, guiding deposit rates downward. Following two rounds of proactive deposit rate cuts by major banks in the second half of 2024, small- and medium-sized banks, including locally incorporated financial institutions, independently lowered their deposit rates in response to changes in market interest rates, helping to stabilize the banks' liability costs and creating favorable conditions for reducing overall financing costs. Moreover, the PBOC strengthened implementation of interest rate policies and regulated competition in deposit and loan markets. The self-regulatory mechanism for interest rates played a full role in effectively implementing various interest rate self-regulatory initiatives, including prohibiting irregular manual interest subsidies, establishing a reporting mechanism for deposit bidding rates, and optimizing the self-regulation of non-banking financial institution interbank deposit rates, thereby reinforcing the effects of the deposit rate adjustments. Meanwhile, banks were urged to adhere to a risk-based pricing principle, reasonably determine loan rates, and maintain orderly market competition.

Box 3 Explicitly Disclose Comprehensive Financing Costs of Corporate Loans to Promote a Reduction in Overall Financing Costs for SMEs

In recent years, the PBOC has thoroughly implemented the strategic decisions and arrangements of the CPC Central Committee and the State Council. To address the long-standing challenges faced by SMEs in accessing low-cost financing, the PBOC has continuously introduced pragmatic and innovative policy measures. Starting from September 2024, five provinces—Shanxi, Jiangxi, Shandong, Hunan, and Sichuan—launched a pilot program, requiring explicit disclosure of the comprehensive financing costs of corporate loans. This initiative mandates the standardized disclosure of all financing-related fees, ensuring financial consumers' right to information and helping drive down financing costs for SMEs.

The comprehensive financing costs of corporate loans can be broken down to interest costs and non-interest costs. In terms of interest costs, the PBOC has already issued *Announcement No. 3* in 2021, mandating that all loan products clearly disclose their annualized interest rates. This regulatory measure has significantly enhanced the borrowers' understanding of the loan pricing mechanisms. In recent years, the lending rates have experienced a marked decline. The weighted average interest rate on newly issued corporate loans was approximately 3.3 percent in March 2025, down approximately 0.5 percentage points year on year and reaching a historically low level. **Non-interest costs** primarily consist of financing-related fees, including mortgage fees, guarantee fees, and intermediary service charges. These costs involve multiple charging entities with numerous opaque fee categories that accumulate progressively in the transaction, leading some enterprises to perceive their actual financing costs to be relatively high despite nominal rate reductions. For numerous SMEs and private enterprises, financing fees often constitute a significant component of the comprehensive financing costs. Explicit disclosure of the enterprises' overall financing costs, including various ancillary fees, has become a critical measure to effectively reduce overall corporate financing expenses.

The core requirement of explicitly disclosing comprehensive financing costs of corporate loans is that banks collaborate with enterprises to complete the *Comprehensive Corporate Loan Financing Cost Checklist* (also known as the *Loan Cost Breakdown Statement*). This document mandates itemized disclosure of both interest and non-interest financing expenses incurred by enterprises, with all costs converted to annualized rates using standardized methodologies. The final presentation provides a clear, authentic, and comprehensive view of an enterprise's overall financing costs. The PBOC has spearheaded this initiative by strengthening public communications and guidance, conducting comprehensive training programs for banking professionals, establishing cross-departmental coordination mechanisms, and guiding the Self-Regulatory Mechanism for Interest Rates to develop a specialized calculation tool. The tool, which is accessible through its official WeChat account, streamlines operational procedures for both banks and enterprises. As of the end of March 2025, the pilot regions had successfully implemented explicit disclosures of overall financing costs for 270,000 loans, totaling RMB1.53 trillion, marking a significant phased achievement in the reform.

First, enhancing financing transparency to safeguard the enterprises' right to information. The *Loan Cost Breakdown Statement* details the loan interest expenses and various non-interest expenses that enterprises need to bear, and it lists the charging entities, payment methods, payment cycles, etc., to reduce information asymmetries and to help enterprises have a clear understanding of all financing costs. For instance, an SME secured a loan of RMB9 million and perceived its financing costs as relatively high. While completing the *Loan Cost Breakdown Statement*, the enterprise gained a clear breakdown of its comprehensive financing cost of 5.16 percent, which included 3.5 percent in interest paid to the bank, 1.5 percent in guarantee fees paid to a government-backed financing guarantee company, and 0.16 percent in emergency bridge loan fees paid to a bridge financing provider. Non-interest expenses accounted for 32 percent of the total financing cost. The enterprise noted that filling out the *Loan Cost Breakdown Statement* helped it gain a comprehensive understanding of bank loan products and the financing cost structure. It also made the enterprise aware of the concessions offered by banks, and it contributed to fully safeguarding its right to information as well as the legitimate rights and interests of financial consumers.

Second, enhancing the alignment of financing solutions with corporate needs to drive down financing costs. By completing the *Loan Cost Breakdown Statement*, enterprises can gain a more comprehensive and clearer understanding of whether they have fully benefited from preferential policies and are able to identify potential cost reductions. This enables them to seek additional policy incentives with full transparency or to negotiate reasonably lower financing costs. For example, an enterprise applied for a one-year loan of RMB4 million from a bank to meet its operational needs. While completing the *Loan Cost Breakdown Statement*, it learned that the original loan product carried a total financing cost of 5.8 percent. After thorough discussions with the bank, the company switched to a discounted loan product backed by the entrepreneurship guarantee center, which offered an annual interest rate of 2.25 percent, resulting in over 60 percent reduction in its financing costs.

Third, enhancing mutual trust between banks and enterprises to improve the quality and efficiency of financial services in supporting the real economy. The *Loan Cost Breakdown Statement* consolidates all costs scattered across contracts or agreements into one document, making it easier for banks to tailor services for businesses. It also helps enhance mutual trust and deepen win-win cooperation between banks and enterprises. For example, an enterprise took out a RMB5 million one-year bank loan to purchase raw materials. As the loan approached maturity, the enterprise planned to repay it through private lending and then re-borrow the same amount from the bank. However, while guiding the enterprise to fill out the *Loan Cost Breakdown Statement*, the bank discovered its intention to rely on private lending for a loan rollover. By assisting the client with loan renewal procedures and providing repayment-free loan extension services, the bank helped the enterprise save

RMB50,000 in bridging loan costs. This service not only deepened mutual trust between the bank and the enterprise but also created opportunities to expand future cooperation.

The *Loan Cost Breakdown Statement* serves not only as a detailed breakdown of corporate financing costs but also as a commitment letter for financial services supporting the real economy. Since the beginning of this year, provinces such as Guizhou, Anhui, and Fujian have successively joined the pilot program, which is advancing steadily. The initiative primarily explores ways to enhance financing transparency and safeguard financial consumers' right to information. However, reducing the comprehensive financing costs for enterprises is a systematic endeavor, and optimizing the corporate financing environment requires concerted efforts by all involved parties.

Going forward, the PBOC will adhere to a people-centered approach, promoting fairness through transparency and fostering development through service. It will further advance the pilot program to disclose comprehensive corporate loan financing costs, drive down overall corporate financing expenses, foster a favorable financing environment for business growth, and provide robust financial support for high-quality development.

VII. 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 has been 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 an exchange rate overshooting. As a result, the RMB exchange rate has remained basically stable at an adaptive and equilibrium level. In Q1 2025, the highest and lowest RMB central parities against the U.S. dollar were 7.1688 and 7.1891, respectively. During the 57 trading days, the RMB appreciated on 28 days and depreciated on 29 days. The biggest intraday appreciations and depreciations were 0.26 percent (183 bps) and 0.08 percent (57 bps), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. At end-March, the central parity of the RMB against the U.S. dollar appreciated 0.14 percent from end-2024, while that against the euro, the pound sterling, and the Japanese yen depreciated 3.5 percent, 2.6 percent, and 4.4 percent, respectively, during the same period. From the beginning of the reform of the RMB exchange rate formation regime in 2005 to end-March 2025, the RMB has appreciated by a cumulative 15.3 percent, 28.5 percent, 54.7 percent, and 51.1 percent, respectively, against the U.S. 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 The Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in Q1 2025

Unit:RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	177026.93	1672.80	765.65	716.03	120.31	103.31
Currency	NZD	SGD	CHF	CAD	MOP	MYR
Trading volume	34.95	82.49	101.99	85.58	0.40	9.45
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading volume	6.09	1.37	10.29	47.62	2.20	0.32
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	0.30	2.17	6.22	18.32	0	23.42
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	45.26	13.18	0	0	0	0

Source: China Foreign Exchange Trade System.

VIII. Forestalling and defusing financial risks

Continuously monitoring, assessing, forestalling, and defusing financial risks. The PBOC stepped up efforts to enhance systemic risk assessments and research, deepened and refined risk monitoring, and comprehensively evaluated the soundness of the financial system. Systematic measures were taken to address and mitigate risks in critical areas and key projects, while risks associated with small and medium-sized financial institutions were prudently resolved. The *Measures for Central Bank Rating of Financial Institutions* were improved to further establish and refine the rating system of banking institutions. The PBOC has conducted its rating of financial institutions on a regular basis, guiding them to operate prudently. Additionally, it has carried out regular financial risk monitoring and assessments, such as implementing banking sector stress tests and developing the financial market stress index.

Reinforcing the framework for safeguarding financial stability. The PBOC enhanced the accountability mechanism for risk resolution that matched authority with responsibility and ensured compatibility between incentives and constraints. It also fully leveraged the role of deposit insurance in risk monitoring, warnings, and early corrections, thereby reinforcing its function in professional risk resolution. To better support the resolution of risks in high-risk institutions, efforts were made to enhance risk resolution resources, including exploring ways to expand risk resolution funds and refining the governance rules of the Financial Stability Guarantee Fund.

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

Making continuous efforts to facilitate cross-border trade settlement. The PBOC expanded the scope and improved the quality of the pilot program for the high-level opening-up of cross-border trade. Furthermore, it enhanced policy effectiveness in facilitating foreign exchange payments and receipts in trade for high-quality enterprises. Collectively, these two policies benefited nearly 26,000 high-quality enterprises.

Making continuous efforts to facilitate cross-border investment and financing. In March 2025, the PBOC further expanded the pilot program of integrated RMB and foreign currency cash pooling for multinational corporations in provinces (autonomous regions and municipalities directly under the central government), including Tianjin, Hebei, Inner Mongolia, Heilongjiang, Anhui, Fujian, Shandong, Hubei, Hunan, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Xinjiang, and Xiamen, making it easier for multinational corporations to coordinate the use of their cross-border funds.

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. Giving priority to cooperation with neighboring countries and the Belt and Road participating countries, the PBOC strengthened currency settlement cooperation with its counterparts and fostered a better environment for overseas use of the RMB. As of end-March, under the bilateral currency swap agreements between the PBOC and overseas monetary authorities, the overseas monetary authorities had drawn RMB84 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 Q1 2025, overall the financial market functioned in a stable manner. Money market rates rose moderately, bond issuances increased, and the volume of both stock market trading and equity financing expanded significantly.

I. Financial market overview

1. Money market interest rates increased modestly, and trading volume declined

Money market rates rose moderately. In March 2025, the monthly weighted average interest rate for interbank lending stood at 1.85 percent, and that for pledged repos was 1.87 percent, 28 basis points and 22 basis points higher than that in December 2024, respectively. The monthly weighted average interest rate for pledged repos backed by government bonds among depository institutions posted 1.78 percent, 9 basis points lower than the overall rate for pledged repos. At the end of March, the overnight and 7-day Shanghai Interbank Offered Rate (Shibor) stood at 1.74 percent and 2.02 percent, up by 29 basis points and 5 basis points from end-2024, respectively.

Repo transactions slowed down. In Q1 2025, cumulative bond repo transactions in the interbank market totaled RMB326.3 trillion, with a daily average of RMB5.5 trillion, down 19.4 percent year on year. Cumulative interbank lending transactions reached RMB15.6 trillion, representing a daily average of RMB263.9 billion, down 38.8 percent year on year. In terms of the maturity structure, overnight repos accounted for 81.5 percent of the total trading volume of bond repos, down 4.0 percentage points year on year, while overnight interbank lending constituted 77.6 percent of the total interbank lending, down 7.8 percentage points year on year. Cumulative exchange-traded bond repo transactions totaled RMB140.4 trillion, up 19.0 percent year on year.

Table 9 Fund Flows of Repos and Interbank Lending Among Financial Institutions in Q1 2025

Unit: RMB100 million

	Repos		Interbank lending	
	Q1 2025	Q1 2024	Q1 2025	Q1 2024
Chinese-funded large banks①	-960453	-2071865	-48250	-118656
Chinese-funded medium-sized banks②	-177779	-205865	5837	20364
Chinese-funded small-sized banks③	96275	206702	-4392	11287
Securities institutions④	547200	609115	46954	75807
Insurance institutions⑤	69142	85343	88	730
Foreign-funded banks	-19255	11978	-3723	-3730

Other financial institutions and products⑥	444870	1364593	3486	14197

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 products 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 products. Some of these financial institutions and products 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 CDs developed in an orderly manner. In Q1 2025, 5,595 interbank CDs were issued in the interbank market, totaling RMB8.3 trillion. Secondary market trading volume totaled RMB48.3 trillion, and the outstanding balance stood at RMB21.2 trillion at end-March. The weighted average issuance rate of 3-month interbank CDs was 1.99 percent, 18 basis points above the 3-month Shibor. Financial institutions issued 29,000 negotiable CDs during the quarter, with the total issuance reaching RMB12.5 trillion, up RMB6.9 trillion year on year.

The interest rate swap (IRS) market remained stable. In Q1 2025, the RMB IRS market recorded 115,566 transactions (including standard swaps), with a notional principal of RMB12.6 trillion, up 60.3 percent year on year. By maturity structure, contracts with maturities of one year or less were most actively traded, with a notional principal of RMB9.1 trillion, accounting for 72.9 percent of the total volume. The floating leg of RMB IRS transactions is primarily benchmarked to the 7-day repo fixing rate, the Prime Negotiable Certificate of Deposit (Prime NCD) issuance rate of major nationwide banks, and the Shibor. The shares of the notional principal linked to these benchmarks were 86.6 percent, 11.2 percent, and 1.7 percent, respectively. In Q1, a total of 260 IRS contracts with the LPR as the underlying asset was traded, with a notional principal of RMB40.72 billion.

Table 10 Interest Rate Swap Transactions (Including Standard Swaps) in Q1 2025

	Transactions	Notional principal (RMB100 million)
Q1 2025	115,566	125,532
Q1 2024	81,050	78,331

Source: China Foreign Exchange Trade System.

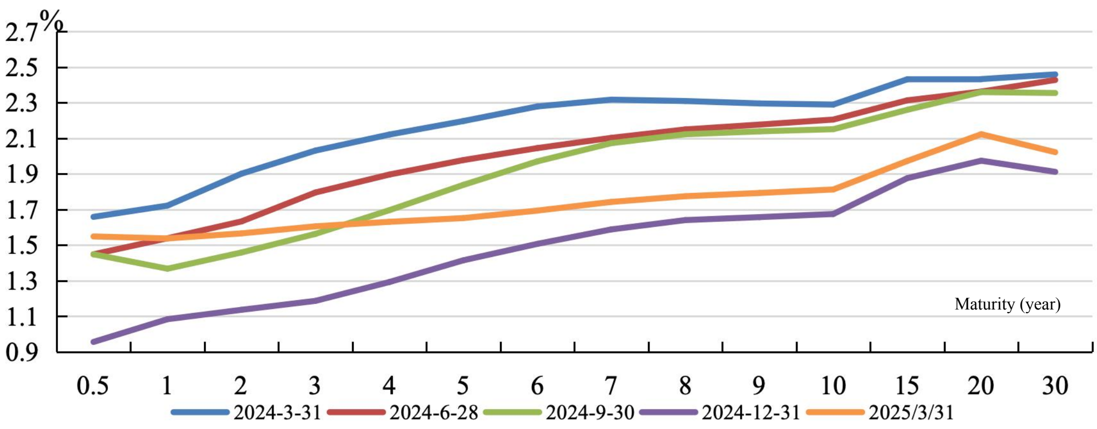
The interest rate options business developed steadily. In Q1 2025, a total of 177 interest rate option transactions were concluded, totaling RMB37.52 billion, all of which were LPR-linked interest rate cap/floor options.

2. Government bond issuance rates declined, and issuance volumes increased

Issuance rates on government bonds declined, while those on corporate bonds rose. In March 2025, the issuance rate on 10-year government bonds issued by the MOF stood at 1.61 percent, down 43 basis points from December of the previous year; the average rate on 1-year short-term financing bills issued by AAA-rated enterprises was 2.32 percent, up 28 basis points from December 2024.

Government bond yields marked an upward trend, with the yield curve flattening. At end-March 2025, yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds rose by 46 basis points, 42 basis points, 23 basis points, 15 basis points, and 13 basis points from end-2024, reaching 1.54 percent, 1.61 percent, 1.65 percent, 1.74 percent, and 1.81 percent, respectively. The term spread between 1-year and 10-year government bonds narrowed to 27 basis points, down 32 basis points from end-2024.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Bond issuances increased year on year, with government bond issuances growing at a faster pace. In Q1 2025, the volume of cumulative bond issuances reached RMB20.5 trillion, up 18.8 percent year on year and RMB3.2 trillion more than that during the same period of last year, mainly driven by the increase in issuances of treasury bonds, local government bonds, and financial bonds. At end-March 2025, the outstanding balance of domestic bonds stood at RMB183.1 trillion, up 13.9 percent year on year.

Spot bond trading volume declined year on year. In Q1 2025, the total trading volume of spot bonds reached RMB97.9 trillion, down 8.5 percent year on year. Specifically, transactions in the interbank market amounted to RMB89.5 trillion, a decrease of 7.6 percent year on year, while transactions on the stock exchanges totaled RMB8.4 trillion, a decrease of 16.4 percent year on year.

Table 11 Bond Issuances in Q1 2025

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	33042	8554
Local government bonds	26202	11333
Central bank bills	0	0
Financial bonds①	109285	14187
Of which: Financial bonds issued by the CDB and policy financial bonds	17207	4669
Interbank certificates of deposits	82965	9514
Corporate credit bonds②	36008	-1461
Of which: Debt-financing instruments of non-financial enterprises	23439	-2424
Enterprise bonds	461	214
Corporate bonds	8688	53
Bonds issued by international institutions	398	-193
Total	204935	32421

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, and China Central Depository & Clearing Co., Ltd. Updated with the latest data from the providers.

3. The bill market operated in a stable manner, with a slight uptick in interest rates

Bill issuance increased rapidly. In Q1 2025, commercial drafts issued by enterprises totaled RMB9.3 trillion, up 19.7 percent year on year. At end-March, outstanding commercial drafts stood at RMB18.7 trillion, up 14.6 percent year on year. Outstanding commercial draft acceptances increased by RMB56.7 billion from end-2024, with bankers' acceptances issued by MSMEs accounting for 73.5 percent.

Bill financing remained stable. In Q1 2025, total discounts by financial institutions amounted to RMB14.1 trillion, up 4.3 percent year on year. At end-March, the balance of bill financing stood at RMB14.2 trillion, up 21.7 percent year on year and accounting for 5.3 percent of the total outstanding loans—an increase of 0.6 percentage points from the previous year. Interest rates in the bill market edged up slightly during the quarter.

4. The stock market turnover and fundraising increased significantly

Major stock indices remained generally stable. At end-March 2025, the Shanghai Stock Exchange Composite Index closed at 3,336 points, down 0.5 percent from end-2024, while the Shenzhen Stock Exchange Component Index closed at 10,504 points, up 0.9 percent from end-2024. In Q1, total turnover on the Shanghai and Shenzhen Stock Exchanges reached RMB85.4 trillion, with an average daily turnover of RMB1.5 trillion, up 68.7 percent year on year. A total of RMB136.8 billion was raised through equity financing, up 75.4 percent year on year.

5. Insurance premium income and assets increased year on year

In Q1 2025, total premium income in the insurance sector amounted to RMB2.2 trillion, up 0.9 percent year on year. Claim and benefit payments totaled RMB827.4 billion, an increase of 12.5 percent year on year, with property insurance payouts down 3.3 percent and personal insurance payouts up 19.3 percent year on year.

Table 12 Asset Allocations in the Insurance Sector at end-March 2025

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-March 2025	End-March 2024	End-March 2025	End-March 2024
Total assets	378425	328591	100.0	100.0
of which: Bank deposits	32961	31502	8.7	9.6
Investments	316352	267879	83.6	81.5

Source: National Financial Regulatory Administration.

Insurance assets increased year on year. At end-March 2025, total assets in the insurance sector rose 15.2 percent year on year to RMB37.8 trillion. Specifically, bank deposits grew by 4.6 percent, while investment assets increased by 18.1 percent year on year.

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

In Q1 2025, the turnover of spot RMB/foreign exchange transactions reached USD2.5 trillion, up 26.4 percent year on year. Swap RMB/foreign exchange transactions totaled USD5.5 trillion, down 3.0 percent year on year. Specifically, overnight RMB/USD swap transactions posted USD3.5 trillion, accounting for 63.5 percent of the total swap turnover. RMB/foreign exchange forward transactions totaled USD53.7 billion, up 2.6 percent year on year. Foreign currency pair transactions totaled USD681.7 billion, up 6.3 percent year on year, with the USD/JPY pair being the most traded, accounting for 34.8 percent of total market share.

7. Gold prices went up and the trading volume expanded

At end-March 2025, international gold prices closed at USD3115.1 per ounce, up 19.4 percent from end-2024. The Au99.99 contract on the Shanghai Gold Exchange closed at RMB730.8 per gram, up 18.9 percent from end-2024. In Q1 2025, gold trading volume on the Shanghai Gold Exchange totaled 16,000 tons, an increase of 4.6 percent year on year, with the total turnover reaching RMB10.7 trillion, up 42.9 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

Continuously optimizing bond market connectivity. In January, the PBOC announced improvements to the operational mechanisms of the Southbound Bond Connect, enabling domestic investors to purchase multi-currency bonds more conveniently, extending settlement hours, and launching a service allowing overseas institutions to use bonds under the Bond Connect as margin collateral for the Swap Connect. In March, the PBOC collaborated with the Hong Kong Monetary Authority (HKMA) to support the use of Chinese government bonds and policy financial bonds under the Northbound Bond Connect as eligible margin collateral at the OTC Clearing Hong Kong Limited (OTCC), further expanding the collateral function of RMB bonds in offshore markets. These measures contribute to steady progress in RMB internationalization and reinforce Hong Kong's status as an international financial center.

Box 4 Strengthening Bond Market Development and Supporting Its Sound Growth

In recent years, the PBOC has advanced the transformation of its monetary policy framework and refined market-driven interest rate regulation mechanisms. After over a decade of development, China has largely established a market-oriented interest rate formation and transmission system. The treasury bond yield curve now serves as a pricing benchmark for financial markets, while the bond market has seen significant improvements in both scale and functionality. By the end of 2024, China's bond market reached an outstanding balance of RMB177 trillion, ranking second globally. Net bond financing accounted for 40 percent of the AFRE(flow) in 2024, with bond trading volume hitting RMB460 trillion. The outstanding balance and annual trading volume of treasury bonds exceeded RMB30 trillion and RMB110 trillion, respectively, reflecting liquidity levels approaching those of the developed financial markets.

Bond market interest rates not only affect financing costs across the economy but also play a role in the stable development of the broader financial system. The rapid growth of China's bond market in recent years has strengthened financing support for the real economy and has contributed to lowering overall financing costs. However, the heightened volatility of treasury bond yields has attracted widespread attention. Treasury bonds carry no credit risk, but like other fixed-coupon bonds, their secondary market prices fluctuate inversely with the changes in market interest rates, exposing investors to interest rate risks. Long-term treasury bonds, in particular, exhibit greater sensitivity to rate changes, amplifying the gains or the losses of investors when shifts in supply-demand dynamics drive price swings. Globally, the 2023 Silicon Valley Bank incident serves as a notable case of interest rate risk exposure.

Currently, challenges remain in China's bond market, including pricing efficiency, institutional investment and trading capabilities, and risk management. Investor behavior, market structure, and tax regimes all impact the formation and transmission of bond market rates. **In terms of investor composition,** large state-owned banks hold approximately 30 percent of the market's bonds but account for only 5 percent of the total trading volume, as most bonds are held to maturity. Meanwhile, small and medium-sized financial institutions—with lower bond holdings and weaker risk controls—along with wealth management and asset management products dominate over 80 percent of trading activity. As primary dealers of OMOs, large state-owned banks play a critical role in monetary policy transmission and market-making. They can further enhance the bond trading business, guide rational pricing, and stabilize market volatility. **In terms of bond types,** liquidity varies sharply across instruments. Trading activities and various funds are increasingly concentrated in a few highly liquid bonds, such as long-term treasury bonds, fueling herd behavior and one-sided market movements. For instance, the top 10 active treasury and policy financial bonds account for roughly 30 percent of the total trading volume in a market comprised of over 50,000 bonds. **In terms of tax regimes,** the tax policies in the bond market also have an impact on price formation and the benchmark role of treasury yields. For example, tax exemptions on government bond interest income and preferential tax relief for gains from spread trading of public funds and wealth management products may incentivize short-term trading. Some corporate bonds—without such tax exemptions—may benchmark against tax-free treasury rates, further exacerbating short-term yield volatility.

As China deepens its reform of interest rate marketization and continues to refine its market-driven rate system, strengthening bond market development and macroprudential management is critical to preventing systemic risks. Moving forward, the PBOC will continue to improve assessments for open market primary dealers and market-makers, strengthen interest rate risk management for investors, optimize the market structure and institutional arrangements, and further enhance the functionality of the bond market. These efforts will provide robust support for advancing interest rate marketization and transforming monetary policy regulation.

2. Institutional arrangements in the securities market

Improving the institutional framework of the capital market. In January, the State Council released the *Regulations on Standardizing Intermediary Services for Public Stock Offerings*, defining professional standards and charging principles for intermediary institutions. The regulations prohibit tying service fees to IPO outcomes and restrict local governments from offering rewards based on such results, thereby promoting the healthy and stable development of the capital market.

Facilitating the entry of medium- and long-term funds into the market. In January, the Central Financial Commission Office and five other departments jointly released the *Implementation Plan on Promoting the Entry of Medium- and Long-Term Funds into the Market*, focusing on guiding commercial insurance funds, the National Social Security Fund (NSSF), basic old-age insurance funds, enterprise/occupational annuity funds, and public funds to further increase their market participation. The plan aims to enhance the equity allocation capabilities of medium- and long-term funds, improve capital market liquidity and structure, and consolidate the upward trajectory of the capital market.

3. Institutional arrangements in the insurance market

Establishing a unified regulatory rating system for insurance companies. In January, the NFRA released the *Measures for the Regulatory Rating of Insurance Companies*, requiring comprehensive risk assessments covering corporate governance, solvency, liability quality, asset quality (including asset-liability matching), information technology, risk management, operational performance, consumer rights protection, and other business management aspects, thus determining the rating outcome based on the overall risk evaluation. The measures establish a unified regulatory rating framework for insurance groups (holding companies), property insurers, life insurers, and reinsurers, adopting consistent rating methodologies, procedures, and classifications. The regulatory authorities use rating outcomes as key criteria for implementing supervisory measures as well as for market access decisions and on-site inspections in daily supervision.

Promoting the high-quality development of new energy vehicle (NEV) insurance. In January, the NFRA, Ministry of Industry and Information Technology, Ministry of Transport, and Ministry of Commerce jointly released the *Guiding Opinions on Deepening Reforms, Strengthening Regulation, and Promoting High-Quality Development of NEV Insurance*. Targeting NEV insurance, the document proposes measures to reasonably reduce NEV maintenance costs, innovate and optimize insurance products, improve operational and management capabilities, strengthen regulatory oversight, and enhance foundational support.

Expanding channels for insurance fund investments. In February, the NFRA released the *Notice on Pilot Programs for Insurance Fund Investments in Gold*, defining the scope and methods for pilot gold investments and designating 10 pilot insurance companies. It establishes regulatory frameworks for ex-ante and interim management, and it clarifies periodic and ad-hoc reporting mechanisms as well as supervisory requirements for the pilot programs.

Strengthening oversight of concentration risks in insurance groups. In February, the NFRA released the *Guidelines on Supervision of Concentration Risks for Insurance Groups*, outlining the principles for concentration risk management, standardizing risk management processes, urging insurance groups to establish multi-dimensional metrics and quota control systems, and enhancing information disclosures and reporting mechanisms. The guidelines aim to guide insurance groups to establish a prudent business philosophy, strengthen concentration risk management, and effectively maintain the bottom line to see that no systemic risks arise.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The momentum for global economic growth has weakened, and divergences across countries have grown more noticeable. Geopolitical uncertainties remain elevated. The U.S. tariff policy has increased global recession risk. Inflation has fallen in the advanced economies, but inflationary pressures remain. Many countries are facing fiscal and debt risks, global trade and investment growth are constrained, and financial market volatility is intensifying.

1. Economic and financial market performance in the major economies

Economic recovery diverged across the major economies. Recently, the U.S. economy has slowed a bit. In 2024, its GDP grew by 2.8 percent year on year, almost the same pace as that in 2023, but it showed signs of a slowdown in the first quarter of 2025. Consumer confidence has weakened, and retail sales have declined. The European economy remained sluggish. In 2024, the GDP expanded by 0.9 percent in the euro area and by 1.1 percent in the UK. The economic recovery in Japan was still fragile. In 2024, its GDP grew by 0.1 percent year on year, lower than the 1.5 percent in 2023.

Inflation came down. In March 2025, the U.S. CPI was up by 2.4 percent year on year, down by 0.5 percentage points from December. The Harmonized Index of Consumer Prices (HICP) in the euro area was up by 2.2 percent, down by 0.2 percentage points from December. The CPI in the UK posted 2.6 percent, up by 0.1 percentage points compared with December. The Japanese CPI remained unchanged compared with December, coming in at 3.6 percent.

The labor market remained resilient. In March 2025, the U.S. unemployment rate was 4.2 percent, and the labor force participation rate was 62.5 percent, still 0.8 percentage points lower than its pre-COVID level. Nonfarm payrolls increased by 228,000, rising for two consecutive months. The number of job openings was 7.19 million. In March, the unemployment rate in the euro area and in Japan was 6.2 percent and 2.5 percent, respectively.

The volatility of global financial markets increased. Since the beginning of 2025, the U.S. tariff policy uncertainty and expectations of an economic slowdown have fueled market panic. AI-related stocks experienced valuation adjustments, the three major U.S. stock indices slumped, and the “Magnificent Seven” posted market cap losses. As of the end of March, the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite fell by 1.3 percent, 4.6 percent, and 10.4 percent, respectively. As Europe planned to increase military spending, European defense stocks soared, driving up the EURO STOXX50 by 7.2 percent. The Nikkei 225 Index of Japan tumbled by 10.7 percent after the Bank of Japan (BOJ) raised interest rates. The volatility of government bond yields in the major economies increased, as market sentiment shifted dramatically amid rising global policy uncertainties. At end-March, the 10-year U.S. Treasury yield closed at 4.23 percent, 35 basis points (bps) lower than that at end-2024. The yield on 10-year UK, French, and German government bonds was up by 14 bps, 26 bps, and 30 bps, respectively, compared with end-2024. The U.S. Dollar Index dropped, as growing market concerns over U.S. fiscal sustainability weakened the appeal of the U.S. dollar as a safe haven. At end-March, the U.S. Dollar Index was 104.2, down by 4.0 percent from end-2024. The U.S. tariff announcement on April 2 unnerved investors and roiled the market. In particular, the volatility of U.S. financial markets surged. The three major stock indices nosedived. The Nasdaq Composite once slumped by nearly 14 percent. The 10-year U.S. Treasury yield rose sharply and hit an intraday high of 4.8 percent. The U.S. Dollar

Index has been under pressure, hovering at around 99–100.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q1 2024			Q2 2024			Q3 2024			Q4 2024			Q1 2025		
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	Real GDP Growth (annualized quarterly rate, %)	1.6			3.0			3.1			2.4			-0.3		
	Unemployment Rate (%)	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2
	CPI (year-on-year, %)	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4
	DJ Industrial Average (end of the period)	38150	38996	39807	37582	38686	39119	40843	41563	42330	41763	44911	42544	44545	43841	42002
Euro Area	Real GDP Growth (year-on-year, %)	0.5			0.5			1.0			1.2			1.2		
	Unemployment Rate (%)	6.5	6.5	6.5	6.4	6.4	6.4	6.4	6.3	6.3	6.2	6.2	6.2	6.2	6.2	6.2
	HICP (year-on-year, %)	2.8	2.6	2.4	2.4	2.6	2.5	2.6	2.2	1.7	2.0	2.2	2.4	2.5	2.3	2.2
	EURO STOXX 50 (end of the period)	4648	4878	5083	4921	4984	4930	4874	4958	5067	4828	4978	4896	5287	5464	5248
United Kingdom	Real GDP Growth (year-on year, %)	0.7			1.1			1.2			1.5			-		
	Unemployment Rate (%)	4.1	4.2	4.3	4.4	4.4	4.2	4.2	4.1	4.3	4.3	4.4	4.4	4.4	4.4	-
	CPI (year-on-year, %)	4.0	3.4	3.2	2.3	2.0	2.0	2.2	2.2	1.7	2.3	2.6	2.5	3.0	2.8	2.6
	FTSE 100 (end of the period)	7631	7630	7953	8144	8275	8164	8368	8377	8237	8110	8281	8173	8674	8810	8583
Japan	Real GDP Growth (annualized quarterly rate, %)	-2.1			3.2			1.4			2.2			-		

Unemployment Rate (%)	2.5	2.6	2.6	2.6	2.6	2.5	2.6	2.5	2.4	2.5	2.5	2.5	2.5	2.4	2.5
CPI (year-on-year, %)	2.2	2.8	2.7	2.5	2.8	2.8	2.8	3.0	2.5	2.3	2.9	3.6	4.0	3.7	3.6
Nikkei 225 (end of the period)	36287	39166	40369	38406	38488	39583	39102	38648	39830	39081	38208	39895	39572	37156	35618

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

2. Monetary policies of the major economies

The major advanced economies entered a rate-cutting cycle, but their policy paths are uncertain. The U.S. Federal Reserve (the Fed) kept the target range for the federal funds rate unchanged at 4.25–4.5 percent. Meanwhile, starting from April, the Fed further reduced the monthly redemption cap on Treasury securities from USD25 billion to USD5 billion and kept the monthly redemption cap on agency debt and agency mortgage-backed securities at USD35 billion. The European Central Bank (ECB) cut rates in January and March, each by 25 bps. Interest rates on the deposit facility, the main refinancing operations, and the marginal lending facility now stand at 2.5 percent, 2.65 percent, and 2.9 percent, respectively. The Bank of England reduced its benchmark interest rate by 25 bps to 4.5 percent in February. In the first quarter, the Bank of Canada and the Reserve Bank of New Zealand cut rates by 50 bps, respectively, while the Reserve Bank of Australia and the Bank of Korea lowered rates by 25 bps, respectively. The Bank of Japan(BOJ) continued to increase the short-term interest rate target from 0.25 percent to about 0.5 percent, the highest level in nearly 17 years.

Monetary policies in the emerging market economies diverged. In the first quarter of 2025, the Bank of Russia and the Bank Negara Malaysia kept their benchmark interest rates unchanged. The Banco Central do Brasil raised interest rates by 200 bps, while the Banco de México, the Reserve Bank of India, the Bank Indonesia, and the South African Reserve Bank cut rates by 100 bps, 25 bps, 25 bps, and 25 bps, respectively.

3. Issues and trends that merit attention

Global economic recovery remains weak. The 2025 global economic growth forecasts by the International Monetary Fund(IMF), the World Bank, and the Organisation for Economic Co-operation and Development(OECD) are 2.8 percent, 2.7 percent, and 3.3 percent, respectively, lower than those in 2024 and lower than the historical average of 3.8 percent between 2000 and 2019. The impact of the U.S. tariff policy on global trade will gradually become apparent, posing greater challenges to global economic recovery.

It remains to be seen whether inflation will continue to fall. Inflation has already come down from the peak of 10 percent in 2022 to about 3 percent in the major advanced economies. However, whether price growth can return to the central banks' targets remains to be seen. First, the U.S. tariff policy will directly drive up the prices of imported goods, leading to a higher cost of living. It will also push up production costs, further exacerbating inflationary pressures. Second, wage growth in the U.S. and Europe remains relatively strong, outpacing the increase in consumer prices. This, along with stubborn services inflation, will constrain efforts to bring inflation down.

Fiscal sustainability merits attention. Global public debt has hit a historic high, as the major economies increased fiscal spending substantially in the wake of the COVID-19 pandemic. According to estimates by the IMF, global public debt exceeded USD100 trillion at the end of 2024, or about 93 percent of global GDP, and it will approach 100 percent of GDP by 2030. Higher debt and higher interest rates have stoked concerns over future fiscal sustainability. Debt risks have already materialized in some developing countries. Advanced economies, particularly the U.S., are also under pressure. As a global reserve currency issuer, the U.S. also faces the challenge of a massive and unsustainable fiscal deficit.

Rising global policy uncertainties may increase the volatility of global financial markets. The Fed, the ECB, and other central banks in the major advanced economies started to cut rates in 2024. Global liquidity conditions are expected to improve, and the currency depreciation and capital outflow pressures in the emerging market economies as well as their burden to service U.S. dollar-denominated debt will ease. However, as the Fed's rate-cutting path is highly uncertain, coupled with growing uncertainties from geopolitical tensions and de-globalization, investors' sentiment may change significantly, leading to higher financial market volatility. The U.S. tariff policy announcement in early April notably intensified market panic and triggered significant volatility across financial markets.

Box 5 A Comparative Analysis of Government Debt in China, the United States, and Japan from the Perspective of Balance Sheets in the Government Sector

In the aftermath of the global financial crisis and the COVID-19 pandemic, public finance pressures have intensified worldwide. Against this backdrop, assessing the sustainability of government debt has become a key concern. Traditional approaches often rely on the ratio of government debt to GDP, supplemented by certain threshold indicators to assess risk. However, such methods often overlook the critical role of government-held assets. With ongoing advancements in theory and practice, a growing number of scholars advocate adopting a balance sheet approach and incorporating the concept of a "broad government sector" to enable a more comprehensive evaluation of debt risks.

The United States has limited financial assets in the broad government sector. According to estimates by the Federal Reserve Bank of St. Louis, when liabilities such as the Federal Reserve bank reserves and unfunded public pension plans are included, the total liabilities of the broad U.S. government sector reached 142 percent of GDP in 2022. In contrast, its financial assets accounted for only 23 percent of GDP, primarily consisting of government deposits and student loans issued by the federal government. After netting out assets, the U.S. broad government sector recorded a net liability ratio of 119 percent of GDP. Furthermore, since the return on government assets is generally on par with the cost of financing its liabilities, the U.S. government sector is largely incapable of generating structural surpluses through asset-liability operations. Consequently, the sustainability of the U.S. government debt depends heavily on the country's economic growth potential, its ability for deficit control, and the continued status of the U.S. dollar as a global reserve currency.

Japan's broad government sector is characterized by both high liabilities and high assets. When consolidating the balance sheets of public entities, such as the national pension fund and the BOJ, Japan's total government liabilities amounted to 252 percent of GDP in 2022. At the same time, Japan's broad government sector held a large amount of financial assets, reaching 134 percent of GDP, with the national pension investment fund alone holding assets equivalent to 55 percent of GDP. This resulted in net liabilities equivalent to 119 percent of GDP, comparable to the figure in the U.S..

Japan's broad government sector sustains high debt levels, offset partly by investment income earned through asset-liability operations. On the asset side, the broad government sector invests in long-term, high-risk instruments, such as overseas securities and ETFs, primarily held by the pension fund and the central bank, respectively. On the liability side, the cost of government borrowing remains relatively low. As a result, despite its net debt position, Japan's broad government sector generated an annual net income equivalent to 2.16 percent of GDP between 1997 and 2023. However, this "borrow short and invest long" model entails interest rate and exchange rate risks. A significant rise in inflation or a sharp depreciation of the yen could lead to a substantial decline in asset valuations, posing fiscal risks. Additionally, prolonged ultra-low interest rates have inflated asset prices, exacerbating the negative distributional effects that disadvantage younger populations and households with limited financial literacy.

From the perspective of asset-liability structure, China's government debt is underpinned by considerable asset holdings. When consolidating the balance sheet of China's government sector estimated by the Chinese Academy of Social Sciences (CASS) and the balance sheet of the PBOC, total assets of China's broad government sector stood at 166 percent of GDP by the end of 2022, while total liabilities were 75 percent of GDP. This resulted in net assets amounting to approximately 91 percent of GDP—a sharp contrast to the situations in the U.S. and Japan. China's broad government sector primarily holds equity in SOEs, with these assets valued at approximately 119 percent of GDP, five times more than the global average estimated by economists at the IMF. Since the 18th National Congress of the CPC, the country has deepened the SOE reform, significantly improving both the scale and quality of state-owned assets. The CASS estimates that the value of SOE equity increased at an average annual rate of 13.8 percent from 2012 to 2022. These figures do not yet include state-owned financial assets, land, and natural resources. From a balance sheet perspective, expansion of China's government debt fundamentally remains asset-supported.

In summary, the sustainability of government debt hinges not merely on the size of liabilities but more critically on the asset-liability structure and the return-generating capacity of state assets. A comparative analysis of the three countries shows that, given China's extensive state-owned assets and relatively low government debt levels, there remains ample room for sustainable government debt expansion in China. This has important implications for improving social welfare, enhancing income distribution, facilitating economic restructuring, and maintaining a macroeconomic equilibrium.

II. Macroeconomic developments in China

In Q1 2025, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as its core, all regions and departments earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, adhering to the general principle of seeking progress while maintaining stability alongside a coordinated policy mix. As a result, the national economy got off to a good start. New progress was made in terms of high-quality development. According to preliminary statistics, GDP in Q1 grew by 5.4 percent year on year to RMB31.9 trillion on a comparable basis, up 1.2 percent quarter on quarter.

1. Consumption growth rebounded, the scale of investment increased steadily, and imports and exports maintained their growth

Residents' income grew steadily, and consumption rebounded stably. In Q1, China's per capita disposable income posted RMB12000, increasing by 5.5 percent year on year in nominal terms, or 5.6 percent in real terms. The structure of income distribution continuously improved. The nominal and real growth rates of rural residents' per capita disposable income were 1.3 percentage points and 1.5 percentage points, higher than those of urban residents respectively. In Q1, total retail sales of consumer goods grew by 4.6 percent year on year. The trade-in policy for consumer goods continued to take effect, driving qualitative upgrades in consumption. Sales of most product categories showed a positive growth momentum, while online consumption and service consumption maintained steady growth. In Q1, retail sales of enterprises (units) above the designated size in terms of communication equipment and stationery/office supplies increased by 26.9 percent and 21.7 percent, respectively. Meanwhile, service retail sales and online retail sales increased by 5.0 percent and 7.9 percent year on year, respectively.

Fixed-asset investments witnessed steady growth, and investments in the high-tech sector grew rapidly. In Q1, total fixed-asset investments throughout China (those by rural households excluded) increased by 4.2 percent year on year to RMB10.3 trillion, an acceleration of 1.0 percentage point from 2024. In terms of sectors, investments in the manufacturing sector increased by 9.1 percent, 4.9 percentage points higher than the total investment growth. Investments in infrastructure increased by 5.8 percent, 1.6 percentage points higher than the total investment growth. Investments in real estate development decreased by 9.9 percent year on year. Investments in the high-tech sector grew by 6.5 percent year on year, 2.3 percentage points higher than the total investment growth. Specifically, investments in the information services industry, spacecraft/instrument manufacturing industry, computer/office equipment manufacturing industry, and technical service industry increased by 34.4 percent, 30.3 percent, 28.5 percent, and 26.1 percent year on year, respectively.

Imports and exports remained resilient, with the trade structure continuously optimized. In Q1, imports and exports of goods increased by 1.3 percent year on year to RMB10.3 trillion. Specifically, exports grew by 6.9 percent year on year and imports fell by 6.0 percent year on year. The trade structure continuously improved. Imports and exports of private enterprises increased by 5.8 percent, accounting for 56.8 percent of total imports and exports, an acceleration of 2.4 percentage points year on year. Opportunities for international collaboration continued to grow. Imports and exports with trading partners along the Belt and Road grew by 2.2 percent year on year, accounting for 51.1 percent of total imports and exports.

Foreign direct investment (FDI) was basically stable and the quality of investments continued to improve. In Q1, actually utilized FDI totaled RMB269.23 billion. The quality of investments continued to improve. Actually-utilized FDI in the high-tech manufacturing industries totaled RMB78.61 billion. Specifically, actually-utilized FDI in investments in the e-commerce services sector, biopharma manufacturing sector, and spacecraft/instrument manufacturing sector increased by 100.5 percent, 63.8 percent, and 42.5 percent year on year, respectively.

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

In Q1, the value-added of primary industry totaled RMB1.2 trillion, up 3.5 percent year on year. The value-added of secondary industry totaled RMB11.2 trillion, up 5.9 percent year on year. The value-added of tertiary industry totaled RMB19.5 trillion, up 5.3 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In Q1, the value-added of agriculture (farming) increased by 4.0 percent year on year. The sowing area of winter wheat increased steadily, and wheat was growing well. Preparations for spring ploughing were carried out in a smooth and orderly manner. In Q1, the output of pork, beef, lamb, and poultry grew by 2.0 percent year on year to 25.4 million tons. Specifically, the output of pork grew by 1.2 percent year on year. In Q1, the number of hogs in stock increased by 0.1 percent year on year. At end-March, the number of hogs for slaughter increased by 2.2 percent year on year.

Industrial production grew rapidly and growth of the equipment manufacturing industry and the high-tech manufacturing industry accelerated. In Q1, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 6.5 percent year on year, an acceleration of 0.7 percentage points from 2024. In terms of sectors, the value-added of the mining sector and the manufacturing sector increased by 6.2 percent and 7.1 percent year on year, respectively. The value-added of the electricity, heat, gas, water production and supply sector increased by 1.9 percent year on year. The value-added of the equipment manufacturing sector and the high-tech manufacturing sector increased by 10.9 percent and 9.7 percent, respectively, an acceleration of 3.2 and 0.8 percentage points from 2024, respectively. In terms of products, new energy vehicles, 3D printing equipment, and industrial robots grew by 45.4 percent, 44.9 percent, and 26.0 percent year on year, respectively.

Service industry grew rapidly, with modern services showing good growth momentum. In Q1, the value-added of service industry grew by 5.3 percent year on year. Specifically, the value-added of electronic information transmission/software/information technology services and leasing/business services grew by 10.3 percent and 10.2 percent year on year, respectively. In March, the Index of Service Production (ISP) increased by 6.3 percent year on year. Specifically, the ISP of electronic information transmission/software/information technology services, leasing/business services, wholesale and retail sales, and accommodations/catering increased by 9.9 percent, 9.3 percent, 7.7 percent, and 6.0 percent year on year, respectively. From January to February, the revenue of service enterprises above the designated size registered a year-on-year increase of 8.2 percent, an acceleration of 1.0 percentage points from 2024.

3. Consumer prices remained generally stable, while producer prices declined

Consumer prices remained generally stable. In Q1, the CPI decreased by 0.1 percent year on year, with monthly growth rates posting 0.5 percent,–0.7 percent, and –0.1

percent, respectively. Affected by the Spring Festival and weather factors, the prices of fresh vegetables, pork, and other items witnessed significant monthly fluctuations. Food prices fell after an initial rise, with a year-on-year decline of 1.4 percent in Q1. Influenced by fluctuations in international oil prices, energy prices rose initially and then fell. Supported by the equipment upgrading and consumer goods trade-in programs, industrial consumer goods prices, excluding energy, recorded a consecutive month-on-month increase. The Spring Festival led to noticeable fluctuations in prices of household services and travel-related services. Non-food prices rose by 0.2 percent year on year in Q1, an acceleration of 0.2 percentage points compared to the previous quarter. The core CPI in Q1, excluding food and energy, continued its moderate upward trend, rising by 0.3 percent year on year, with the growth rate slightly higher than that in the previous quarter.

The decline in producer prices narrowed. Affected by weak demand and ample supply, most industrial product prices continued to show a weak trend. International crude oil and industrial metal prices diverged amidst fluctuations. Import factors brought disturbances to the prices of related domestic industries. However, supported by the equipment upgrading and consumer goods trade-in programs, the supply-demand structure of some industries improved, with price decline slowing down and prices in some industries rising slightly. In Q1, the Producer Price Index (PPI) decreased by 2.3 percent year on year, narrowing by 0.3 percentage points compared to that in the previous quarter, with monthly declines of 2.3 percent, 2.2 percent, and 2.5 percent, respectively. The Purchasing Price Index of Raw Materials (PPIRM) declined by 2.3 percent year on year, narrowing by 0.2 percentage points compared to the previous quarter. The Corporate Goods Price Index (CGPI), monitored by the PBOC, decreased by 1.4 percent year on year, narrowing by 0.8 percentage points compared to the same period of the previous year.

Box 6 The Supply-Demand Relationship and Price Movements in the Real Economy

Prices are closely related to the daily lives of households and the production and operation of enterprises, and they serve as key variables for a country's macroeconomic regulation. Price levels are shaped by the interactions among multiple factors, with the supply-demand relationship being the most fundamental determinant. In recent years, the imbalance between strong supply and weak demand in China's real economy has persisted, leading to subdued readings of major price indicators, and growing attention to prices.

From the demand side, effective demand has been continuously recovering, but it still faces some constraints. China's macroeconomic regulation has placed more emphasis on boosting domestic demand. Multiple policies centered on promoting consumption have been launched, and these measures have gradually taken effect.

Since Q4 2024, the growth rate of consumption and investment has accelerated, and effective domestic demand has been steadily recovering. However, from a longer-run perspective, aggregate demand still remains relatively weak. First, the momentum of global growth has slowed down. In recent years, geopolitical conflicts have frequently emerged and globalization has encountered headwinds, leading to more external uncertainties and persistent pressures on the growth of external demand. Second, the transformation and upgrading of the economic structure have been accelerated. As China transitions toward a high-quality development phase, new growth drivers have continued to emerge, while traditional growth drivers have gradually contracted. It still takes time for the new drivers to fill the demand gap left by adjustments in the traditional drivers. Third, household consumption needs to be further stimulated. As household consumption is influenced by multiple factors, including willingness and ability, its recovery remains a gradual process. Since Q4 2024, China's Consumer Confidence Index has generally rebounded.

From the supply side, excessive competition still persists in some industries and sectors. For a long time, China's economic development was driven by investments, a strategy that played a positive role in a shortage-economy environment. Investments and projects generate demand in the current period, which can help stimulate consumption. However, investments will eventually be transformed into production capacity and supply. In the current situation of insufficient effective demand, this exacerbates the imbalance between supply and demand to some extent. First, some traditional industries and enterprises lack competitiveness and market prospects. However, in the short run it is difficult for them to exit through market clearing, leading to inefficient and ineffective supply. Second, during the economic transition, some emerging industries have concentrated their inputs and expanded their production on a very large scale, resulting in homogeneous competition. Third, the inventory reduction cycle in the real estate sector remains relatively long. From a deeper perspective, the current oversupply in specific sectors reflects market failures to some extent. In the traditional development model, there is a significant preference for scale expansion. Against the backdrop of scarce market resources, some enterprises mainly rely on expanding scale and market share. However, diversified market competition strategies, such as technological innovations, brand building, service quality improvements, and market differentiation, remain underutilized.

The relationship between money and price is also influenced by multiple factors. Aside from the short-term supply-demand relationship, long-term factors such as globalization, demographic changes, economic structure, institutions and mechanisms, will also affect price levels. Therefore, the relationship between price and money cannot be simply linearly extrapolated based on traditional theories. From an international perspective, after the 2008 Global Financial Crisis, the major advanced economies generally adopted relatively accommodative monetary policy operations, such as quantitative easing. However, these economies were also troubled by "low inflation" at the time, with their prices continuously trending below their central banks' inflation targets. From a domestic perspective, financial aggregate indicators have maintained steady and relatively rapid growth in recent years. As of end-2024, the year-on-year growth rate of the AFRE, broad money supply (M2), and RMB loans all remained between 7 and 8 percent. The extent to which the growth of financial aggregates outpaces nominal GDP growth has reached historical highs, while the speed of price recovery has been significantly below the growth rate of financial aggregates. In practice, the influence of money on prices depends on relative conditions between supply and demand. If demand increases relative to production, then monetary expansion will significantly drive up prices. However, under a development model that emphasizes increasing investments and ensuring supply, an increasing money supply will lead to continuous expansions in production capacity and supply, which in turn will exacerbate the imbalance of supply over demand. In reality, it is difficult for prices to rise under such circumstances. The key to lifting prices lies in expanding effective demand and smoothing the supply-demand cycle by eliminating bottlenecks in the real economy.

Amid a macroeconomic environment in which long-run and short-run, domestic and external, cyclical and structural factors are intertwined, it is necessary to deepen structural reforms through the synergy among fiscal, monetary, industrial, employment, and social security policies, as well as through the coordination and cooperation of reform measures. Policy synergy should be strengthened to promote the supply-demand balance in the real economy and to facilitate a moderate price recovery. The direction of price regulation should also be transformed across several dimensions, shifting from restraining high prices to constraining low prices, from supporting scale expansion to promoting high-quality development, and from preventing monopolies to curbing disorderly competition. Moving forward, the PBOC will follow the unified arrangements of the CPC Central Committee and the State Council. It will implement an appropriately accommodative monetary policy, and it will give play to the role of monetary policy tools in adjusting both the aggregate and the structure in a bid to keep liquidity adequate and to keep aggregate financing and money supply in step with the projected targets of economic growth and the aggregate price level. The PBOC will also strengthen implementation of the interest rate policy, and it will smooth the transmission of monetary policy, thereby providing a favorable monetary and financial environment for the sustained recovery of prices.

4. The decline in fiscal revenue narrowed, and fiscal expenditure grew steadily

In Q1, revenue in the national general public budget reached RMB6.0 trillion, a year-on-year decrease of 1.1 percent. Specifically, central government revenue declined by 5.7 percent, while local government revenue grew by 2.2 percent. National tax revenue amounted to RMB4.7 trillion, a year-on-year decrease of 3.5

percent. Among these, domestic value-added tax, domestic consumption tax, and personal income tax grew by 2.1 percent, 2.2 percent, and 7.1 percent, respectively, while corporate income tax declined by 6.8 percent. Non-tax revenue reached RMB1.3 trillion, a year-on-year increase of 8.8 percent.

In Q1, expenditure in the national general public budget reached RMB7.3 trillion, a year-on-year increase of 4.2 percent. Specifically, central general public budget expenditure and local general public budget expenditure grew by 8.9 percent and 3.6 percent, respectively. In terms of expenditure structure, expenditures on education, social security and employment, and energy conservation and environmental protection grew relatively rapidly, increasing by 7.8 percent, 7.9 percent, and 6.5 percent, respectively.

5. Employment situation remained generally stable

The urban surveyed unemployment rate remained stable with a slight decline. In Q1, the national urban surveyed unemployment rate averaged 5.3 percent, an increase of 0.1 percentage points compared to the same period of the previous year. In March, the national urban surveyed unemployment rate was 5.2 percent, a decrease of 0.2 percentage points from February. In March, the urban surveyed unemployment rate in 31 major cities was 5.2 percent, an increase of 0.1 percentage points compared to the same period of the previous year. Employment for key groups, such as migrant workers, remained stable. In March, the unemployment rate for migrant workers was 4.9 percent, a month-on-month decrease of 0.1 percentage points and a year-on-year decrease of 0.2 percentage points.

6. Balance of payments remained generally balanced

In 2024, China’s current account recorded a surplus of USD423.9 billion, accounting for 2.2 percent of GDP and remaining within a reasonable and balanced range. Specifically, trade in goods maintained a relatively high surplus, with the export commodity structure optimized and trading partners more diversified. Trade in services performed well, with the trade deficit generally stable. Cross-border travel income and expenditures recovered to normal levels, with income from cross-border travel and trade in the emerging productive services growing relatively rapidly. The non-reserve financial account recorded a deficit, mainly because enterprises and other entities optimized their investment portfolios by fully leveraging domestic and international markets and global resources. Outward direct investments and outward securities investments remained active. Foreign direct investment capital inflows reached USD90.9 billion, and net inflows into bonds reached USD46.8 billion. As of end-2024, China’s total external debt (including both domestic and foreign currencies) stood at USD2.42 trillion. In particular, the medium- and long-term external debt amounted to USD1.06 trillion, accounting for 44 percent, while the short-term external debt amounted to USD1.35 trillion, accounting for 56 percent. The external debt of domestic currency stood at USD1.21 trillion, accounting for 50 percent, while the external debt of foreign currency (including SDR allocations) stood at USD1.21

trillion, accounting for 50 percent. At end-2024, the liability ratio of China's external debt was 12.8 percent, the debt ratio was 63.8 percent, the debt service ratio was 6.5 percent, and the ratio of short-term external debt to foreign exchange reserves was 42.4 percent. All these indicators remained within the internationally recognized safety thresholds, indicating that China's external debt risks were generally manageable.

7. Analysis by sector

7.1 The equipment manufacturing sector

The equipment manufacturing sector provides technological equipment for production across various sectors, thus playing a vital role in China's modern industrial system and serving as a pillar and strategic cornerstone for the national economy. In recent years, the sector has maintained robust momentum. First, it has witnessed strong growth of production and investment. Supported by large-scale equipment renewal policies, the equipment manufacturing sector has seen rapid expansion in production and investment since last year. From January to March 2025, the value-added output of equipment manufacturers above the designated size grew by 10.9 percent year on year, 4.4 percentage points higher than the overall growth of industrial output. Completed fixed-asset investments in the sector increased by 8.9 percent year on year, 4.7 percentage points higher than the total investment growth. Second, corporate profitability has shown a steady recovery. From January to February 2025, the operating revenue of the sector increased by 8.1 percent year on year, 5.3 percentage points higher than that of all the Industrial Enterprises Above the Designated Size (IEDS). This has driven the growth of profits from negative to positive territory at 5.4 percent, contributing 1.4 percentage points to overall profit growth of the IEDS and providing crucial support for recovery of the profits of IEDS. Third, high-end and intelligent upgrading has been accelerated. Advances in technological innovations and the deepened application of digital technologies have pushed up the large growth of output of high-tech products. From January to February 2025, production of integrated circuit wafers, industrial robots, electric multiple units (EMUs), and civilian drones increased by 19.6 percent, 27 percent, 64 percent, and 91.5 percent year on year, respectively, leading the transformation and upgrading of the equipment manufacturing sector.

In recent years, the financial sector has continuously enhanced support for the development of the equipment manufacturing sector. Documents such as the *Guidelines on Financial Support for Building a Manufacturing Powerhouse*, the *Notice on Further Promoting Financial Services to Support the High-Quality Development of the Manufacturing Industry*, and the *Notice on Deepening Financial Services for the Manufacturing Industry to Promote the New Industrialization* have been successively issued and implemented, guiding financial institutions to enhance financial support for the manufacturing industry, particularly in key areas such as high-end equipment, intelligent equipment, energy-saving and new energy equipment, and weak areas, such as foundational components and materials. In 2024, the PBOC launched central bank lending for sci-tech innovation and technological transformation, guiding financial institutions to provide credit support to technology-based SMEs and for technological transformation and equipment renewal projects in key areas. By the end of 2024, financial institutions had signed loan contracts with enterprises worth over RMB800 billion.

This year, with the expansion of policies supporting "major national projects and programs, security capacity in key areas, large-scale equipment upgrading, and trade-in of consumer goods" and the continuous development of the emerging fields, such as artificial intelligence, the equipment manufacturing sector is expected to maintain robust growth in production and investment. As the economic restructuring accelerates and the transition from old growth drivers to new growth drivers gains momentum, the equipment manufacturing sector is likely to continuously serve as a ballast stone for economic development in the years ahead.

7.2 The aviation sector

The aviation sector and its related supply chain serve as a vital engine for promoting China's economic and trade development and improving people's well-being. In recent years, the sector has maintained its momentum for recovery, with simultaneous growth in transportation volume and operational efficiency. First, the air transport market has witnessed active growth. In Q1 2025, the civil aviation sector achieved a total transport turnover of 38.59 billion ton-kilometers, carried 190 million passengers, and transported 2.243 million tons of cargo and mail, a year-on-year growth of 10.5 percent, 4.9 percent, and 11.7 percent, respectively. Second, airline profitability has been steadily improving. The average passenger load factor for airlines rose to 84 percent in Q1 2025, with the sector posting aggregate profits of approximately RMB4.5 billion and reducing losses by around RMB20.6 billion compared to the previous year. In particular, the three major state-owned airlines have significantly reduced their losses, while several low-cost carriers have become profitable through flexible operational strategies. Third, the establishment of a modern infrastructure network has been accelerated. In 2024, the civil aviation sector completed fixed-asset investments worth RMB135 billion, increasing 17 percent year on year. The construction of new airports and the expansion of flight networks have provided strong support for the sector's growth.

The financial sector has played a crucial role in supporting the stable development of the aviation sector. First, funding demands in the sector have been better satisfied. In 2024, the three major state-owned airlines secured incremental financing of RMB13.3 billion, growing 2 percent year on year. The outstanding bond balance increased by 45 percent year on year at end-2024, a notable increase in the proportion of direct financing. Second, the financing costs have continuously declined. The average comprehensive financing cost for the three major state-owned airlines stood at about

2.63 percent in 2024, down by 0.24 percentage points year on year. The average cost of newly-issued bonds stood at 2.06 percent, a decrease of 0.07 percentage points year on year. Third, financial products and services have become more diversified. Financial institutions have deepened the promotion of innovative tools, such as green credit and aircraft asset securitization, providing diversified support for growth of the industry.

Looking forward, the aviation sector is expected to continuously release greater growth potential and innovation vitality. First, market demand will continue to increase. With the continuous recovery of the sector and the ongoing expansion of international route networks, the outreach capacity of international hubs is expected to be improved. Second, technological innovations will lead the transformation of the sector. Application of digital technologies is enhancing the operational efficiency of airlines. Tech-enabled solutions are accelerating the development of an end-to-end carbon reduction system, promoting the sector's green transition. Third, intelligent infrastructure empowers a modern aviation network. The deployment of intelligent air traffic control systems has been accelerated and multi-modal transport hubs have been continuously improved, significantly strengthening the sector's infrastructure capabilities.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In Q1 2025, China's economy demonstrated an upward trend. GDP grew by 5.4 percent year on year, with robust growth in production and supply, stable increases in consumption and investment, continued improvements in social confidence, and solid progress in high-quality development. Overall, economic performance got off to a good start.

There is both potential and support for achieving the economic and social development targets for the year. First, new growth drivers gained momentum. Advanced technologies, such as artificial intelligence and quantum science, have seen rapid development and application this year, boosting growth of the high-tech industries. In Q1, the value-added of high-tech manufacturing above the designated size increased by 9.7 percent year on year. Currently, the "three new" economy (new industries, new business formats, and new business models) accounts for approximately 18 percent of GDP. The strengthening of macro-level policy support for sci-tech innovation is also expected to attract more participation from private capital. **Second, market demand is steadily recovering**. The expansion and strengthening of the "two new" policies (large-scale equipment renewal and trade-in of consumer goods) have yielded notable results. In Q1, retail sales of household appliances increased by 38.4 percent year on year, and automobile sales rose by 11.2 percent. Meanwhile, new consumption patterns and business models continue to emerge, with service consumption increasing by 5.3 percent year on year. The rollout of consumption promotion measures, such as the *Special Action Plan for Boosting Consumption*, along with the implementation of immediate tax refunds for overseas travelers and the extension of visa-free entry policies, is expected to further unleash the potential for cross-border consumption and expand effective demand. **Third, the economy is underpinned by a solid foundation and strong macro regulation**. China has a comprehensive industrial system and strong supporting capabilities. A diversified trade structure is developing at an accelerated pace, providing a stable and resilient base for economic growth. The comprehensive package of incremental policies rolled out last year has played a vital role in stabilizing the economy. This year, macroeconomic policies have become more proactive with the recently introduced series of strong and coordinated measures. The combined effects of the existing and new policies are expected to further improve, providing sustained support for an economic recovery and growth.

External uncertainties will be addressed with the certainty of high-quality development. The current global landscape is becoming more complex and challenging, with weak momentum for world economic growth, rising unilateralism and protectionism, and ongoing geopolitical tensions. Domestically, the foundation for economic recovery needs to be further consolidated. The growth momentum for effective demand remains insufficient, some enterprises face difficulties in production and operation, and pressures on employment and household income growth persist. It is important to both acknowledge these challenges and maintain firm confidence in development. China possesses distinct institutional strengths, a super-large domestic market, a comprehensive industrial system, abundant human resources, and vast room for demand expansion, structural upgrading, and growth momentum transformation. Greater efforts must be made to implement more proactive and effective macro policies and to provide stronger policy support to address the external uncertainties, thereby further underpinning the real economy.

Price levels are expected to maintain a low but upward trend. In Q1 2025, the core CPI rose moderately by 0.3 percent year on year, while the decline in the PPI narrowed by 0.2 percentage points compared with Q4 2024, indicating a slowing downward trend. Currently, China is at a critical phase of transitioning from old to new growth drivers, with demand contracting in the traditional sectors, such as real estate and Local Government Financing Vehicles. At the same time, prices in industries linked to high-end manufacturing have seen stable growth. As policies to expand domestic demand take effect, growth in market demand is expected to accelerate, further supporting a moderate rebound in price levels. From a medium- to long-term perspective, China’s economic restructuring and industrial upgrading are progressing steadily. The supply-demand dynamics in the real economy are expected to become more balanced, economic circulation more efficient, and monetary conditions appropriately accommodative. With overall stable consumer expectations, the foundation for maintaining generally stable prices remains solid.

II. Monetary policy for the next stage

Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully implement the guiding principles of the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Two Sessions. 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 reforms and high-standard opening-up, and it will continue its efforts to promote high-quality financial development and to build China into a financial powerhouse. It will quicken the pace of improving 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 considerations, between growth stability and risk prevention, between internal and external equilibria, and between supporting the real economy and maintaining the soundness of the banking system. 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. Every effort will be made to consolidate the foundation for economic development and social stability.

The PBOC will pursue an appropriately accommodative monetary policy. It will fully implement the guiding principles of the meeting of the CPC Central Committee Political Bureau, and proactively execute the financial policy package rolled out in May. It will keep liquidity adequate and keep aggregate financing and money supply in step with the projected economic growth and the increase in the Consumer Price Index (CPI). 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, further improve the interest rate adjustment framework, strengthen the implementation and oversight of interest rate policies, reduce the banks' liability costs, and promote a decline in overall financing costs. It will give play to the role of monetary policy tools in adjusting both the aggregate and the structure, and it will guide financial institutions to further improve their credit allocation structures. The PBOC will let the market play a decisive role in the formation of the exchange rate to enhance the resilience of the foreign exchange market and stabilize market expectations so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. While exploring to expand its functions in macro-prudential regulation and financial stability, the PBOC will safeguard financial market stability and firmly defend the bottom line whereby no systemic financial risks will occur.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. While strengthening counter-cyclical adjustments, the PBOC will flexibly manage the intensity and pace of policy implementation based on the economic and financial situations at home and abroad as well as on the performance of the financial markets. Keeping a close watch on 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 keep liquidity adequate, using a combination of monetary policy tools, such as the RRR, OMOs, the MLF, central bank lending, and central bank discounts. It will guide banks to step up the supply of credit and maintain reasonable growth in credit aggregates so as 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 duly implement the different types of structural monetary policy tools that are still in effect. At the same time, it will work to put into effect the newly launched policy tools as soon as possible, thereby guiding financial institutions to step up support for technology finance, green finance, inclusive lending to MSBs, and the efforts to expand consumption and stabilize foreign trade. Moreover, it will make effective use of the securities, funds and insurance companies swap facility (SFISF) and the central bank lending facility for share buybacks and shareholding increases while working on regularizing the institutional arrangements to safeguard the stability of the capital market. The PBOC will take concrete steps to implement the *Guiding Opinions on Promoting the Development of Technology Finance, Green Finance, Inclusive Finance, Old-age Finance, and Digital Finance*, placing an emphasis on improving the supply of financial products and services to better serve the needs of the major strategies, key sectors, and weak links. It will guide financial institutions to beef up financial support for key technological areas and enhance the financial market ecosystem to promote sci-tech innovation. Meanwhile, the PBOC will continue to improve the standards system for green finance and steadily develop the green financial market and products. It will also work to improve the credit enhancement system for small and medium-sized private enterprises, while moving forward the project for enhancing the capability of providing financial services for MSMEs. Additionally, the PBOC will carry out special campaigns aimed at providing financial support for all-round rural revitalization and put into use the appraisal results regarding the performance of financial institutions in serving the needs of rural revitalization. It 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 an education. It will also accelerate steps to establish and improve the system of old-age finance in support of the elderly care programs suited to China's conditions. To help boost and expand consumption, the PBOC will guide financial institutions to meet the diverse funding needs of various entities on both the supply and demand sides. The PBOC will expand the scope of the central bank lending facility for government-subsidized housing, and continuously consolidate the stabilizing trends in the property market. It will improve the foundational system for real estate finance, and 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 smooth the transmission channels of monetary policy. It will improve the market-oriented interest rate formation, regulation, and transmission mechanisms to bring into play the guiding role of the central bank policy rates. Reinforcing implementation of the interest rate policies, the PBOC will conduct on-site assessments in due course on the pricing ability of financial institutions, so that they will be pushed to improve their ability in interest rate pricing, effectively implement the interest rate self-regulatory initiatives, and maintain a level playing field in the market. With continued reform and improvements in the LPR, special attention will be paid to raising the quality of LPR quotations so that they can better reflect loan rates in the market. The PBOC will urge financial institutions to adhere to risk-based pricing and straighten out the relationship between loan rates and market rates, such as bond yields. It will also consider expanding to still wider regions the pilot program on explicit indication of the overall financing costs in providing corporate loans. All these measures are expected to help bring down the overall social financing 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 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 the 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. The PBOC will launch a "sci-tech board" in the bond market as an innovative measure to support the issuance of sci-tech innovation bonds by three types of entities, namely, financial institutions, technology-based enterprises, and private equity investment firms. It will also improve the legal system for the bond market and promote the development of the legal system for corporate bonds. Working to develop the multi-tiered bond market at a faster pace, the PBOC will continue to promote 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, push for well-regulated development of bond underwriting, valuation, and market-making, and enhance bond market pricing, activity as well as robustness. 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. Additionally, it will further liberalize and facilitate cross-border trade and investment by carrying out pilot programs for high-standard opening-up in the field, thus steadily moving 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 roles of the central bank in conducting macro-prudential management and maintaining 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, assessments, and early warnings and to enrich the macro-prudential policy tools. The PBOC will strengthen macro-prudential management of SIFIs. It will urge SIBs to implement the additional capital and leverage ratio requirements, to continuously improve the practicality and effectiveness of their recovery and resolution plans, and to enhance cooperation among global systemically important banks (G-SIBs) on cross-border crisis management. The 2025 SIFI assessment will begin while work is underway to steadily expand additional regulations to cover non-bank institutions. Taking prudent and orderly steps to resolve risks in key fields and projects of primary concern, the PBOC will support efforts to resolve the risks of small and medium-sized banks based on market principles and the rule of law. It will reinforce financial risk monitoring, early warnings, and assessments, as well as analysis and assessments of systemic financial risks.

Furthermore, it will consolidate the institutional arrangements for maintaining financial stability, push for expanding the accumulation for the deposit insurance fund and the financial stability guarantee fund, and enhance the role of deposit insurance in resolving financial risks professionally.