China Monetary Policy Report Quarter One, 2019

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since 2019 the Chinese economy on the whole has operated smoothly and has performed better than expected, with the transition from old to new drivers of growth accelerating and economic growth remaining resilient. The industrial and service sectors grew rapidly, growth of investment accelerated, consumer prices went up moderately, and the employment situation was generally stable. Overall, however, the external economic environment tightened and the Chinese economy still faced downward pressures, and rather prominent structural issues.

Facing the new circumstances and changes and following the arrangements of the CPC Central Committee and the State Council, the PBC adhered to the overall strategy of seeking progress while maintaining stability and to the fundamental requirement of ensuring that the financial sector will serve the real economy well. The PBC deepened supply-side structural reforms in the financial sector, continued to implement sound monetary policies, conducted appropriate and timely counter-cyclical adjustments, and improved the transmission of monetary policies. It made great efforts to address the difficulties and high costs that private enterprises and small and micro businesses (SMBs) face in accessing financing. With these measures, the PBC provided a favorable monetary and financial environment for supply-side structural reforms and high-quality development. **First**, by reducing the reserve requirement ratios and flexibly conducting open market operations, the PBC kept liquidity at a reasonable and adequate level. Interest rates in the money market were stable. Money supply, bank credit, and total social financing aggregates all grew at reasonable paces. **Second**, the PBC employed and innovated structured monetary-policy tools to strengthen macro-prudential management and to improve the credit structure, while keeping aggregate money supply at an appropriate level. The assessment criteria, with which loans are granted to SMBs for inclusive financing purposes, were adjusted. Coverage of the preferential policy of targeted cuts in the reserve requirement ratios (RRR) for inclusive financing purposes was expanded. A

Targeted Medium-term Lending Facility (TMLF) was introduced and implemented on a quarterly basis. The Macro-Prudential Assessment (MPA) was used to conduct counter-cyclical adjustments and to guide the structural adjustments, and its role in guiding credit to support private enterprises and SMBs was further enhanced. For the first time, the PBC introduced a Central Bank Bills Swap (CBS) to provide liquidity support to banks that issue non-fixed-term capital bonds, namely perpetual bonds, to replenish their capital. **Third**, the PBC continued to deepen the market-based interest-rate reforms and to improve the RMB exchange-rate formation mechanism. It steadily promoted the merging of market rates and lending benchmark rates, and improved the formation, adjustment, and transmission mechanism for market-based interest rates so as to better serve the real economy. The RMB exchange rate, which showed two-way fluctuations based on market supply and demand and was based on a basket of currencies as reference, remained basically stable at a reasonable and equilibrium level. In the Hong Kong SAR, the PBC continued to issue central-bank bills and to improve the RMB yield curve there.

The above-mentioned polices are characterized by the following three features. **First**, emphasis was placed on guiding expectations and supporting confidence. This move reversed the declining risk preference of banks, markets, and enterprises. **Second**, key problems were precisely addressed. Targeting the previous problem of a crunch in social credit, the PBC allowed banks to play a pivotal role in money creation by alleviating their constraints in terms of liquidity, capital, and interest rates. The PBC also adopted market-oriented means to encourage banks to step up their support for the real economy. **Third**, policy coordination was strengthened so that a synergy was achieved among the monetary, fiscal, taxation, industrial, and employment policies, and so that the risks incurred by the disposal of risks were well prevented. In general, the policy effects were revealed. The PBC has effectively dealt with the pressures from the social credit crunch, maintained liquidity at a reasonable and adequate level, ensured that money supply and bank credit growth proceed at a reasonable speed, improved market expectations, and helped achieve a smooth start for the national economy in 2019. Since the beginning of the year, growth of broad money (M2) and all-system financing aggregates remained above 8 percent and 10 percent respectively, basically in line with that of nominal GDP. The first quarter witnessed an increase in RMB loans by RMB 5.8 trillion, up by RMB 952.6 billion year on year. The newly added amount mainly flowed to the weak links in the economy, such as private enterprises and SMBs. At end-March, the CFETS RMB exchange-rate index was 95.04 and market expectations were stable. The main macro-economic indicators remained within a reasonable range. In Q1, GDP grew 6.4 percent year on year and the CPI rose 1.8 percent year on year.

At present, there are numerous factors that are favorable to the Chinese economy. Good progress has been made in the “three critical battles,” the supply-side structural reforms have been continuously deepened, and the reform and opening-up has been forcefully promoted. Economic growth has remained resilient and the effects of the macro-economic policies have gradually been felt. That said, as the global economic situation remains complicated and external uncertainties are still elevated, China is facing mounting challenges at home and abroad for both the long and the short term. These challenges place downward pressures on the economy and call for further enhancing the momentum for endogenous growth. Some of these headwinds are cyclical, whereas more are structural and institutional. Therefore, we must remain focused, improve our stamina, and always be ready to overcome difficulties.

Going forward, under the overall arrangements of the CPC Central Committee and the State Council and with *Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era* as guidance, the PBC will adhere to the principle of “seeking progress while maintaining stability” and will implement the guidelines of “consolidation, enhancement, improvement, and smooth operations.” It will put an emphasis on stabilizing demand through supply-side structural reforms and will adhere to structural deleveraging. It will implement a sound monetary policy with appropriate intensity and conduct timely and proper counter-cyclical adjustments. It will make preemptive adjustments and fine-tunings according to changes in growth and prices, and will strike a balance among maintaining reasonable growth of money and credit, optimizing the credit structure, and preventing financial risks. The PBC will provide innovative monetary-policy instruments, seek synergies from policy coordination among the various authorities, and improve monetary-policy transmission at the micro level on both the supply and the demand sides. It will coordinate RMB and foreign-exchange policies to strike a balance between an internal and external equilibrium, and it will keep the RMB exchange rate basically stable at a reasonable and equilibrium level. It will deepen the supply-side structural reforms in the financial sector, expand the opening-up, and improve financial services by increasing supply and introducing competition. The PBC will support healthy economic development by establishing a virtuous cycle among implementation of the sound monetary policy, enhancement of the vitality of market participants at the micro level, and making full use of the capital markets.

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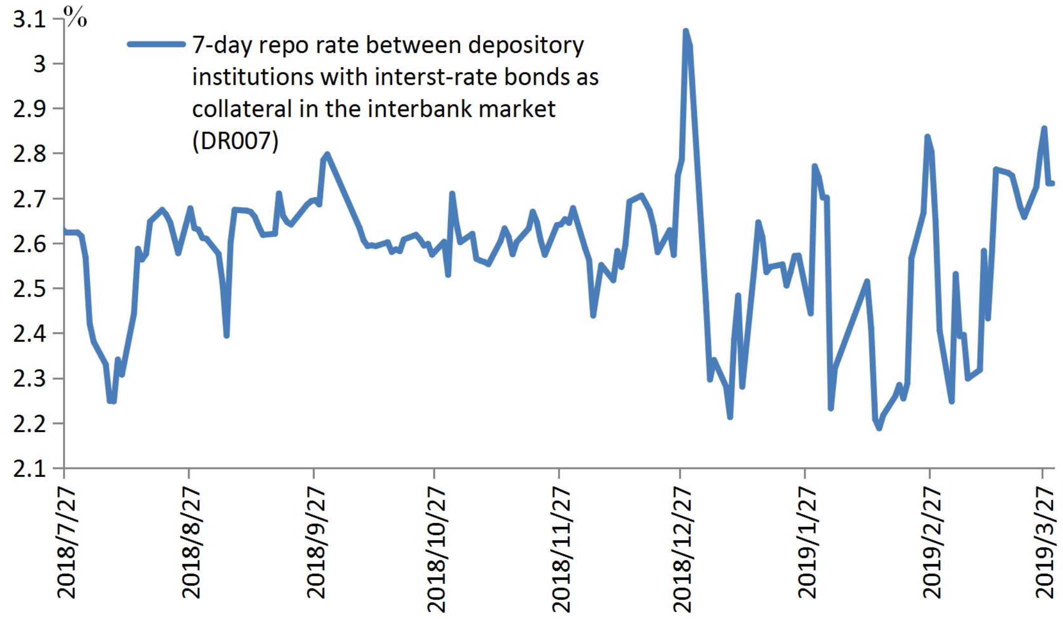
Part 1. Money and Credit Analysis

From the beginning of 2019, following the policy arrangements of the CPC Central Committee and the State Council, the PBC implemented a sound monetary policy, which addressed the pressures from the contraction of credit and maintained liquidity at a reasonable and ample level. Growth of M2 and all-system financing aggregates matched the growth of nominal GDP. Financial support for the real economy, especially for small and micro businesses (SMBs) and private enterprises was strong. The RMB exchange rates were basically stable at an adaptive and equilibrium level, and exchange-rate expectations remained well-anchored.

I. Liquidity was ample and appropriate

In Q1, the PBC increased the medium- and long-term liquidity supply via cuts in the required reserve ratio (RRR), the use of a Targeted Medium-term Lending Facility (TMLF), and dynamic assessments of the targeted RRR cuts for inclusive financing. To ensure ample and appropriate liquidity in the banking system and to keep money-market interest rates stable, the PBC conducted open market operations as necessary to smooth short-term liquidity fluctuations. At end-March, the excess reserve ratio for financial institutions was 1.3 percent, the same rate as that in the previous year.

Figure 1 Interest Rates in the Money Market



Source: www.chinamoney.com.cn.

II. Lending by financial institutions grew rapidly

Lending grew rapidly, providing strong support for the real economy. Lending continued its rapid growth, not only because the monetary-policy transmission mechanism had improved due to the previous targeted counter-cyclical adjustments but also because credit demand picked up. At end-March, outstanding loans by financial institutions in domestic and foreign currencies grew 13.3 percent year on year to RMB 147.8 trillion, which marked an increase of RMB 6.0 trillion from the beginning of the year and represented a year-on-year acceleration of RMB 1.2 trillion. Outstanding RMB-denominated loans grew 13.7 percent year on year to reach RMB 142.1 trillion, which marked an increase of RMB 5.8 trillion from the beginning of the year and represented a year-on-year acceleration of RMB 952.6 billion.

The credit structure continued to improve as loans to SMBs increased notably, and medium- and long-term loans grew at a faster pace. Since 2019, the PBC has continued to encourage financial institutions to increase credit support to SMBs, which has gradually yielded good results. Small and micro loans for inclusive- growth purposes increased by RMB 552.9 billion in Q1, representing a year-on-year acceleration of RMB 290 billion; the amount outstanding at end-March grew by 19.1 percent year on year, up 3.9 percentage points from the previous year and 5.4 percentage points higher than the growth of total loans. Broken down by sectors, the growth of RMB loans to the household sector moderated somewhat from an elevated level, registering 17.6 percent at end-March, down 0.6 percentage point from end-2018. In particular, mortgage loans grew by 17.6 percent, down 0.2 percentage point from end-2018. Mortgage loans increased by RMB 1.1 trillion in the first quarter, representing an acceleration of RMB 117.2 billion year on year and constituting 19.1 percent of the total new loans, down 1.3 percentage points year on year. Other loans to the household sector increased by RMB 698 billion from the beginning of the year, representing a deceleration of RMB 60.7 billion year on year. Loans to non-financial enterprises, government departments, and organizations increased by RMB 4.5 trillion from the beginning of the year, representing an acceleration of RMB 1.4 trillion year on year. In terms of the maturities of RMB loans, medium- and long-term loan growth accelerated, with an increase of RMB 4.0 trillion in Q1, representing an acceleration of RMB 209.6 billion year on year.

Table 1 The Structure of RMB Loans in Q1 of 2019

RMB 100 million

	Outstanding amount at end-March	Year-on-year growth	Increase from the beginning of the year	Change in the increase from the same period of the last year
RMB loans to	1,421,057	13.7%	58,078	9,526
Households	496,985	17.6%	18,096	565
Non-financial enterprises, government departments, and	913,048	11.9%	44,793	13,846

organizations				
Non-banking financial institutions	5,881	-5.4%	-4,879	-4,737
Overseas	5,143	9.2%	68	-148

Source: People's Bank of China.

Table 2 New RMB Loans by Financial Institutions in Q1 of 2019

RMB 100 million

	New loans	Year-on-year acceleration
Chinese-funded large-sized banks [1]	25,393	5,946
Chinese-funded small- and medium-sized banks[2]	32,370	5,561
Small-sized rural financial institutions[3]	8,583	1,887
Foreign-funded financial institutions	535	-191

Notes: 1. Chinese-funded large-sized banks refer to banks with assets (in both domestic and foreign currencies) of RMB 2 trillion or more (according to the amount of total assets in both domestic and foreign currency at end-2008).

2. Chinese-funded small- and medium-sized banks refer to banks with total assets (both in domestic and foreign currency) of less than RMB 2 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: People's Bank of China.

The weighted average interest rate on loans was basically stable, with the rates of loans to enterprises dropping and the comprehensive costs of all-system financing continued to fall. In March, the weighted average interest rate on loans stood at 5.69 percent, up 0.05 percentage point from December 2018 and down 0.22 percentage point year on year. In particular, the weighted average interest rate on ordinary loans was 6.04 percent, up 0.13 percentage point from December 2018 and 0.03 percentage point year on year; the weighted average interest rate on bill financing was 3.64 percent, down 0.2 percentage point from December 2018 and 1.94 percentage points year on year; the weighted average interest rate on mortgage loans was 5.68 percent, down 0.07 percentage point from December 2018 yet up 0.26 percentage point year on year. As the historical data suggest, loan interest rates in the first quarter tended to exhibit strong signs of seasonality. Therefore, the seasonally adjusted weighted average rate on loans actually declined slightly from December 2018. In addition, the previously unveiled policies to support private enterprises and SMBs have gradually yielded good results. As a result, the weighted average interest rate on enterprise loans fell 0.27 percentage point from the peak reached during the previous year. Meanwhile, the comprehensive costs of all-system financing, including bank loans, bonds, and off-balance-sheet financing continued to drop.

Table 3 Weighted Average Interest Rates on Loans

Unit: %

Month	Interest Rates
March 2016	5.24
June 2016	5.20
September 2016	5.15
December 2016	5.22
March 2017	5.45
June 2017	5.60
September 2017	5.71
December 2017	5.71
March 2018	5.91
June 2018	5.94
September 2018	5.92
December 2018	5.64

March 2019	5.69

Notes: Since the first quarter of 2019, the *weighted average interest rates on loans to non-financial enterprises and other sectors* was renamed the w*eighted average interest rates of loans.* The latter includes the weighted average interest rates of mortgage loans (excluding those issued through the housing provident fund) in addition to the previous weighted average interest rates on loans (including ordinary loans and bill financing) to non-financial enterprises and other sectors, thus comprehensively reflecting the costs of financing via bank loans.

Source: People's Bank of China.

The share of loans with interest rates above the benchmark rates rose slightly, the share of loans with interest rates at the benchmark rates fell a bit, and the share of loans with interest rates below the benchmark rates changed little. In March, the share of loans with interest rates above the benchmark rates registered 67.9 percent, up 2.6 percentage points from December 2018; the share of loans with interest rates at the benchmark rates registered 15.8 percent, down 2.7 percentage points from December 2018; and the share of loans with interest rates below the benchmark rate registered 16.4 percent, up 0.1 percentage point from December 2018.

Table 4 Shares of RMB Loans with Rates Below, At, or Above the Benchmark Rates, January through March 2019

Unit: %

Month	Below the benchmark	At the benchmark	Above the benchmark					
			Sub-total	(1,1.1]	(1.1,1.3]	(1.3,1.5]	(1.5,2.0]	More than 2.0
January	15.67	16.56	67.77	13.84	19.63	11.58	14.37	8.35
February	17.78	16.07	66.15	13.09	18.14	10.33	13.97	10.63
March	16.35	15.77	67.88	12.77	19.11	11.41	15.09	9.50

Source: People's Bank of China.

Interest rates on foreign-currency deposits and loans were basically stable, reflecting factors such as lower expectations of rate hikes by the Federal Reserve and the relatively stable international financial market. In March, the weighted average interest rates on large-value USD demand deposits and deposits with maturities within 3 months registered 0.44 percent and 2.67 percent respectively, up 0.04 and 0.03 percentage point from December 2018. The weighted average interest rates of USD loans with maturities within 3 months and with maturities between 3 months (including 3 months) and 6 months registered 3.63 percent and 3.59 percent respectively, up 0.02 percentage point and down 0.30 percentage point respectively from December 2018.

Unit: %

Table 5 Average Interest Rates of Large-Value Deposits and Loans in USD, January through March 2019

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	More than 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	More than 1 year
January	0.41	2.74	3.40	3.64	3.77	3.77	3.94	4.06	3.72	3.99	4.90
February	0.45	2.70	3.29	3.44	3.63	3.53	3.62	3.90	3.58	3.79	4.32
March	0.44	2.67	3.26	3.38	3.39	3.58	3.63	3.59	3.87	3.66	4.65

Source: People’s Bank of China.

Deposits grew at a solid rate, with term deposits accounting for a smaller share of the total new deposits. At end-March, outstanding deposits in domestic and foreign currencies in all financial institutions posted RMB 189.0 trillion, up 8.3 percent and a deceleration of 0.1 percentage point year on year. This also marked an increase of RMB 6.5 trillion from the beginning of the year and an acceleration of RMB 1.3 trillion year on year. Outstanding RMB deposits registered RMB 183.8

trillion, up 8.7 percent year on year and on par with that during the same period of the last year. This represented an increase of RMB 6.3 trillion from the start of the year and an acceleration of RMB 1.2 trillion year on year. Outstanding deposits in foreign currencies stood at USD 768.9 billion, an increase of USD 41.3 billion from the beginning of the year. Term deposits accounted for 101.8 percent of new deposits by households and non-financial enterprises in Q1, down 21.0 percentage points year on year. Broken down by sectors, deposits by households, non-financial enterprises, agencies and organizations, and the government sector registered a year-on-year acceleration of RMB 1.8 trillion, RMB 1.5 trillion, RMB 105.4 billion, and RMB 193.2 billion respectively, whereas deposits by non-banking financial institutions recorded a year-on-year deceleration of RMB 2.5 trillion.

Table 6 The Structure of RMB Deposits in Q1 2019

RMB 100 million

	Deposits at end-March	Year-on-year growth	Increase from the beginning of the year	Change in the increase from the same period of the last year
RMB deposits	1,838,227	8.7%	63,059	12,419
Households	776,654	13.1%	60,679	17,944
Non-financial enterprises	565,751	6.9%	3,328	15,398
Agencies and organizations	292,107	8.4%	6,663	1,054
Government	42,190	3.3%	1,651	1,932
Non-banking financial institutions	150,222	-3.2%	-9,671	-24,604
Overseas	11,303	11.0%	408	695

Source: People’s Bank of China.

III. The money supply increased moderately

M2 growth was roughly equivalent to nominal GDP growth. At end-March, outstanding M2 stood at RMB 188.9 trillion, up 8.6 percent year on year, an acceleration of 0.5 percentage point from the end of the last year. Outstanding M1 stood at RMB 54.8 trillion, up 4.6 percent year on year. Outstanding M0 reached RMB 7.5 trillion, up 3.1 percent year on year. In Q1, the PBC injected RMB 173.3 billion of cash into the economy, a decrease of RMB 31.4 billion year on year. M2 growth since the beginning of 2019 has generally been in line with nominal GDP growth, supporting high-quality economic development via moderate increases in money supply.

Box 1 Supporting High-Quality Development with Moderate Money-Supply Growth

Whether or not the sound monetary policy is being conducted appropriately can be assessed by examining whether monetary conditions are in line with the need to support stable economic growth and price stability—that is, if the growth of broad money (M2) is aligned with nominal GDP growth. In recent years, the growth rate of M2 has moved closer to that of nominal GDP, implying that M2 growth is appropriate in terms of meeting the reasonable demands of the real economy.

For a long period of time, the growth rate of M2 exceeded that of nominal GDP, primarily reflecting the characteristics of China's economic structure and its development model that heavily relied on investment. First, the relatively higher savings rate and the over-reliance on indirect financing led to a higher demand for money in China. **Second,** the monetization of housing and the financial deepening also significantly increased the total demand for money. Specifically, real-estate transactions made little contribution to GDP but required a sizable amount of money, while the financial deepening resulted in a faster accumulation of financial assets as opposed to non-financial assets, which, on both counts, meant that at the macro level

M2 growth would outstrip GDP growth. **Third,** China’s economy had long been driven by exports and investments, but as external demand plummeted after the 2008 financial crisis, the economy relied more on domestic demand, such as investments, for growth, and, as a result, this rising demand led to a higher growth rate of the money supply. Hence, China maintained steady and relatively rapid economic growth while prices remained generally stable. That said, outstanding M2 at end-2018 stood at RMB 182.7 trillion, with the M2/GDP ratio at around 200 percent. Continued increases in the M2/GDP ratio can imply a piling up of debt, which may prevent an upgrading of the economic structure and generate financial vulnerabilities.

Promoting high-quality economic development requires a monetary policy that is neither too loose nor too tight; therefore efforts are needed to make sure that the valve of the aggregate monetary supply is well controlled and that M2 growth is in line with nominal GDP growth. For one thing, as China's economy is transitioning from a phase of rapid growth to a stage of high-quality development, it now depends less on investments in physical capital. Thus, the contributions of consumption, the service sector, and technological advances have gradually increased. Meanwhile, structural factors, such as the monetization of housing, the composition of savings, and the financing structure, which formerly used to drive M2 growth, have been changing. These shifts suggest that a slightly slower increase in money supply may be sufficient to keep economic growth within an appropriate range. **In addition,** monetary policy should create favorable monetary conditions for high-quality development. As banks support production activities through money creation under a modern money system, stronger emphasis must be placed on guiding bank behavior during the period of economic transition. Hence, efforts should be made not only to design an incentive-compatible mechanism that is able to enhance the willingness and ability of banks to serve the real economy but also to properly use regulatory capital and liquidity instruments so as to encourage banks to strengthen their risk management, optimize their credit allocations, and improve their efficiency so as to serve the real economy.

In recent years, the growth rate of M2 has converged toward that of nominal GDP growth, supporting high-quality economic development with moderate money-supply growth. During the recent two years, China's M2 has maintained single-digit growth, at 8.1 percent in both 2017 and 2018, while the growth rate of nominal GDP posted 10.9 percent in 2017 and 9.7 percent in 2018. On balance, the macro-leverage ratio has been stable, with a rate of 249.4 percent at end-2018, down 1.5 percentage points from the previous year. In addition to maintaining the aggregate money supply at an appropriate level, efforts have been made to enhance policy coordination, smooth the monetary-policy transmission channels, and further optimize the credit structure, as the share of medium- and long-term loans, small and micro loans for inclusive growth purposes, as well as loans to private enterprises have continuously increased. Moreover, in line with the strategy of promoting structural deleveraging, efforts have also been made to increase the velocity of money flows and the efficiency of capital turnovers so as to support development while preventing risks. Thus, experience has been gained in taking coordinated action to maintain a good balance among appropriate monetary aggregates, structural optimization, and risk prevention.

Currently China is keeping economic growth within a reasonable range without a massive indiscriminate monetary stimulus, which is not easy to achieve. Going forward, a sound monetary policy shall be maintained, and preemptive adjustments and fine-tunings shall be conducted in a timely manner in light of economic growth and price changes so as to create favorable monetary conditions for supply-side structural reforms as well as for high-quality economic development.

All-system financing aggregates increased reasonably. According to preliminary statistics, outstanding all-system financing aggregates reached RMB 208.41 trillion at end-March, up 10.7 percent year on year, an acceleration of 0.9

percentage point from the end of the last year. In Q1, incremental all-system financing aggregates reached RMB 8.18 trillion, up RMB 2.34 trillion year on year. Incremental all-system financing aggregates were characterized by the following: first, growth of RMB loans to the real economy registered a year-on-year acceleration. In Q1, RMB loans by financial institutions to the real economy increased by RMB 6.29 trillion, an acceleration of RMB 1.44 trillion year on year and accounting for 76.9 percent of the increment in all-system financing aggregates. Second, the three types of off-balance-sheet financing activities registered significant increases. In Q1, entrusted loans, trust loans, and undiscounted bankers' acceptance bills increased by RMB 60.7 billion, an acceleration of RMB 196.9 billion year on year. Third, corporate debt financing registered a significant year-on-year acceleration, while equity financing registered a year-on-year deceleration. In Q1, corporate debt financing registered RMB 907.1 billion, a year-on-year increase of RMB 380.1 billion, and equity financing by non-financial enterprises recorded RMB 53.1 billion, a year-on-year decrease of RMB 75.2 billion. Fourth, special bonds issued by local governments registered strong year-on-year growth. In Q1, local government special bond financing was recorded at RMB 539.1 billion, up RMB 462.2 billion from the same period of the previous year. Fifth, asset-backed securities and loan write-offs by deposit-taking financial institutions registered a year-on-year deceleration. In Q1, asset-backed security financing by deposit-taking financial institutions recorded RMB –22.0 billion, a year-on-year deceleration of RMB 32.4 billion; loan write-offs recorded RMB 167.6 billion, a year-on-year deceleration of RMB 13.9 billion.

Table 7 All-system Financing Aggregates in Q1, 2019

Unit: RMB 100 million

	At End-March 2019		In Q1, 2019	
	Outstanding （RMB trillion）	Year-on-year Change	Increment （RMB trillion）	Year-on-year change (RMB 100 million)
All-system Financing Aggregates	208.41	10.7	81773	23396

Of Which：RMB Loans	140.98	13.8	62893	14419
Foreign Currency Loans （Converted into RMB）	2.18	-11.3	241	-251
Entrusted Loans	12.15	-11.0	-2278	1031
Trust Loans	7.88	-7.9	836	109
Undiscounted Bankers' Acceptance Bills	4.01	-12.1	2049	829
Corporate Debt	20.79	10.5	9071	3801
Specific Bonds Issued by Local Governments	7.81	40.4	5391	4622
Domestic Equity Financing by Non-financial Enterprises	7.06	4.2	531	-752
Other Financing	5.36	39.8	1183	-624
Of Which ： Asset-backed Securities by Deposit-taking Financial Institutions	1.26	80.7	-220	-324
Loan Write-Offs	3.18	46.0	1676	-139

Notes: 1. Outstanding all-system financing aggregates refer to the balance of financing provided by the financial system to the real economy at the end of a certain period of time. The increment in the all-system financing aggregates refers to the volume of financing provided by the financial system to the real economy during a certain period of time.

2. Since July 2018, the PBC has improved its statistical method for all-system financing aggregates and has included "asset-backed securities by deposit-taking financial institutions" and "loan write-offs" in the all-system financing aggregates, under the category of "other financing."

3. Since August 2018, the issuance of local government specific bonds has accelerated, which has had a significant "replacement effect" on bank loans and corporate debts. In order to reflect the "replacement effect" in the all-system financing aggregates, beginning in September 2018 the PBC began to include "specific bonds issued by local governments" in the statistics of the all-system financing aggregates and data on specific bonds issued by local governments are calculated based on the registration date of the claim and the debt.

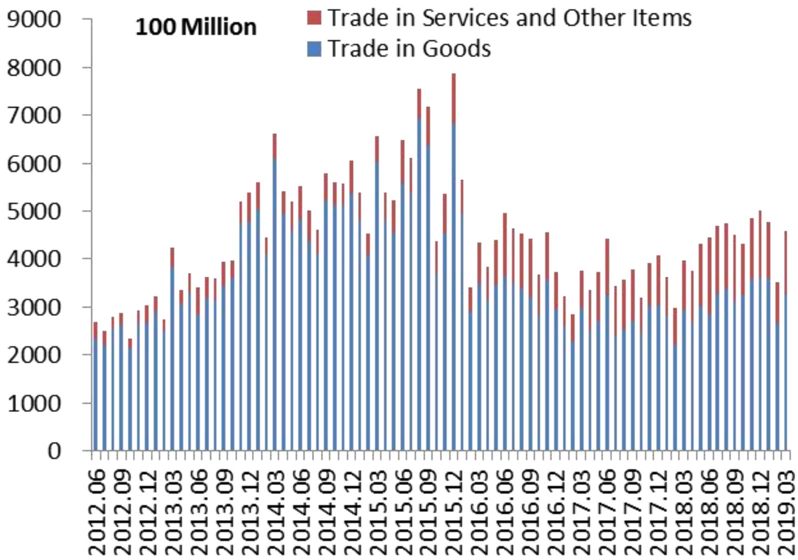
Sources: People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, and so forth.

IV. The RMB exchange rate was basically stable, and cross-border capital flows became more balanced

Cross-border capital flows and supply and demand of foreign exchange were basically at an equilibrium; the RMB exchange rate against a basket of currencies remained basically stable; and exchange-rate expectations were well-anchored. Since the beginning of 2019, based on market supply and demand with reference to a basket of currencies, the RMB exchange rate moved in both ways and remained basically stable at a reasonable and equilibrium level. In Q1, the Chinese economy had a stable beginning with increasing positive factors, which boosted market confidence, and the RMB exchange rate appreciated against the USD and the basket of currencies. At end-March, the CFETS RMB exchange-rate index closed at 95.04, up 1.89 percent from end-2018; the RMB exchange-rate index based on the SDR basket closed at 95.23, up 2.24 percent from end-2018. According to calculations by the Bank for International Settlements (BIS), in Q1 the NEER and REER of the RMB appreciated by 2.26 percent and 2.79 percent respectively. From the launch of the reform of the exchange-rate formation regime in 2005 to end-March 2019, the NEER and REER of the RMB appreciated by 34.79 percent and 46.43 percent respectively. At end-March, the central parity of the RMB against the USD was 6.7335, an appreciation of 1.93 percent from end-2018. From the launch of the reform of the exchange-rate formation regime in 2005 to end-March 2019, the central parity of the RMB against the USD appreciated by 22.92 percent on a cumulative basis. In Q1, the annualized volatility rate of the central parity of the RMB against the USD was 3.69 percent, the exchange rate continued to be flexible and it played the role of an "automatic stabilizer" in adjusting the macro-economy and the balance of payments.

Cross-border RMB transactions continued to grow with roughly balanced receipts and payments. In Q1, cross-border receipts and payments in RMB totaled RMB 4.35 trillion, up 19.0 percent year on year. In particular, RMB receipts and payments registered RMB 2.4 trillion and RMB 1.95 trillion respectively. RMB cross-border receipts and payments under the current account posted RMB 1.29 trillion, up 23 percent year on year. In particular, settlement of trade in goods registered RMB 0.96 trillion, whereas settlement of trade in services and other items registered RMB 0.33 trillion. RMB cross-border receipts and payments under the capital account posted RMB 3.06 trillion, up 17 percent year on year.

Figure 2 Monthly RMB Payments and Receipts under the Current Account



Source: People's Bank of China.

Part 2 Monetary-Policy Operations

Since the beginning of 2019, facing new situations and developments in economic and financial operations, the PBC has earnestly implemented the decisions and arrangements of the Central Committee of the Communist Party of China (CPC) and the State Council, deepened supply-side structural reforms in the financial sector and actively responded to internal and external risks and challenges, implemented a prudent monetary policy, and adopted a series of practical and effective measures to maintain liquidity at reasonable and adequate levels and reasonable growth of money and credit, effectively improving market expectations and creating a proper monetary and financial environment for supply-side structural reforms and high-quality development.

I. Conducting Open Market Operations (OMOs) in a Flexible Manner

Carrying out repo operations in a timely and appropriate manner. In Q1, many seasonal and temporary factors affected liquidity in the banking system and the liquidity situation was relatively complex. From the beginning of the year to the Spring Festival, to address various factors, such as the massive cash demand in the run-up to the Spring Festival, the tax payment peak, and the issuance of local government bonds scheduled earlier than in previous years, the PBC flexibly carried out repo operations in the open market and provided short-term funds that would become due in a timely manner after the Spring Festival, on the basis of supplying medium-term and long-term liquidity through RRR cuts, targeted medium-term lending facilities (TMLFs) and so forth. Based on the pace of the pre-holiday cash supply, the PBC reasonably arranged the scale and term structure of repo operations to meet thepre-holiday liquidity demand and to match the due date of such repo operations with the anticipated pace of cash flows into the banking system after the Spring Festival so that the maturity of repos and the MLF would sterilize the excess liquidity after the holiday. Overall, liquidity in the banking system and market expectations were stable at about the time of the Spring Festival, with the liquidity supply facing a better situation than in previous years. Since late February, in view of the changes in the liquidity situation, the PBC has carried out 7-day repo operations in a timely and appropriate manner, mainly during the tax payment period and at other times, to make up for the short-term liquidity gap and to tap the marginal role of open market operations in liquidity adjustment.

Guiding the steady movement of money-market interest rates within a reasonable range. Considering the regulatory needs and the transformation of the monetary-policy framework, the PBC strengthened the role of open market operations by effective adjustments of the short-end interest rate. In Q1, the interest rate of 7-day repo operations was stable at2.55 percent and the movement of the benchmark interest rate in the money market was steady. The absence of significant fluctuations during the Spring Festival and at quarter-end meant that the intended outcome had been achieved, which was conducive to stable market expectations and the effective transmission of central-bank policy rates.

Creating a central-bank bill swap tool (CBS) and conducting its first operations. In order to improve the market liquidity of commercial banks' perpetual bonds and support the issuance of such bonds to replenish bank capital, and on February 20 the PBC created the CBS facility and carried out its first CBS operations at a rate of 0.25 percent for a total amount of RMB 1.5 billion with a one-year maturity. The winning bidders included joint-stock banks, policy banks, and city commercial banks, as well as non-bank financial institutions such as securities companies. The central bank's CBS operations are expected to boost the acceptance of perpetual bonds, improve market expectations, and develop the market for perpetual bonds. The PBC will continue CBS operations in a prudent manner based on market-oriented principles.

II. Conducting the Standing Lending Facility (SLF) and the Medium-term Lending Facility (MLF)

In Q1, the PBC employed a combination of monetary-policy instruments, such as the MLF and the SLF, to enhance the flexibility and effectiveness of liquidity management and to maintain liquidity at a proper and stable level.

The PBC provided short-term liquidity to locally incorporated financial institutions through SLFs to fully meet their demands and to tap the role of the SLF rate as the ceiling of the interest-rate corridor to facilitate smooth operations of the money market. In Q1, the PBC conducted a total of RMB 75.3 billion in SLF operations and at end-March the outstanding balance of SLFs was RMB 32.7 billion. The SLF rates remained unchanged from the end of the last year, with the overnight, 7-day, and 1-month rates at 3.40 percent, 3.55 percent, and 3.90 percent, respectively. In Q1, the PBC used the funds released by the RRR cuts to replace the matured MLFs. At end-March, the outstanding volume of MLFs was RMB 3726.5 billion, down RMB 1205 billion from the beginning of the year.

III. Cutting the RRRs for financial institutions and establishing a new RRR framework featuring "three tranches and two preferential treatments."

The Reserve Requirement Ratio (RRR) was cut whereby the released funds were used to replace part of the outstanding MLFs, and the coverage of the RRR reduction preferential policy for inclusive finance was expanded. First, the PBC cut the RRR for financial institutions by a total of 1 percentage point in January through two steps—a 0.5 percentage point cut on January 15 and January 25 respectively. In addition, the outstanding MLFs due to mature in Q1 were not renewed. Replacement of the outstanding MLFs unleashed about RMB 300 billion as long-term liquidity. Second, starting from 2019 the PBC adjusted the assessment criterion for the targeted RRR reduction, i.e., from a single-account credit line below RMB 5 million to a single-account credit line below RMB 10 million, thereby expanding the coverage of the preferential policy of the targeted RRR cuts and benefiting more SMBs. Third, the PBC conducted a dynamic assessment of the 2018 targeted RRR cuts for inclusive finance. Due to the policy incentives, more financial institutions than in the previous year met the criteria for the targeted RRR cuts for inclusive finance, thus freeing up the long-term funds by a net amount of about RMB 250 billion.

The PBC applied a relatively low RRR to small and medium-sized banks and established a new RRR framework consisting of three tranches and two preferential treatments. **In order to further deepen the financial sector supply-side structural reforms, guide the rural banks to serve the counties, and enhance support to agriculture, rural areas, rural households, and SMBs, starting from May 15, 2019, the rural commercial banks that serve the counties and the rural credit cooperatives were consolidated into one RRR tranche, so that rural commercial banks that operate solely within a county, or have branches in other county-level administrative regions yet had total assets of less than RMB 10 billion at end-2018would be subject to the RRR applicable to the rural credit cooperatives. County-level administrative areas refer to counties and other county-level administrative areas including autonomous counties, county-level cities, municipal districts, and banners and autonomous banners where rural commercial banks are registered. As a result of the consolidation, around 1,000 county-level rural commercial banks were eligible for this preferential policy and long-term liquidity in the amount of RMB 300 billion was released, which was similar to a round of targeted RRR cuts. The RRR adjustment is to be carried out in three phases on May 15, June 17, and July 15 successively. Complete implementation will mark the establishment of a new RRR framework of three tranches and two preferential treatments.**

Box 2 A New RRR Framework of Three Tranches and Two Preferential Treatments

On May 6, 2019, the PBC announced it would consolidate the rural commercial banks that serve the counties and the rural credit cooperatives into one tranche of RRRs to simplify the tranches. After completion of the three phases of implementation on July 15, a new RRR framework will be established with three tranches and two preferential treatments.

“Three tranches” refer to three levels of the RRR based on the systemic importance, the institution type, and service positioning of the financial institutions. The first tranche, currently at 13.5 percent, applies to large banks to reflect the requirements to prevent systemic risks and maintain financial stability. Large banks include the six commercial banks, namely the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications, and the Postal Savings Bank of China; The second tranche is slightly lower, currently at 11.5 percent. It applies to medium-sized banks, including joint-stock commercial banks and city commercial banks; The third tranche, currently at 8 percent, applies to small banks, which include rural credit cooperatives, rural cooperative banks, village banks and rural commercial banks operating and providing services to counties.

The “two preferential treatments” refer to two preferential policies based on the three-tranches. First, first and second tranche banks that have met the evaluation criteria for the targeted RRR cuts for inclusive finance will be eligible for further RRR cuts of 0.5 percentage point or 1.5 percentage points. Second, for banks that operate and provide services to counties, when their local lending accounts for a certain proportion of the increment in their deposits, they will be eligible for a further RRR cut of 1 percentage point. The first preferential policy does not apply to banks operating in counties as they already enjoy a relatively low RRR based on their role in inclusive finance. Application of the preferential policies will result in an actual RRR below the prescribed tranche levels.

IV. Improving the Framework for Macro-Prudential Policies

The PBC enhanced macro-prudential management and gave full play to the role of the macro-prudential assessment (MPA) in counter-cyclical adjustments and structural guidance. **Starting from the assessment for Q1 of 2019, the MPA criterion for loans to SMBs was adjusted to be consistent with the eligibility criteria for the targeted RRR reduction of inclusive finance. The PBC adjusted the sub-items related to the pace of credit supply to prompt financial institutions to provide lending based on the policy with a good sense of the proportion so to avoid large fluctuations in credit supply. The role of the MPA in structural guidance was further strengthened to support private enterprises and SMBs. The assessment of the share of inter-bank liability in total liability became reasonably flexible to facilitate efforts by financial institutions to replenish funds through multiple channels, to alleviate the financing difficulties of enterprises, and to reduce financing costs.**

The regulation of systemically important financial institutions was enhanced. In accordance with the decisions and arrangements of the CPC Central Committee and the State Council, the PBC, together with the relevant departments, formulated the *Guidance on Improving the Regulation of Systemically Important Financial Institutions* (hereafter referred to as the "Guidance"), drawing on international experience and based on the development of the financial industry and regulatory practices in China. On November 27, 2018, the PBC, the China Banking and Insurance Regulatory Commission, and the China Securities Regulatory Commission jointly issued the Guidance, marking the establishment of a regulatory framework for China's systemically important financial institutions. After release of the Guidance, the PBC, together with the relevant departments, has worked hard to accelerate formulation of the relevant supporting policies, and it will release the assessment methods and the additional regulatory requirements for systemically important financial institutions in the banking, securities, and insurance industries.

V. Introducing the TMLF and supporting more credit supply for key areas and weak links through multiple measures

A targeted medium-term lending facility (TMLF) was created and TMLF operations were conducted on a quarterly basis. In December 2018, the PBC announced the creation of a TMLF that provides longer-term facilities at relatively low cost. The TMLF provides a market-oriented incentive to encourage banks to lend more to private enterprises and to SMBs and to reduce their financing costs. It improves the monetary-policy transmission mechanism by enabling transmission at "the last mile." In January and April 2019, the PBC conducted two TMLF operations on a quarterly basis, with a volume of RMB 257.5 billion and RMB 267.4 billion respectively, both with a maturity of 1-year and an interest rate of 3.15 percent. At the end of the period, the total outstanding balance was RMB 524.9 billion. Upon maturity, the facility can be renewed twice according to the needs of the financial institutions, in effect offering a 3-year maturity. In general, the TMLF provides a good incentive and guiding effects for financial institutions to significantly increase their loans to private enterprises and SMBs.

The PBC used credit-policy supporting central-bank lending, central-bank discounts, Pledged Supplementary Lending (PSL), and other policy instruments to guide financial institutions to increase support to key areas and weak links in the economy, such as SMBs, private enterprises, agriculture, rural areas and rural residents, poverty alleviation, renovation of shantytowns, and water conservancy. The PBC continued the nationwide pilot project of credit-asset pledges and central-bank internal ratings, which effectively solve the problem of local small and medium-sized financial institutions lacking collateral for central-bank lending. At end-March, outstanding central-bank lending to support agriculture, rural areas, and rural residents posted RMB 258.6 billion; such lending for SMBs posted RMB 225.3 billion, and such lending for poverty alleviation posted RMB 167.9 billion. Outstanding central-bank discounts stood at RMB 385.8 billion. In Q1, the PBC provided RMB 161.4 billion of

PSLs to policy and development banks, and at end-March the outstanding volume of PSLs was RMB 3541.0 billion.

VI. Window guidance and credit policies playing a larger role in structural guidance

The PBC combined efforts to promote supply-side structural reforms with structural adjustments of credit policies to provide financial services to support high-quality development of the manufacturing industry, optimization of a modern service industry, the major national strategy, and the people's livelihood, and it guided financial resources to key fields and weak links in economic and social development to effectively meet the financing needs of the real economy.

First, financial services were improved for the supply-side structural reforms and the high-quality development of the manufacturing industry. Information-sharing between manufacturing industries and the financial sector and cooperation among banks, securities companies, and insurance companies were strengthened to promote high-quality development of the manufacturing industry. The PBC further improved the arrangements for loan renewals without principal repayments to reduce the costs of bridge financing for manufacturing enterprises. Measures were adopted to support an orderly exit from lending to enterprises in sectors with excess capacity and to those that have been insolvent and loss-making for a long time. The problem of the debts of zombie enterprises was addressed through bankruptcy, reorganization, and debt restructuring.

Second, financial services for modern services were optimized. Continued efforts were made to provide financial services in key sectors, such as infrastructure building, shantytown rebuilding, underground pipelines, railways, and energy, to promote financing with orders or accounts receivable as collateral by upstream and downstream enterprises in industries such as brick-and-mortar retailing, logistics, software, and digital and electronic commerce. Consumer financial services were optimized to support consumption development in the key fields of elderly care, medical care, culture, tourism, and housekeeping.

Third, efforts were made to support implementation of major national strategies with financial services, including the coordinated development of the Beijing-Tianjin-Hebei area, the Belt and Road Initiative, the Yangtze Economic Belt, the Guangdong–Hong Kong–Macao Greater Bay Area, and civil-military integration.

Fourth, financial services were provided to support targeted poverty alleviation. The PBC promoted the establishment and improvements in a benefit-linking mechanism to facilitate enterprise participation in poverty alleviation and to effectively combine financial services with such endeavors; financial institutions were encouraged to allocate new funds, new projects, and new services to highly impoverished areas; and comprehensive financial services were provided for poverty-relief relocations and resettlement. Measures were adopted to vigorously develop inclusive finance, build the credit system and payment system, and improve the financial environment in poor areas. Special attention was paid to the risks of financial-sector participation in poverty alleviation in order to enhance sustainability.

Fifth, financial services were provided to support rural revitalization. Jointly with the relevant agencies, the PBC issued the *Guiding Opinions on Financial Services for Rural Revitalization* to clarify the key tasks in the organizational framework for financial services, to support for targeted sectors, financial products and service innovations, and a system for the supply of funds and the build-up of financial infrastructure so as to require financial institutions to allocate more resources to rural revitalization. The PBC will also follow up on the expired pilot projects of collateralized loans with operational rights for contracted farmland and with rural housing property, will expand collateralized loans against operational rights for contracted farmland, and will incorporate the pilot program of collateralized loans against rural housing property into overall consideration of the rural housing land reform.

Sixth, efforts were made to constantly deepen financial services for private SMBs. The PBC urged financial institutions to optimize the allocation of credit resources and to improve the performance-assessment scheme and the internal-incentive mechanism. It promoted due diligence and corresponding exemptions for credit to private SMBs. It also tried to add initiatives for financial institutions to extend loans to SMBs by facilitating applications for Fintech innovations such as the Internet and big data.

Seventh, the PBC is constantly working to support employment and business start-ups through financial instruments. To do this, the PBC strengthened the provision of guaranteed loans for start-ups and of various types of financial support for veterans and graduates of colleges and universities so as to start businesses or to find jobs.

Eighth, the PBC is continuing its efforts to provide financial services to vulnerable groups and regions, such as students, migrant workers, and ethnic areas. For healthy development, the PBC optimized the market-oriented operations mechanism for asset securitization.

VII. Deepening the market-oriented interest-rate reform

Continued efforts were made to deepen the market-oriented interest-rate reform so as to steadily combine the dual-track of interest rates into a single track. The market-oriented mechanism to form, adjust, and transmit interest rates has been improved so as to clear the transmission path of the PBC's policy rates to market rates. The PBC is also working to enhance the independent pricing capacity of financial institutions by giving full play to market-oriented interest rates, such as the Shanghai Inter-bank Offered Rate (Shibor), the Loan Primary Rate (LPR), and the Medium

Term Lending Facility (MLF) rate, to expand room for pricing and to encourage adequate market competition, which will be helpful for financial institutions to more accurately conduct risk pricing and to better serve the real economy.、

Box 3 Steadily Shifting the "Dual-track" Interest-Rate Mechanism to a "Single-track" Mechanism

Liberalization of interest rates is one of the most fundamental reforms in the financial sector. Under the arrangements of the Party Central Committee and the State Council, interest-rate liberalization has proceeded smoothly and made substantial headway since its kickoff in the mid-1990s. First, interest-rate controls have been broadly removed. In July 2013, controls of lending rates for financial institutions were fully removed. In October 2015, the ceiling on the floating band of deposit rates at commercial banks and rural cooperative financial institutions were removed. Second, benchmark interest rates, including the Shanghai Inter-bank Offered Rate (Shibor), the Loan Prime Rate (LPR), and the T-bond yield curve, have been established. Third, an interest-rate corridor has been preliminarily established, thus the PBC has enhanced its market-oriented adjustment capacity and transmission efficiency. Fourth, the self-disciplined pricing mechanism for market rates has been established and improved. It provides self-discipline in the pricing behavior of financial institutions and effectively maintains competitive order in the market.

Currently, the key task of interest-rate liberalization is to smoothly advance the shift of the "dual-track" system to a "single-track" mechanism and to rationalize the pricing of funds. The so-called "dual-track" mechanism refers to the coexistence of benchmark deposit and lending rates and risk-free market rates. On the one hand, the benchmark deposit and lending rates remain the pricing anchors in China's deposit and lending market. Despite the removal of the upper and lower limits for deposit and lending rates, the central bank still announces such benchmark rates as the reference rates. Specifically, the benchmark lending rates for financial institutions have always been the references for the internal loan-rate assessment and the external quoting and contract rates. On the other hand, China's risk-free market rates saw sound development. Indicative rates, such as the pledged repo rates, the T-bond yield curves, and the rates for open market operations have increasingly become references for the interest-rate pricing of financial institutions.

Such a "dual-track" mechanism obstructed the effective transmission of monetary policy. The Government Work Report notes that interest-rate liberalization should be deepened to reduce real interest rates. Currently, as liquidity in the banking system is reasonable and adequate and money market rates are stable, the real lending rates are subject to risk premiums. To further interest-rate liberalization, the focus should be on the shift from a "dual-track" mechanism to a "single-track" mechanism. This will help foster market competition, improve risk pricing by financial institutions, reduce risk premiums, and further smooth the transmission of money-market rates to lending rates, thus reducing the financing costs for SMBs.

The smooth shift of a "dual-track" mechanism to a "single-track" mechanism depends on the fostering of a market-oriented loan-pricing mechanism. International experience indicates that the US, Japan, India, and other countries have set up a quotation mechanism, similar to the LPR, as the pricing reference for loans, and such an arrangement has played an important role in promoting interest-rate liberalization. Learning from international practices, a centralized quotation and LPR publishing mechanism was officially launched on October 25, 2013. The LPR is the lending rate for premium customers quoted by the major commercial banks and published by the National Inter-bank Funding Center as entrusted by the PBC. It is supervised by the self-disciplined pricing mechanism of market rates under the guidance of the PBC. The LPR has been well recognized and trusted by the market since its launch and it has become an important reference for lending-rate pricing of financial institutions.

Going forward, under the guidance of the Party Central Committee and the State Council, the PBC will prudently advance the shift of the "dual-track" mechanism to a "single-track" mechanism and deepen interest-rate liberalization. The PBC will continue to tap into the self-disciplined pricing mechanism of market rates, maintain competitive order in the loan market, stabilize the funding costs of banks, and provide favorable conditions to reduce the funding costs of the corporate sector.

VIII. Improving the market-oriented RMB exchange-rate regime

Since 2019, cross-border capital flows and foreign-exchange supply and demand have basically been balanced with stable exchange-rate expectations. The PBC has responded flexibly to market conditions and has given priority to the domestic situation, while also giving due consideration to international factors so as to achieve an overall balance with multiple objectives. With reference to the foreign-exchange rates of a basket of currencies, the RMB exchange rate floated both upward and downward and remained basically stable at a reasonable and balanced level.

In Q1, the highest and lowest central parities of the RMB against the USD were RMB 6.6850 and RMB 6.8631 per USD, respectively. During the 58 trading days, the RMB appreciated on 32 days and depreciated on 26 days. The biggest intra-day appreciation and depreciation was 0.70 percent (469 bps) and 0.61 percent (414 bps), respectively. The exchange rates of the RMB have generally been strengthened against the other major currencies. At end-March, the central parities of the RMB against the euro, the British pound, and the Japanese yen stood at RMB 7.5607 per euro, RMB 8.7908 per pound, and RMB 6.0867 per 100 yen, representing an appreciation of 3.79 percent, a depreciation of 1.30 percent, and an appreciation of 1.68 percent from end-2018 respectively. From the RMB exchange-rate regime reform in 2005 to end-March 2019, the RMB appreciated by a cumulative 32.45 percent against the euro and 20.03 percent against the yen. Direct RMB trading was buoyant on the inter-bank foreign-exchange market, with an obvious increase in liquidity, which lowered the conversion costs for market participants and facilitated bilateral trade and investment.

Table 8 Trading Volume of the RMB Against Other Currencies in the Inter-bank Foreign-Exchange Spot Market inQ1 of2019

Unit：RMB 100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	128492.45	2391.33	798.86	433.19	81.78	272.80	53.97
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	381.05	36.89	144.30	7.09	51.19	0.22	42.28
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	5.05	5.75	0.06	0.11	10.08	10.60	5.36
Currency	TRY	MXN	THB	KHR	KZT	VND	MNT
Trading volume	0.68	0.05	116.95	0	0	0	0

Source: China Foreign Exchange Trade System.

At end-March, under the bilateral currency swap agreements between the PBC and foreign monetary authorities, the latter utilized a total of RMB 33.041 billion and the former utilized the equivalent of USD 480 million of foreign currency. These operations played a positive role in promoting bilateral trade and investment.

The PBC continued to issue central-bank bills in Hong Kong. On February 13 and May 15, 2019, the PBC issued a total of RMB 40 billion of central-bank bills by tender on the HKMA Central Money Market Unit (CMU) bond tendering platform. The scale of each issuance was RMB 20 billion, with three-month and one-year bills accounting for each RMB 10 billion. The issuance attracted active subscriptions by a large number of investors in the offshore market. The successive successful issuance of RMB central-bank bills in Hong Kong was conducive to enriching RMB financial products with high credit ratings in Hong Kong, improving the yield curve of RMB bonds in Hong Kong, and promoting the internationalization of the RMB.

IX. Deepening the reforms of financial institutions

The reform plan for development-oriented and policy-oriented financial institutions has been fully implemented. The PBC, together with members of the reform working group, orderly advanced reform measures to put in place a board of directors so as to enhance the governance structure and to define the scope of their businesses. As of now, the new boards of directors in the China Development Bank and the China EximBank have been established and are functioning effectively. A board of directors of the Agricultural Development Bank of China is in the process of being formed. The PBC will continue to encourage the three banks to clarify their functions and to improve their risk management and control so as to better serve the national strategies for development and the policy targets.

X. Deepening reforms of foreign-exchange administration

Improvements were made in foreign-exchange management to better serve the real economy. First, efforts were made to further exercise law-based governance and deepen reforms to delegate powers and improve regulations and services. Continued efforts were made to streamline administration and regulatory documents so as to optimize services for foreign-exchange management. **Second,** efforts were made to facilitate the liberalization of trade and investment. Pilot projects were launched to facilitate the receipts and payments under trade in goods, and the *Regulations on Centralized Operations of Cross-border Funds by Multinational Companies* were revised and issued to facilitate settlement and payment in foreign exchange under the capital account so as to create a favorable business environment. **Third,** foreign-exchange management measures were promoted to support the development of pilot free-trade zones, construction of the Guangdong–Hong Kong–Macao Greater Bay Area, and comprehensive in-depth reforms and opening up in Hainan.

Reforms in key areas were deepened. First, the total quota for Qualified Foreign Institutional Investors (QFII) was increased from USD 150 billion to USD 300 billion to meet the needs of foreign investors to invest in China's capital markets. **Second,** the institutional reforms of the QFIIs and the RMB Qualified Foreign Institutional Investors (RQFII) were facilitated to expand market access and investment scope. **Third,** the *Regulation Regarding Equity Incentive Funds for Foreign Employees of Domestic Listed Companies* was issued to facilitate the transactions of equity incentive returns of foreign employees in domestically listed companies.

Order in the foreign-exchange market was effectively safeguarded. Monitoring and examination of high-risk businesses was enhanced. The PBC continued to crack down on illegal underground banks and their counterparties and to prudently resolve the illegal online foreign-exchange trading platforms.

Part 3 Analysis of the Financial Market

In the first quarter of 2019, performance of the money and bond markets was generally smooth, and the stock market edged up amid fluctuations. Money-market interest rates declined and the volume of trading increased rapidly. The government bond yield curve moved downward, the coupon rate of corporate debenture bonds declined dramatically, and the volume of bond trading and issuances increased significantly. The stock-market rebounded notably and the trading volume expanded by a large margin.

I. Analysis of the financial market

1. Money-market interest rates declined and the volume of trading saw rapid growth

Liquidity in the banking system was at a reasonable and adequate level and money-market interest rates declined. In March, the monthly weighted average interest rate of inter-bank lending and of pledged repos posted 2.42 percent and 2.47 percent respectively, down 15 basis points and 21 basis points from December 2018.

The monthly weighted average interest rate of pledged repos of zero-risk bonds among deposit-taking institutions posted 2.35 percent, down 8 basis points from December 2018 and 12 basis points lower than that of the pledged repos. The Shibor generally declined. At end-March, the overnight and 7-day Shibor posted 2.49 percent and 2.70 percent respectively, down 6 basis points and 20 basis points respectively from end-2018. The 3-month and 1-year Shibor posted 2.80 percent and 3.05 percent respectively, down 55 basis points and 47 basis points from end-2018.

Repo transactions and lending on the inter-bank market grew rapidly, with Chinese-funded large and medium-sized banks as net lenders. Borrowing by securities and insurance institutions increased dramatically. In the first quarter of 2019, the cumulative volume of bond repos on the inter-bank market totaled RMB 196.6 trillion, representing an average daily turnover of RMB 3.3 trillion and a year-on-year increase of 21.3 percent. The volume of inter-bank lending reached RMB 41 trillion, with an average daily turnover of RMB 683.3 billion and a year-on-year increase of 36.3 percent. In terms of the maturity structure, overnight repos and overnight lending accounted for 84.2 percent and 91.7 percent respectively of the turnover in bond repos and inter-bank lending, up 5.8 percentage points and 3.0 percentage points year on year. The volume of bond repos on the exchange markets declined 3.2 percent year on year to RMB 56.6 trillion. In terms of financing among financial institutions, the flow of funds displayed the following characteristics. First, Chinese-funded large and medium-sized banks were net lenders, providing RMB 85.2 trillion of net lending in Q1 of 2019 through repos and inter-bank lending, up 20.9 percent year on year. Second, borrowing by insurance companies grew notably, reaching RMB 2 trillion in Q1 of 2019 on a net basis and posting growth of 110 percent year on year. Third, net borrowing by other financial institutions and vehicles and by securities companies continued their rapid growth, totaling RMB 46.6 trillion and RMB 25.6 trillion respectively, up 45 percent and 45.3 percent year on year.

Table 9 Fund Flows among Financial Institutions, Q1 of 2019

Unit: RMB 100 million

	Repos		Inter-bank lending	
	2019 Q1	2018 Q1	2019 Q1	2018 Q1
Chinese-funded large banks①	–516915	–386504	–83417	–65814
Chinese-funded medium-sized banks②	–212088	–215385	–39830	–37281
Chinese-funded small-sized banks③	52584	132983	37387	45250
Securities institutions④	190239	134676	66229	41784
Insurance institutions⑤	19818	9377	93	82
Foreign-funded banks	26569	18860	-6838	579
Other financial institutions and vehicles⑥	439794	305994	26376	15399

Notes：① Chinese-funded large banks include the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the China Development Bank, the Bank of Communications, and the Postal Savings Bank of China.

② Chinese-funded medium-sized banks refer to policy banks, the China Merchants Bank, and eight other joint-equity commercial banks, the Bank of Beijing, the Bank of Shanghai, and the Bank of Jiangsu.

③ Chinese-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, and village and township banks.

④ Securities institutions include securities firms, fund-management companies, and futures companies.

⑤ Insurance institutions include insurance firms and corporate annuities.

⑥ Other financial institutions and vehicles include urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies, asset-management companies, social-security funds, mutual funds, wealth management products, trust plans, and other investment vehicles. Some of these financial institutions and vehicles do not participate in the inter-bank lending market.

⑦ A negative sign indicates net lending and a positive sign indicates net borrowing.

Source: China Foreign Exchange Trade System.

Inter-bank CDs and CD businesses witnessed orderly development. In Q1 of 2019, a total of 5,617 inter-bank CDs were issued on the inter-bank market, raising RMB 4.03 trillion. The volume of trading on the secondary market totaled RMB 38.66 trillion, and the issuance and trading of CDs were all priced with reference to the Shibor. The correlation between the issuance rate of inter-bank CDs and the mid- and long-term Shibor has been further enhanced. In Q1 of 2019, the weighted average interest rate of 3-month inter-bank CDs was 2.82 percent, 5 basis points lower than that of the 3-month Shibor. A total of 13,578 CDs were issued by financial institutions, raising RMB 4.44 trillion, an increase of RMB 2.19 trillion year on year. The orderly development of CD businesses helped further expand the scope of market-priced liability products, build the pricing capability of financial institutions, and improve the market-based interest-rate mechanism and the transmission mechanism.

Interest-rate swaps declined. In Q1 of 2019, 49,000 deals were reached on the RMB interest-rate swap market, a year-on-year increase of 16.6 percent, with the volume of the notional principal totaling RMB 3.81 trillion, a decrease of 27.9 percent year on year. In terms of the maturity structure, contracts with maturities of up to one year were the most active type of transaction and the volume of the notional principal reached RMB 2.28 trillion, accounting for 59.8 percent of the total. In terms of the reference rates, the 7-day fixed repo rate and the Shibor served as the reference rates for the floating leg of RMB interest-rate swap transactions, accounting for 74.2

percent and 24.4 percent respectively of the total notional principal of the interest-rate swaps.

Table 10 Interest-Rate Swaps, Q1 of 2019

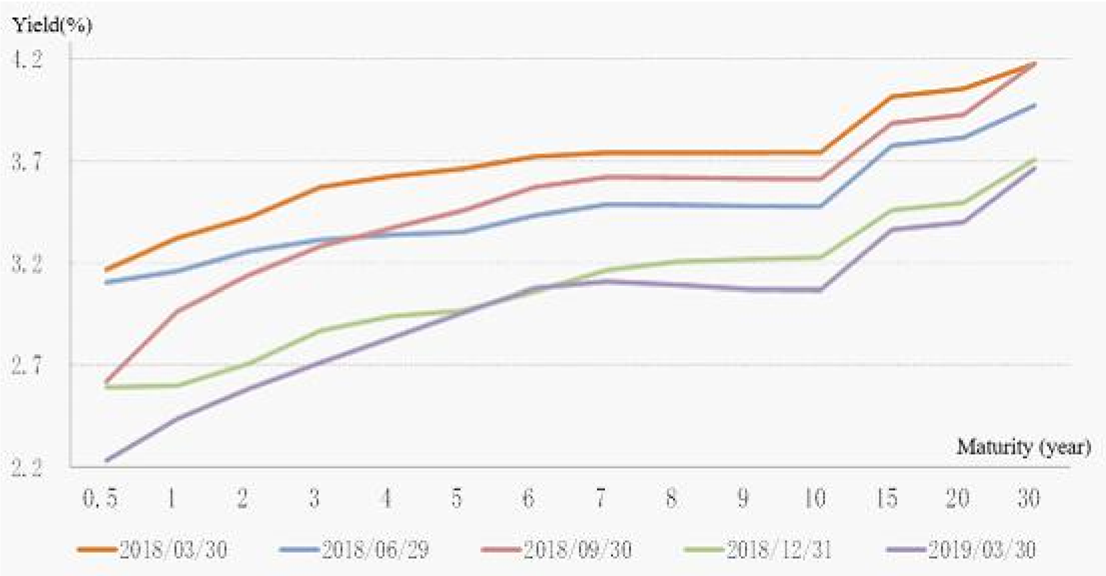
	Deals (lots)	Amount of the notional principal (RMB 100 million)
2019 Q1	49,493	38146.87
2018 Q1	42,456	52882.92

Source: China Foreign Exchange Trade System.

2. The government bond yield curve moved downward, the coupon rate of corporate debenture bonds declined notably, and transactions and issuances of bonds expanded year on year

The government bond yield curve moved downward. In Q1 of 2019, government bond yields of all maturities generally declined. At end-March, the yield of 1-year, 3-year, 5-year, 7-year, and 10-year government bonds posted 2.44 percent, 2.71 percent, 2.96 percent, 3.11 percent, and 3.07 percent respectively, down 16 basis points, 16 basis points, 1 basis point, 5 basis points, and 16 basis points from end-2018. The spread between 1-year and 10-year government bonds was 63 basis points, the same as that at end-2018. The bond indices moved up moderately. The China Bond Composite Index (net price) increased from 102.07 points at the beginning of 2019 to 102.14 points at end-March, up 0.07 percent. The China Bond Composite Index (full price) reached 119.36 points, registering an increase of 0.32 percent. The Shanghai Stock Exchange T-Bond Index posted 172.02 points, an increase of 1.18 percent.

Figure 3 Yield Curve of Government Securities in the Inter-bank Market



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

In general, the coupon rates of government bonds remained stable and the coupon rates of corporate debenture bonds continued to decline. The coupon rate of 10-year government bonds issued in March was 3.25 percent, unchanged from such government bonds of the same maturity issued in December 2018. The coupon rate of 10-year financial bonds issued by the China Development Bank in December was 3.65 percent, an increase of 6 basis points from such financial bonds of the same maturity issued in December 2018. The average rate of 1-year short-term financing bills (rated A-1) issued by AAA-rated enterprises was 3.42 percent, down 60 basis points from December 2018. The average coupon rate of 5-year medium-term notes was 4.67 percent, a decline of 44 basis points from December 2018. The Shibor continued to serve as an important benchmark rate for bond pricing. In Q1 of 2019, a total of 10 floating-rate bonds and inter-bank certificates of deposit were issued based on the Shibor, with a gross issuance volume of RMB 8.55 billion. A total of 104 fixed-rate enterprise bonds was issued, with a gross issuance volume of RMB 85.159 billion, all based on the Shibor. A total of RMB 68.8 billion of fixed-rate short-term financing bills was issued based on the Shibor, accounting for 51.8 percent of all fixed-rate short-term financing bills.

The volume of spot bond transaction increased dramatically. In Q1 of 2019, the cumulative volume of spot bond trading posted RMB 43.3 trillion, representing a daily average of RMB 721.9 billion and an increase of 80.2 percent year on year. In terms of trading participants, Chinese-funded small- and medium-sized banks and securities institutions were net bond sellers, with net sales totaling RMB 2.0 trillion; other financial institutions and vehicles were net bond buyers, with net purchases totaling RMB 1.9 trillion. Chinese-funded large banks shifted from net sellers to net buyers for the first time since Q2 of 2017, with net purchases totaling RMB 116.2 billion. In terms of products, a total of RMB 7.2 trillion of spot government bonds was traded, accounting for 16.6 percent of the total spot transactions on the inter-bank market. The spot trading of financial bonds and corporate debenture bonds reached RMB 31.0 trillion and RMB 5.1 trillion respectively, accounting for 71.5 percent and 11.8 percent respectively. The volume of spot bond transactions on the stock exchanges totaled RMB 1.9 trillion, an increase of 18.4 percent year on year.

Bond issuances witnessed large increase. In Q1 of 2019, a total of RMB 10.2 trillion of bonds was issued, an increase of RMB 1.4 trillion year on year. This was mainly due to the increase in the issuance of local government debts and corporate debenture bonds. At end-March, outstanding bonds totaled RMB 88.8 trillion, up 16.4 percent year on year.

Table 11 Bond Issuances, Q1 of 2019

Unit: RMB 100 million

Type of bond	Issuances	Year-on-year change
Government securities	5090	-109
Local government bonds	14067	11871
Central-bank bills	0	0
Financial bonds①	59381	-5618
Of which: Financial bonds issued by the	9652	459

China Development Bank and policy financial bonds		
Inter-bank certificates of deposits	40482	-11942
Corporate debenture bonds②	23859	7872
Of which: Debt-financing instruments of non-financial enterprises	18567	5721
Enterprise bonds	820	-302
Corporate bonds	4278	2401
Bonds issued by international institutions	85	-127
Total	102482	13889

Notes: ① Including financial bonds issued by the China Development Bank, policy financial bonds, bonds issued by commercial banks (including ordinary bonds, subordinated bonds, and hybrid bonds), bonds issued by securities firms, inter-bank certificates of deposits, and so forth.

② Including debt-financing instruments issued by non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, privately placed SME bonds, and so forth.

Sources: People's Bank of China, China Securities Regulatory Commission, and China Central Depository & Clearing Co., Ltd.

Box 4 Positive Results from the Opening-up of China's Financial Sector

The CPC Central Committee and the State Council pay great attention to the opening-up of the financial sector. The report from the 19th meeting of the CPC Central Committee announced that China will promote an all-round opening-up, significantly broaden market access, and expand the opening-up of the service sector. In April 2018, at the Boao Forum for Asia President Xi Jinping highlighted that China will significantly broaden market access and implement major opening-up measures "sooner rather than later." To fulfill the instructions of the CPC Central Committee and the State Council, in collaboration with the related departments, the PBC has in rolled out a series of opening-up measures in an expedited manner and has achieved positive results.

A new round of opening-up measures in the banking, securities, and insurance sectors. The foreign ownership cap was removed for banks, and asset management companies, as well as financial asset investment companies and wealth management companies newly established by commercial banks. The foreign ownership caps for securities companies, fund management companies, futures companies, and life insurance companies were lifted to 51 percent, and by 2021 they will be removed. The business scope of foreign banks was expanded dramatically. No specific restrictions will be imposed on the business scope of jointly funded securities companies, and domestic and foreign institutions will be treated equally. The business scope of foreign-invested insurance brokerage companies was expanded to match their Chinese counterparts.

Access restrictions for the credit information, rating, and payment industries are being removed gradually. Currently, foreign institutions are allowed to conduct corporate credit information businesses and to provide credit-rating services in China. The access policy for foreign bankcard clearing institutions and non-bank payment institutions has been clarified and national treatment has been granted.

The two-way opening-up of the capital market is advancing steadily. The PBC further opened the bond market, improved the supporting institutions, including accounting, tax, and trading, and deepened the interconnectivity between the domestic and foreign financial markets. RMB-denominated crude oil futures were introduced for international investors, and foreign traders were given access to commodity futures transactions, such as iron ore.

The opening-up measures in the financial sector have been well received by the international community and remarkable progress has been made in terms of market access and business expansion for foreign institutions. The PBC, together with the CBIRC, has approved an application from American Express to establish Lian Tong, a bankcard clearing institution. This marks an important step for the opening-up of China's bankcard market. Standard & Poor's has become the first foreign company approved to enter China's credit-rating market. The CBIRC has granted permission to the German Insurer Allianz to establish Allianz (China) Insurance Holding Company Limited, making it the first foreign-held insurance company in China. The CSRC has officially endorsed the application of UBS to increase the share-holding of UBS Securities to 51 percent, making it the first foreign-held securities company in China. By end-March 2019, 1,443 foreign institutions had entered the inter-bank bond market, with total bond holdings amounting to RMB 1.77 trillion, up 31 percent year on year. Capitalization of Mainland stocks held by Hong Kong investors through the Shanghai and Shenzhen Stock Connect reached RMB 1.033 trillion, up 80 percent year on year. The total value of RMB financial assets (stocks, loans, deposits, and so forth) held in China by foreign entities registered RMB 5.4 trillion, up 19 percent year on year. On April 1, 2019, Bloomberg officially included RMB-denominated Chinese government bonds and policy bank bonds into the Bloomberg-Barclays Global Aggregate Index. Beginning in May, the MSCI will gradually increase the weighting of Chinese A-shares in the global benchmark index from 5 percent to 20 percent.

Further opening-up of the financial sector is an intrinsic requirement for China to secure high-quality growth and it is conducive to building a diversified financial system and promoting supply-side structural reforms of the financial sector. The Chinese economy is shifting from rapid growth to high-quality development. In the process of the transition of the economic structure, the financial sector should also explore a new mode compatible with the future economic structure. Further expanding the opening-up of the financial sector will bring in foreign capital, management experience, and products and services, enhance market competition, and improve the efficiency of financial resource allocations, so as to better serve the real economy.

Further opening-up of the financial sector is an inevitable choice for China, as it becomes deeply integrated into the global economy. Currently, the Chinese economy is already integrated into the globalization process. As Chinese enterprises "go global," their financing needs will increase, which will require that Chinese financial institutions establish an overseas presence and provide services. To help Chinese financial institutions compete in the global market, the domestic financial market must be opened to establish a universal financial-management system with equal treatment for domestic and foreign institutions and to introduce market rules that are fair, open, transparent, and universal. This will ensure better adaptation to the complex international environment and a stronger comprehensive global service capacity.

Going forward, the financial sector opening-up will proceed in line with three principles. First, pre-establishment national treatment and a negative list will be adopted. Second, the financial sector opening-up will proceed in tandem with the progress in the exchange-rate regime reform and the convertibility of the capital account. Third, financial regulatory capacity should match the openness of the financial sector so as to prevent financial risks. The PBC will, in accordance with the decisions and plans of the CPC Central Committee and the State Council, unswervingly promote the opening-up of the financial sector. The soft environment will be improved through inter-agency efforts, supporting policies will be rolled out, the cross-border transaction and settlement mechanism will be improved, and foreign investors will enjoy more convenient market access. The PBC will spare no efforts to advance a high-level opening-up, promote the growth of the Chinese economy, and safeguard financial stability.

3. Bill financing rose rapidly, while interest rates remained low, which helped to reduce the financing difficulties and costs of small and micro businesses

The bill acceptance business witnessed steady growth. In Q1 of 2019, commercial bills issued by enterprises totaled RMB 4.8 trillion, rising 18.6 percent year on year. At end-March, outstanding commercial bills stood at RMB 10.6 trillion, up 25.1

percent year on year, while outstanding bill acceptances had expanded by RMB 1.2 trillion from the beginning of the year. In terms of the sectoral structure, outstanding banker's acceptances were concentrated in the manufacturing, wholesale, and retail sectors. In terms of issuers, two-thirds of the outstanding banker's acceptances were issued by medium-sized, small, and micro enterprises.

Bill financing expanded rapidly, whereas bill market interest rates fluctuated at low levels. In Q1 of 2019, total discounts by financial institutions amounted to RMB 10 trillion, growing 41 percent year on year. At end-March, the discount balance was RMB 6.6 trillion, up 71.3 percent year on year. The balance of bill financing continued its upward trend from the last year, but it slowed down in March when its growth accounted for only 12 percent of quarterly growth. At end-March, the balance of bill financing increased by RMB 783.4 billion from the beginning of the year and accounted for 4.6 percent of total outstanding loans, 1.5 percentage points more than during the same period of 2018. In Q1 of 2019, liquidity in the banking system was reasonable and adequate. Excluding the Spring Festival factor, demand and supply in the bill market were both strong, and interest rates fluctuated modestly at low levels. Bills featured a short maturity, greater conveniences, and better liquidity, making them an important financing channel for medium-sized and small enterprises. Currently, more than 60 percent of bill financing comes from medium-sized, small, and micro enterprises. Bill financing mainly supports the real economy and contributes to easing the financing difficulties and costs for small and micro businesses.

4. The stock indices rebounded significantly and the volume of trading increased substantially

The stock indices rebounded significantly. At end-March, the Shanghai Stock Exchange Composite Index closed at 3,091 points, up 23.9 percent from end-2018. The Shenzhen Stock Exchange Component Index closed at 9,907 points, up 36.8 percent from end-2018. The Growth Enterprise Board (GEM Board) Index closed at 1,694 points, up 35.4 percent from end-2018. At end-March, the weighted average P/E ratio of A-shares on the Shanghai Stock Exchange surged to 15.5 times, from

12.5 times at end-2018, and that on the Shenzhen Stock Exchange surged to 26.3 times, from 20.2 times at end-2018.

Turnover on the stock markets increased substantially. In Q1 of 2019, the combined turnover on the Shanghai and Shenzhen stock exchanges reached RMB 34.1 trillion and the average daily turnover was RMB 587.5 billion, up 22.7 percent year on year. Turnover on the GEM Board totaled RMB 5.6 trillion, an increase of 30.3 percent year on year. At end-March, the combined market capitalization of the Shanghai and Shenzhen stock exchanges posted RMB 45.6 trillion, rising 2.4 percent year on year. The market capitalization of the GEM Board posted RMB 3.4 trillion, rising 3.3 percent year on year.

Equity financing declined year on year. In Q1 of 2019, domestic enterprises and financial institutions raised a total of RMB 100.5 billion by way of IPOs, additional offerings, rights issues, and warrant exercises on the domestic and overseas stock markets, a decrease of 50.3 percent year on year. Among this total, RMB 90.8 billion was raised on the A-share market, down 50 percent year on year.

5. Growth of premium income in the insurance sector picked up and asset growth accelerated

In Q1 of 2019, total premium income in the insurance sector reached RMB 1.6 trillion, a year-on-year growth of 15.9 percent and 17.4 percentage points higher than that in 2018. Claims and benefits payments posted RMB 331.8 billion, a year-on-year increase of 1.5 percent. Specifically, total property-insurance claims and benefits payments increased 13.7 percent year on year, while total life-insurance claims and benefits payments decreased 6.1 percent.

Table 12 Asset Allocations in the Insurance Sector at End-March, 2019

Unit: RMB100 million, %

	Balance		As a share of total assets	
	End-March 2019	End-March 2018	End-March 2019	End-March 2018
Total assets	191082	172242	100.0	100.0
Of which: Bank deposits	26189	20182	13.7	11.7
Investments	144364	132451	75.6	76.9

Source: China Banking and Insurance Regulatory Commission.

Asset growth in the insurance sector accelerated. At end-March, total assets in the insurance sector posted RMB 19.1 trillion, up 10.9 percent year on year and an acceleration of 1.5 percentage points from end-2018. Among this, bank deposits surged 29.8 percent year on year and investment-linked assets increased 9.0 percent year on year.

6. Swap transactions on the foreign-exchange market witnessed rapid growth.

Trading on the foreign-exchange market was active. In Q1 of 2019, the turnover of spot RMB/foreign-exchange transactions reached USD 1.97 trillion, an increase of 32.4 percent year on year. The turnover of RMB/foreign-exchange swap transactions totaled USD 4.53 trillion, up 30.1 percent year on year. Specifically, overnight RMB/USD swap transactions posted USD 2.6 trillion, accounting for 58.3 percent of total swap turnovers. The turnover on the RMB/foreign-exchange forward market totaled USD 19.2 billion, down 7.9 percent year on year. The transactions of foreign currency pairs totaled USD 79.5 billion, an increase of 145.9 percent year on year, and EUR/USD transactions registered the largest trading volume, accounting for 52.1 percent of the total.

Participants on the foreign-exchange market expanded further. At end-March, there were 686 members on the foreign-exchange spot market in the inter-bank foreign- exchange market, 221 members on the foreign-exchange forward market, 217 members on the foreign-exchange swap market, 182 members on the currency-swap market, and 129 members on the foreign-exchange options market. There were 32 market-makers on the spot market and 27 market-makers on the forward and swap markets.

7. Gold prices declined following sizable growth

Gold prices on the Shanghai Gold Exchange declined following sizable growth and closed with a slight drop. In Q1 of 2019, the daily fix on the London Gold Market peaked at USD 1,345.75 per ounce and hit a trough of USD 1,278.70 per ounce, closing at USD 1,295.40 per ounce at end-March, a gain of 1.07 percent compared with end-2018. The peak and trough prices of gold (AU9999) on the Shanghai Gold Exchange were RMB 293.8 per gram and RMB 278 per gram respectively. At end-March, the AU9999 closed at RMB 281 per gram on the Shanghai Gold Exchange, down 1.26 percent over end-2018.

The volume of trading on the Shanghai Gold Exchange maintained its growth. In Q1 of 2019, the cumulative volume of gold trading on the Shanghai Gold Exchange was 14,600 tons, an increase of 9.95 percent year on year, and the turnover posted RMB 4.15 trillion, up 14.55 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Further opening up the bond market

On January 17, 2019, the National Association of Financial Market Institutional Investors, together with its members, formulated the *Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (Trial Implementation),* under the guidance of the PBC. This facilitated the standardized development of debt financing instruments for overseas non-financial enterprises and further enhanced the opening-up of the bond market

2. Strengthening regulatory arrangements for the securities and futures industries

The main regulations and rules of the Science and Technology Innovation Board were released. In January, the CSRC released the *Opinion on the Introduction of the Science and Technology Innovation Board and the Pilot Program for a Registration-based IPO Mechanism on the Shanghai Stock Exchange*; and in March, it released multiple supporting measures, including the *Measures for the Administration of Registration of IPOs on the Science and Technology Innovation Board (Trial Implementation).* The documents clarified that the Shanghai Stock Exchange would be responsible for IPO reviews, and the CSRC would be responsible for registering stocks for issuance so as to explore an issuance regime centered on information disclosures. Diversified listing criteria for the Science and Technology Innovation Board were formulated based on capitalization; and enterprises yet to make a profit, enterprises featuring a special share-holding structure, and red chip enterprises are now allowed to be listed. The documents support the growth of high and new technology industries as well as strategic emerging industries, such as next-generation information technology, high-end equipment, bio-pharmaceuticals, and so on. The institutional arrangements for delisting and the daily price limits were also specified.

Regulatory rules for securities and futures institutions were further improved. In January, the CSRC released the *Guidance on Credit Derivative Investments by Publicly Offered Securities Investment Funds*, stipulating that publicly offered funds engaging in credit derivative investments should aim at risk hedging, determine an appropriate size and term of investment, and enhance risk management and information disclosures. It further clarified that money-market funds should not invest in credit derivatives. In February, the CSRC released the revised *Regulatory Rule on the Categorization of Futures Companies*, which improved the categorization evaluation procedures for futures companies, adjusted the previous regulatory evaluation and scoring standards, encouraged futures companies to support the national strategy and to serve the real economy, and introduced new evaluation parameters, such as investments in the futures market by asset management businesses.

3. Improving institutional arrangements in the insurance market

Supporting insurance institutions to assist in the increase of the capital of commercial banks. In January, a report released by the CBIRC expressed support for insurance institutions to invest in tie-2 capital bonds and non-fixed term capital bonds issued by commercial banks. This will help commercial banks further increase capital and optimize their capital structure.

Further encouraging the insurance sector to serve the real economy. In February, the CBIRC released the *Notice on Further Enhancing Financial Support for Domestic Private Enterprises*. It required that insurance institutions shall provide more flexible debt guarantees and insurance services for domestic private enterprises and they provide credit-enhancing services to help domestic private enterprises secure financing, as long as the associated risks can be controlled. It encouraged insurance institutions to step up investment in bonds issued by private enterprises and to help mitigate and resolve the stock pledging risks of listed private companies through institutions such as privately offered equity funds recognized by the regulator.

Strengthening regulation of the auto insurance market. In January, the CBIRC released the *Notice on Further Strengthening Regulation of Auto Insurance*. It stipulated that a monitoring mechanism for data on auto insurance premiums and a complaint acceptance, verification, and investigation system should be put in place. Moreover, inspections and penalties for illegal and non-compliant activities of insurance companies, such as unreported and unauthorized use of auto insurance terms and premiums, will be enhanced.

Part 4. Macro-economic Overview

I. Global economic and financial developments

Since the second half of 2018, the momentum for growth in the global economy weakened, as the major advanced economies grew at a slightly slower pace. In Q1 2019, the overall performance of global financial markets improved moderately, but the improvement does not have deep roots. The downside risks to the global economy continue to persist amid uncertainties.

1. Economic developments in the major economies

Growth in the major advanced economies diverged. The U.S. economy remained sound, but showed signs of a slowdown. Its GDP growth rate continued sliding after posting a high of 4.2 percent in Q2 2018. GDP grew 2.9 percent in 2018, while the annualized quarter-on-quarter GDP growth in Q4 2018 was 2.2 percent. In Q1 2019, on the back of improvements in net exports and increases in inventory, GDP growth exceeded market expectations as it rebounded above 3 percent, registering 3.2 percent. In March 2019, the manufacturing PMI of the Institute for Supply Management was 55.3, indicating persistent expansion. The University of Michigan's Consumer Sentiment Index fluctuated, posting 93.8, 98.4, and 97.2 in February, March, and April respectively. The Consumer Price Index (CPI) has remained below the target of 2 percent since December 2018, rising 1.9 percent in March 2019. The core CPI, which excludes highly volatile energy and food prices, rose mildly by 2 percent in March. The labor market continued to improve, as the unemployment rate in both February and March was 3.8 percent.

In the euro area, economic growth slowed down amid rising uncertainties. Growth continued to decelerate in the euro area, as year-on-year GDP growth during the four quarters of 2018 was 2.4 percent, 2.2 percent, 1.6 percent, and 1.2 percent respectively. In 2018, the economy in the euro area gained 1.9 percent, less than the growth of 2.4 percent in 2017. Consumer sentiment remained weak. In February and

March of 2019, the Consumer Confidence Index posted –7.4 and –7.2 respectively. The manufacturing PMI continued to deteriorate, as it dropped below 50 for two straight months to 49.3 in February and to 47.5 in March 2019. Overall, inflation in the euro area remained subdued, as the Harmonized Index of Consumer Prices (HICP) was 1.4 percent in March 2019, while the core CPI was lower, rising only 0.8 percent in the same month. Unemployment improved, as the jobless rate dropped to 7.8 percent in both January and February.

Volatility of economic growth in Japan increased. Due to natural disasters, the annualized quarter-on-quarter GDP growth in Q3 2018 was –2.4 percent, the biggest decline since Q2 of 2014. GDP added 1.9 percent in Q4 and 0.8 percent in 2018. The labor market was close to full employment. However, as employers are reluctant to raise wages and inflation expectations remain weak, inflation remains subdued, with CPI growth of 0.5 percent in March.

The UK economy continued to grow slowly amid rising Brexit uncertainties. GDP growth posted 1.4 percent in 2018. The CPI has been below 2 percent since the beginning of 2019, rising 1.9 percent in March. Uncertainties surrounding the Brexit are increasing, as the current Brexit agreement was repeatedly vetoed in the UK and a proposal for extending the Brexit deadline was submitted to the European Union.

Performance in the emerging market economies diverged. Growth in Brazil regained some momentum, as GDP rose 1.3 percent and 1.1 percent in Q3 and Q4 of 2018 respectively, posting 1.1 percent in 2018. In Russia, growth picked up, as GDP added 2.2 percent and 2.7 percent year on year in Q3 and Q4 of 2018 respectively, posting 2.3 percent in 2018. Inflation was contained, but recently it has rebounded slightly. The Indian economy grew rapidly, as year-on-year growth reached 6.9 percent and 6.6 percent in Q3 and Q4 of 2018 respectively, jumping 7.1 percent in 2018. Inflationary pressures eased moderately. Growth in South Africa picked up slightly in the second half of 2018, but the unemployment rate remained stubbornly high.

Table 13 Macro-economic and Financial Indicators in the Major Advanced Economies

Country	Indicator	2018Q1			2018Q2			2018Q3			2018Q4			2019Q1		
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	Real GDP Growth (annualized quarterly rate, %)	2.2			4.2			3.4			2.2			3.2		
	Unemployment Rate (%)	4.1	4.1	4.0	3.9	3.8	4.0	3.9	3.8	3.7	3.8	3.7	3.9	4.0	3.8	3.8
	CPI (year-on-year, %)	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.2	1.9	1.6	1.5	1.9
	DJ Industrial Average (end of the period)	26149	25029	24103	24163	24416	24271	25415	25965	26458	25116	25538	23327	24999	25916	25929
Euro Area	Real GDP Growth (annualized quarterly rate, %)	2.4			2.2			1.6			1.2			…		
	Unemployment Rate (%)	8.6	8.5	8.5	8.4	8.2	8.2	8.1	8.0	8.0	8.0	7.9	7.9	7.8	7.8	…
	HICP (year-on-year, %)	1.3	1.1	1.4	1.2	2.0	2.0	2.2	2.1	2.1	2.3	1.9	1.5	1.4	1.5	1.4
	EURO STOXX 50 (end of the period)	3609	3439	3362	3537	3407	3396	3525	3393	3399	3198	3173	3001	3159	3298	3352
United Kingdom	Real GDP growth (year-on year, %)	1.2			1.4			1.6			1.4			...		
	Unemployment Rate (%)	4.3	4.2	4.2	4.2	4.2	4.0	4.0	4.0	4.1	4.1	4.0	4.0	3.9	3.9	3.8

	CPI (year-on-year, %)	3.0	2.7	2.5	2.4	2.4	2.4	2.5	2.7	2.4	2.4	2.3	2.1	1.8	1.9	1.9
	FTSE 100 (end of the period)	7534	7232	7057	7509	7678	7637	7749	7432	7510	7128	6980	6728	6969	7075	7279
Japan	Real GDP Growth (annualized quarterly rate, %)	-0.4			1.9			-2.4			1.9			...		
	Unemployment Rate (%)	2.4	2.5	2.5	2.5	2.2	2.4	2.5	2.4	2.3	2.4	2.5	2.4	2.5	2.3	2.5
	CPI (year-on-year, %)	1.4	1.5	1.1	0.6	0.7	0.7	0.9	1.3	1.2	1.4	0.8	0.3	0.2	0.2	0.5
	NIKKEI 225 (end of the period)	23098	22068	21454	22468	22202	22304	22554	22865	24120	21920	22351	20015	20773	21385	21206

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

Affected by turbulence in the financial market, GDP growth in Argentina and Turkey both decelerated considerably. In particular, the Argentine economy contracted 2.5 percent in 2018.

2. Developments in global financial markets

In Q1 of 2019, global stock markets showed broad-based gains and the yields of government bonds dropped, as since the beginning of 2019 sentiment in global financial markets improved for quite a while . But recently volatility has once again risen.

The USD Index fluctuated upwards as the euro and the Japanese yen fell against the U.S. dollar. At end-March, the USD Index closed at 97.284, up 1.16 percent from end-2018. The exchange rates of the euro and the Japanese yen closed at 1.1217 U.S. dollar per euro and 110.84 yen per U.S. dollar, depreciating 2.20 percent and 1.15

percent as compared with end-2018, while the British pound strengthened 2.15 percent over the end of 2018, closing at 1.3031 U.S. dollar per pound. Among the emerging market currencies, the Argentine peso, the Turkish lira, and the Brazilian real depreciated 13.08 percent, 4.56 percent, and 1.11 percent respectively against the U.S. dollar over the end of 2018, while the Russian ruble, the Mexican peso, and the Indian rupee appreciated 6.11 percent, 1.13 percent, and 0.55 percent respectively against the U.S. dollar over the end of the previous year.

Across the board, the yields of government bonds in the major economies dropped. As of end-March, the yield of 10-year U.S. Treasuries closed at 2.414 percent, down 27.7 basis points (bps) from end-2018. Meanwhile, the yields of 10-year French, German, UK, and Japanese government bonds dropped 39 bps, 31.7 bps, 26.9 bps, and 9.4 bps respectively as compared with end-2018. Among the emerging market economies, the yields of 10-year Mexican, Russian, Brazilian, and Indian government bonds slid 61 bps, 31 bps, 28.5 bps, and 2.4 bps respectively over end-2018, whereas the yields of 9-year Argentine government bonds and 10-year Turkish government bonds jumped 139 bps and 203 bps respectively over end-2018.

The stock markets in the major economies rebounded. At end-March, the U.S. Dow Jones Industrial Average, the Euro STOXX 50, the German DAX, the UK FTSE 100, and the Japanese Nikkei 225 added 11.15 percent, 11.67 percent, 9.16 percent, 8.19 percent, and 5.95 percent respectively over end-2018. Among the emerging market economies, the Russian RTS, the Argentine BUSE MERVAL, the Brazilian BOVESPA, the Indian SENSEX, the Mexican MXX, and the Turkish BIST30 jumped 12.38 percent, 10.48 percent, 8.56 percent, 7.22 percent, 3.94 percent, and 2.80 percent respectively over the end of the previous year.

On the back of weaker expectations of rate hikes by the U.S. Fed, the USD Libor in the London inter-bank market dipped The 1-year Libor stood at 2.7106 percent on March 29, down 29 bps from end-2018. The Euro Area Inter-bank Lending Rate (Euribor) edged up due to expectations of a monetary-policy tightening by the European Central Bank (ECB). The 1-year Euribor registered –0.1120 percent on March 29, up 0.5 bp over end-2018.

3. Monetary policies in the major economies

The pace of policy normalization slowed down in the advanced economies. The Federal Open Market Committee (FOMC) met on January 30, 2019 and decided to keep the target range of the federal funds rate on hold at 2.25–2.50 percent, and to continue with the balance sheet unwinding that was announced in October 2017, under which the Fed would continue rolling over the amount of the principal payments from the Federal Reserve's holdings of Treasury securities maturing during each calendar month that exceeds USD 30 billion, and would continue reinvesting in agency mortgage-backed securities the amount of the principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during each calendar month that exceeds USD 20 billion. The FOMC meeting on March 20 decided to keep the rate unchanged and to continue with the balance-sheet normalization, but it would reduce the cap from USD 30 billion to USD 15 billion starting from May and it would stop unwinding at end-September. The FOMC reduced the expected frequency of rate hikes in 2019 from two times, as announced after its December meeting of last year, to zero and kept the expected frequency of rate hikes in 2020 unchanged at one time. In the policy statement, the FOMC announced that in light of global economic and financial developments and muted inflationary pressures, the FOMC would be patient as it determines what future adjustments to the target range for the federal funds rate will be appropriate to support these outcomes.

On January 24, the **ECB** kept the interest rates on the main refinancing operations, the marginal lending facility, and the deposit facility unchanged at 0 percent, 0.25 percent, and –0.4 percent respectively. On March 7, the ECB announced that the current policy rates would remain on hold at least through the end of 2019 because of fears of an economic slowdown. In addition, it decided to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program for an extended period of time past the date when it starts raising the key ECB interest rates and it would launch a fresh round of targeted longer-term refinancing operations (TLTRO-III). On April 10, the ECB kept policy rates unchanged and intended to continue reinvesting the principal payments from maturing securities well beyond its first rate hike.

On January 23 and March 15, the **Bank of Japan (BOJ)** decided to continue its quantitative and qualitative monetary easing (QQE) with yield curve control, to apply a negative interest rate of –0.1 percent to the Policy-Rate Balances in the current accounts held by financial institutions at the BOJ, and to keep the yield of 10-year government bonds at about 0 percent. The size of asset purchases remained unchanged. When meeting on April 25, the Policy Board decided to maintain the current extremely low levels of short- and long-term interest rates at least through around spring of 2020.

The Bank of England (BOE) kept its benchmark rate unchanged at 0.75 percent on February 7 and March 21. The Monetary Policy Committee also voted unanimously to maintain the stock of non-financial investment-grade corporate bond purchases and UK government bond purchases at GBP 10 billion and GBP 435 billion respectively.

The Bank of Canada (BOC) announced it would keep the target for the overnight rate on hold at 1.75 percent on January 9, March 6, and April 24. However, in a March statement, it deleted the wording of gradually lifting the policy rate to a neutral range over time and noted that uncertainty about future rate hikes had increased.

The monetary-policy stances of most emerging market economies remained unchanged, but in several economies the benchmark rates were cut. As inflationary pressures eased, the Reserve Bank of India cut rates twice, on February 7 and April 4, each by 25 bps to 6.0 percent, in a bid to drive growth through more private investment. Its monetary-policy stance shifted from calibrated tightening to neutral. The Central Bank of the Russian Federation announced it would keep its key rate unchanged at 7.75 percent on February 8, March 22, and April 26. Meanwhile, it noted that rate cuts would be possible during Q2 and Q3 of 2019 if economic development is in line with expectations. The Bank of Korea maintained its loose monetary-policy stance by keeping its Base Rate on hold at 1.75 percent on January 24, February 28, and April 18. In Q1, the Central Bank of Brazil maintained the benchmark rate at 6.5 percent, the South African Reserve Bank kept the repo rate on hold at 6.75 percent, the Bank Indonesia kept the 7-day reverse repo rate at 6 percent, and the Banco de Mexico held the target for the overnight inter-bank funding rate unchanged at 8.25 percent.

4. The global economic outlook and key risks

In its updated April 2019 *World Economic Outlook*, the International Monetary Fund (IMF) forecast that the global economy will grow 3.3 percent in 2019, a downward revision by 0.2 percentage point compared to its January 2019 forecast. The growth forecasts for the advanced economies and for the emerging market and developing economies were both revised downward. Looking ahead, the global economy may face the following risks.

First, global growth might tilt to the weaker side in the short run and the room for policy response will be limited. Currently, the outlook for weaker growth in the major economies may weigh down on global growth. In the meantime, policy room will be limited. On the monetary front, the central banks will have limited room for a further expansion of their balance sheets. A falling long-term natural rate will limit room for interest-rate adjustments. On the fiscal front, some advanced economies have high levels of fiscal deficit and public debt, which will make it less cost-effective to cut taxes further.

Second, trade tensions and policy uncertainties remain prominent risks. Amid the gradually unfolding uncertainties arising from trade tensions and their impact on the global supply chain, firms may choose either to postpone their investment decisions or consider adjusting their supply chains. Some economies at the upper and lower ends of the supply chain may be exposed to shocks, such as weakening external demand. Also, global financial markets may fluctuate with the ups and downs in the trade tensions. Looking ahead, trade tensions and policy uncertainties may still render shocks to the global economy by pushing up inflation, undermining household and corporate confidence, and unsettling financial markets.

Third, a variety of combined uncertainties may amplify the vulnerability of each economy. At present, asset prices throughout the world are at record high levels. Some economies may face capital outflow pressures due to a high leverage ratio in the corporate sector. If economic slowdowns or trade tensions spark panic in global financial markets, this may lead to a sudden tightening of global financial conditions, which would increase debt servicing and refinancing risks and amplify the vulnerability of each economy.

In addition, geopolitical tensions have occurred in numerous places and risk factors and uncertainties have accumulated at an accelerated pace, having a great impact on the global economy and financial markets. Meanwhile, risks from new technologies, such as FinTech, should not be ignored as they may pose additional challenges to global financial supervision.

II. Macro-economic developments in China

During the first quarter of 2019, the Chinese economy operated smoothly and the structure of the economy continued to improve. The industrial and services sectors grew at a relatively rapid pace. The growth of investments steadily recovered. Consumer prices rose moderately and employment was generally stable. Preliminary data show that GDP during the first quarter registered RMB 21.34 trillion, up 6.4 percent year on year in comparable terms, the same as that during the previous quarter. The CPI increased by 1.8 percent year on year.

Box 5 An Analysis of Potential Economic Growth

Potential economic growth refers to the highest level of output an economy can sustain at a constant inflation rate. In terms of growth accounting, potential growth largely depends on the growth of both labor supply and total factor productivity (TFP); in particular, TFP is affected by a variety of factors, such as technological progress, institutional arrangements, and resources and the environment.

International experiences indicate that labor supply and capital accumulation play a larger role in growth during the initial stage of economic development, but in the long run they will be subject to significant constraints. In general, growth of the labor force declines as the economy grows. One example is that in Japan the contribution of labor to economic growth has fallen from about 1 percent to negative territory since the 1990s as it has become an aging society. In addition, marginal returns on capital will also diminish as capital stocks increase, thereby contributing less to growth. For instance, South Korea began its industrialization in the 1960s and 1970s with the rapid development of the textile and heavy industries and with capital accumulation contributing to over 10 percent of GDP growth. Since the 1980s, capital accumulation has played a smaller role in driving the economy as capital stock was already high. After 2000, the contribution of capital accumulation to South Korea's growth has dropped to below 2 percent.

The key to raise potential output is to increase TFP. Research has indicated that the higher the GDP per capita, the bigger the contribution of TFP to economic growth. Specifically, during the early stages of industrialization, rapidly expanding markets may encourage large-scale production and large investments in infrastructure, and therefore capital accumulation will contribute more to growth. But as the production process becomes more complex, more skilled workers and R&D investments will be required, and hence the contribution of TFP will increase. TFP growth may also promote economic growth by facilitating capital formation. Because industrial-structure upgrades usually take place along with technological progress, new industries can drive up the demand for infrastructure and production, thereby encouraging capital accumulation. For instance, when Japan's economy transitioned to a higher value-added model in the 1980s, its TFP growth remained relatively rapid as capital accumulated rapidly and resulted in a greater contribution to economic growth—from around 2 percent to over 4 percent. Likewise, South Korea transformed its traditional industries from the 1980s to the early 1990s when its former development model was no longer sustainable. The shift allowed capital accumulation to contribute approximately 6 percent to GDP growth over a long period, which ensured a stable economic transformation.

Preliminary estimates suggest that China's potential output growth has fallen over the past decade, yet current actual economic growth is moving in line with its potential, with the output gap approaching zero, implying that supply and demand in the real economy are basically balanced, while the unemployment rate and inflation are generally stable. However, China's potential economic growth will face some challenges in the future. In terms of the labor force, China is facing challenges from an increasingly aging society as its working-age population has already peaked. In terms of capital, future capital accumulation may slow down due to a falling savings ratio and lower marginal capital returns reflecting the aging society and the economic transformation from an investment-driven to a consumption-driven growth model. That said, to some extent upgrades in human capital and industries and coordinated regional development may support capital accumulation . Going forward, improving TFP through technological progress and institutional reforms will be conducive to promoting the growth potentials of the economy. While investment in education and basic research should be further increased, we should also focus on institutional reforms to handle the relations among investment, ownership, use, and revenue sharing of intellectual property, abolishing administrative dominance and departmental segmentation, developing a market-oriented mechanism to introduce innovation programs, resource allocations, and results assessments, and to accelerate the industrialization of scientific and technological achievements so as to effectively improve TFP. Finally, with a commitment to supply-side structural reforms, China should also continue to deepen its reforms, expand its high-standard opening-up, and build up a framework for a modern economy, so as to drive economic growth close to its potential and to achieve steady and high-quality economic development.

1. The industrial and services sectors were generally stable while the industrial structure continued to improve

The share of tertiary industry continued to rise. In the first quarter of 2019, the value-added of the primary, secondary, and tertiary industries accounted for 4.1 percent, 38.6 percent, and 57.3 percent of GDP respectively. The share of the tertiary industry exceeded that of the secondary industry by 18.7 percentage points, up 0.7 percentage point from the same period of the last year. The value-added of the primary, secondary, and tertiary industries registered RMB 876.9 billion, RMB 8.23 trillion, and RMB 12.23 trillion respectively, up 2.7 percent, 6.1 percent, and 7.0 percent year on year.

Agricultural production was generally stable, but the output of pork declined. During the first quarter, the value-added of crop production in the agricultural sector grew by 4.4 percent year on year. The output of beef, mutton, and poultry increased by 1.7 percent, 1.4 percent, and 2.1 percent year on year, but the output of pork declined by 5.2 percent.

With the structural improvements, industrial production grew more rapidly. In the first quarter of 2019, the value-added of statistically large industrial firms (SLIFs) increased by 6.5 percent year on year, an acceleration of 0.8 percentage point from the previous quarter. The value-added of high-tech industries andemerging strategic industries expanded by 7.8 percent and 6.7 percent respectively, that is, 1.3 percentage points and 0.2 percentage point higher than that of the SLIFs. The Q1 *Enterprise Survey of 5,000 Enterprises* conducted by the PBC revealed that the Enterprise Confidence Index was 54.8 percent, remaining above 50 percent for eleven successive months. The profitability of enterprises declined. In the first quarter, the profits of the SLIFs declined by 3.3 percent. The Enterprise Profitability Index was down by 6.4 percentage points from the previous quarter.

The services industry continued to grow rapidly, with accelerated growth in the major service sectors. In the first quarter, the Service Production Index rose by 7.4 percent year on year, an acceleration of 0.2 percentage point from the previous quarter. Leasing and business services, financial services, the accommodationsand catering sectors, and the wholesale and retail sectors grew by 8.3 percent, 7 percent, 6 percent, and 5.8 percent respectively, all higher than that inthe previous quarter. The communications, software and information technology sectors jumped 21.2 percent year on year.

2. Consumption rose steadily and growth of investment was recovering

Consumption was generally stable, while online retail sales continued to grow rapidly. In the first quarter, final consumption expenditures contributed 65.1 percent to GDP growth and it remained a key driver of the economy. Total retail sales grew 8.3 percent year on year to RMB 9.8 trillion. Retail sales in the rural areas grew 9.2 percent year on year, 1 percentage point higher than that in the urban areas. Online retail sales registered RMB 2.2 trillion, increasing by 15.3 percent over the last year. Household income grew faster, which lent strong support to consumption. In the first quarter, per capita disposable income registered RMB 8,493, up 8.7 percent year on year in nominal terms and up 6.8 percent in real terms, an acceleration of 0.2 percentage point from the same period of the last year. The income distribution continued to improve, with the growth of disposable income per capita for rural residents outpacing that for urban residents by 1 percentage point. The per capita income of urban residents was 2.53 times that of rural residents, a decrease of 0.02over the previous year. According to the Q1 Urban Depositors' Survey conducted by the PBC, 25.9 percent of consumers were inclined to "consume more," up 1.1 percentage points from the previous year.

Growth of investments recoveredsteadily, and investments in high-tech industries grew relatively rapidly. During the first quarter, fixed-asset investments across the country (excluding those by rural households) reached RMB 10.2 trillion, up 6.3 percent year on year, accelerating 0.4 percentage point from the same period of the last year. More specifically, infrastructure investments grew by 4.4 percent, accelerating 0.6 percentage point year on year. Real-estate investments grew by 11.8 percent, accelerating 2.3 percentage points year on year. Investment growth in the manufacturing industry declined, but investment growth in the high-tech industries registered 11.4 percent year on year, 5.1 percentage points higher than the overall investment growth. The growth of private investments reached 6.4 percent year on year. Investments by state-owned enterprises and state-controlled entities grew 6.7 percent year on year, accelerating 4.8 percentage points year on year.

Imports and exports grew more rapidly and the trade structure continued to improve. In the first quarter of 2019, imports and exports reached RMB 7.01 trillion, up 3.7 percent year on year. Exports expanded by 6.7 percent year on year to RMB 3.77 trillion, and imports grew by 0.3 percent year on year to RMB 3.24 trillion. The trade surplus expanded by 75.2 percent year on year to RMB 529.7 billion, while the trade structure continued to improve. The share of general trade increased by 6 percent and accounted for 59.6 percent of total exports and imports, up 1.3 percentage points from the last year. Exports of machinery and electronics grew by 5.4 percent, accounting for 58.8 percent of the total exports and assuming a leading position among all exports. Imports and exports by private enterprises grew by 9.9 percent, accounting for 40.6 percent of the total, 2.3 percentage points higher than that in the same period of the last year. Imports from and exports to countries along the Belt and Road grew by 7.8 percent, 4.1 percentage points faster than the overall growth of total exports and imports.

The growth of foreign direct investments (FDI) accelerated and the structure of outbound investments continued to diversify. In the first quarter, 9,616 foreign-invested companies were established nationwide. Actually utilized FDI reached RMB 242.28 billion, a year-on-year increase of6.5 percent and the growth rate was 6 percentage points higher than that in the previous year Actually utilized FDI in the high-tech manufacturing industry and the high-tech services industry grew strongly by 14.8 percent and 88 percent year on year respectively. During the period, outbound direct investments by enterprises in all industries reached USD 25.21 billion, up 4.8 percent year on year. New investments in the amount USD 3.76 billion were invested in 49 countries along the Belt and Road, up 4.2 percent. Outbound investments mainly focused on leasing/commercial services, manufacturing, wholesale/retail industries and the communications/software/IT services, accounting for 27.4 percent, 21.0 percent, 9.1 percent, and 8.8 percent of the total. Irrational investments were effectively curtailed as there were no new outbound investments in the overseas real estate, sports, or entertainment industries.

International payments were generally in equilibrium and direct investments and portfolio investments witnessed steady net capital inflows. According to preliminary data, China’s current account surplus registered USD 58.6 billion in the first quarter. Among the total, trade of goods saw a surplus of USD 94.5 billion, constituting the bulk of the current account surplus. Trade in services registered a deficit of USD 63.4 billion, 14 percent lower than that in the same period of the last year. Under the capital and financial account, the capital account had a deficit of USD 30 million, whereas direct investments posted a surplus of USD 21.4 billion. According to incomplete data, portfolio investments saw net capital inflows of USD

15.0 billion, higher than that in the same period of the last year. By the end of March, China's foreign reserves stood at USD 3,098.8 billion. At the end of 2018, the total external debt in local and foreign currencies registered USD 1,965.2 billion, up USD 207.3 billion from the end of the previous year. Short-term external debt registered USD 1,271.6 billion, accounting for 65 percent of the total.

3. Consumer prices rose moderately, while the growth of producer prices decelerated

Growth of the GDP deflator declined. In the first quarter, the GDP deflator (the ratio of GDP at current prices to GDP at constant prices) rose 1.4 percent year on year, a deceleration of 0.2 percentage point from the previous quarter.

Consumer prices rose moderately. During the first quarter, the CPI rose by 1.8 percent year on year, a deceleration of 0.4 percentage point from the previous quarter.Monthly CPI growth registered 1.7 percent, 1.5 percent, and 2.3 percent respectively. Due to price movements in vegetables and pork, food prices fluctuated remarkably, up by 2.2 percent in the first quarter, a deceleration of 0.6 percentage point from the previous quarter. Growth of non-food prices declined. Non-food prices went up by 1.7 percent year on year, a deceleration of 0.4 percentage point from the previous quarter. The price of consumer goods rose more slowly, while the price of services rose more rapidly. The price of consumer goods was up by 1.6 percent, 0.6 percentage point lower than that in the previous quarter. The price of services was up by 2.2 percent, 0.1 percentage point higher than that in the previous quarter.

PPI growth generally declined. PPI in the first quarter edged up by 0.2 percent year on year, down 2.1 percentage points from the previous quarter. Specifically, monthly PPI growth stood at 0.1 percent, 0.1 percent, and 0.4 percent respectively. Among this, the PPI growth of consumer goods rose stably, while the PPI growth of capital goods decelerated. PPI growth of consumer prices registered 0.5 percent year on year, a deceleration of 0.2 percentage point from the previous year. PPI growth of capital goods remained the same as that in the previous year, though it declined by 2.8 percentage points year on year. The Purchasing Price Index for Industrial Products (PPIIP) edged up by 0.1 percent year on year, a deceleration of 2.9 percentage points from the previous quarter. The Corporate Goods Price Index (CGPI) declined 0.1 percent year on year, a deceleration of 0.7 percentage point. PPI growth of agricultural goods dropped 1.7 percent year on year, decelerating 2 percentage points from the previous quarter.

4. Growth of fiscal expenditures accelerated and the job market remained stable

Growth of fiscal revenue slowed down. In Q1, general-budget fiscal revenue totaled RMB 5.37 trillion, up 6.2 percent year on year and registering a deceleration of 7.4 percentage points from the same period of 2018. In terms of the revenue structure, tax revenue rose 5.4 percent year on year to RMB 4.67 trillion and non-tax revenue rose 11.8 percent year on year to RMB 695 billion. In particular, the domestic value-added tax and the domestic consumption tax were up 10.7 percent and 29.3 percent respectively year on year. The corporate income tax and the individual income tax climbed 15.8 percent and 29.7 percent year on year respectively.

Growth of fiscal expenditures accelerated. In Q1, general-budget fiscal expenditures totaled RMB 5.86 trillion, up 15 percent year on year and representing an acceleration of 4.1 percentage points from the same period of 2018. In terms of the expenditure structure, expenditures on communications/transport, energy-savings/environmental protection, science/technology and urban/rural communities rose rapidly, up 47.4 percent, 30.6 percent, 26.5 percent, and 22.8 percent year on year respectively.

In the first quarter, the budget revenue of central government–managed funds was RMB 1.43 trillion, down 6.2 percent year on year. In particular, revenue from the transfer of use rights of state-owned land dropped 9.5 percent. Budget expenditures of central government–managed funds totaled RMB 1.89 trillion, up 55.9 percent year on year.

The surveyed unemployment rate remained stable. In March, the surveyed unemployment rate in urban areas was 5.2 percent, down by 0.1 percentage point from the previous month. In the first quarter, new employment in the urban areas totaled 3.24 million. According to the PBC's Urban Depositors' Survey, the Employment Sentiment Index was 45.8 percent in the first quarter, up by 0.3 percentage point from the previous quarter.

5. Analysis by sectors

(1) The real estate sector

In Q1 of 2019, the number of regions with rising housing prices increased. The growth of housing sales slowed down in terms of both volume and amount. The growth of floor area of real-estate projects under construction picked up, while the growth of floor area of newly started and completed real-estate projects slowed down. Investments in real- estate development witnessed rapid growth, while the growth of real-estate loans continued to decline steadily.

The number of cities with rising housing prices increased moderately from end-2018. The month-on-month growth of housing prices moderated, whereas the year-on-year growth rose. In March 2019, the price of newly built residential housing registered month-on-month growth in 65 out of 70 large and medium-sized cities, 6 cities more than that at end-2018. Average price growth decreased by 0.2 percentage point from end-2018. The number of cities with rising housing prices reached 70, 1 city more than that at end-2018, with the average price growth up 0.8 percentage point from end-2018.

The price of pre-owned residential housing saw a month-on-month rise in 57 cities, 10 cities more than that at end-2018. There were 67 cities with rising pre-owned residential housing prices year on year, up by 1 city from end-2018.

Growth of housing sales slowed down in terms of both volume (by square meters) and sales. In Q1, the total floor area of sold units posted 300 million square meters, down by 0.9 percent year on year and representing a deceleration of 2.2 percentage points from that of the previous year. Housing sales reached RMB 2.7 trillion, up by 5.6 percent year on year, which was 6.6 percentage points lower than that in 2018. In particular, residential housing accounted for 87 percent of the total sold floor area and 85.9 percent of the total sales.

Real-estate investments grew rapidly, and growth of the floor area of real-estate projects under construction accelerated somewhat. In Q1, real-estate investments throughout the country totaled RMB 2.38 trillion, up 11.8 percent year on year and registering an acceleration of 2.3 percentage points from that in the previous year. Specifically, investments in residential housing, which accounted for 72.5 percent of real-estate investments, rose 17.3 percent year on year to reach RMB 1.73 trillion, representing an acceleration of 3.9 percentage points from that in 2018. The floor area of real-estate projects under construction was 6.99 billion square meters, up 8.2 percent year on year and registering an acceleration of 3.0 percentage points from that in 2018. The floor area of newly started real-estate projects rose 11.9 percent year on year to 387 million square meters, a deceleration of 5.3 percentage points from that in 2018. The floor area of completed real-estate projects fell by 10.8 percent year on year to 185 million square meters, dropping 3 percentage points further from that in 2018.

Growth of real-estate loans moderated. At end-March, outstanding real-estate lending by major financial institutions (including foreign financial institutions) stood at RMB 40.5 trillion, up 18.7 percent year on year and representing a deceleration of 1.3 percentage points from end-2018. Outstanding real-estate loans accounted for 28.5 percent of total lending. Specifically, outstanding personal mortgages totaled RMB 26.97 trillion, up by 17.5 percent year on year and registering a deceleration of 0.25 percentage point from end-2018. Outstanding housing development loans reached RMB 7.92 trillion, up 26.8 percent year on year and a deceleration of 5.1 percentage points from end-2018. Outstanding land development loans decreased 3.2 percent to RMB 1.4 trillion, dropping 7.1 percentage points further from end-2018.

Shantytown renovation projects shifted to financing by special-purpose local government bonds and the growth of welfare-housing loans slowed down. At end-March, outstanding loans for government-subsidized housing development was RMB 4.55 trillion, up 20.2 percent year on year and representing a deceleration of 9.3 percentage points from end-2018. New loans for government-subsidized housing development in Q1 was RMB 227.79 billion, accounting for 35.6 percent of all new real-estate development loans, down by RMB 220.1 billion from the same period of 2018. By end-March, loans for 373 government-subsidized housing projects in 85 cities had been approved, RMB 87.22 billion had been disbursed as scheduled, and RMB 83.58 billion of the loan principal had been repaid.

(2) Senior-care services sector

The senior-care services sector is aimed at providing daily care and nursing services for senior citizens. It is a service industry catering to the social demands of the aged, which is an important component of a modern services industry. Promoting the senior-care services industry not only responds to the needs of the aging society and meets the demands for multi-layered and diversified services for senior citizens but also helps promote supply-side structural reforms and foster new drivers for economic development. Therefore, it serves as an important path for the transformation and upgrading of the economic structure.

After years of development, senior-care services in China have gradually improved and an initial system combining both medical and nursing services based on residential care and backed by communities and complemented by agencies has been established. Building a favorable living environment for senior citizens is progressing, as cultural, sports, and educational businesses for seniors are developing rapidly. Thus, a sense of satisfaction among seniors is improved.

First, the supply of nursing services has increased notably, with a more reasonable supply structure. At end-2018, the number of registered senior-care service agencies in China totaled 29,800, offering 7.464 million beds (29.9 beds for every 1,000 senior citizens), an increase of 1,800 agencies and 2.527 million beds (up 5.5 beds for every 1,000 senior citizens) from end-2015. The proportion of community-based beds for seniors rose from 44.3 percent in 2015 to 47.7 percent in 2018.

Second, senior-care services are multi-layered and diversified, with a sounder services system from industrial convergence. Senior-care services have gone beyond basic daily care. As it converges with various industries, such as health care, tourism, culture, recreation, and fitness, a new business model for senior care has surged rapidly. By end-2017, there were 49,427 schools for seniors across the country, with 7.04 million enrolled seniors, 2,717 hospitals for seniors, 637 hospices, 19,647 legal assistance centers for seniors, and 35,000 clubs for seniors.

Third, a supply structure for diversified senior-care services featuring the coexistence of competition and cooperation has been initiated. Private investors are more eager to invest in this market, while central enterprises, foreign ventures, insurance firms, and private firms in succession have joined in the senior-care services industry. At end-June 2018, the proportion of senior-care agencies set up by private investors was over 46 percent, up by 4.5 percentage points from end-2015.

The increasing aging population and the accelerating pace of aging have promoted the development of the senior-care industry. However, it should be noted that there are a number of rather prominent problems, such as **the short supply of senior-care services and products, poor service quality, unsound market development, and the gap between the urban and rural areas.**

First, there are noticeable conflicts of supply and demand in this sector due to a shortage of senior-care service facilities and nursing professionals. By end-2018, the number of seniors over age 65 had reached 167 million, whereas there were only 3.928 million beds offered by senior-care agencies and 3.535 million beds provided by communities. The gap between supply and demand is huge, as the communities and agencies providing senior care are far from sufficient.

Second, there are still problems with the quality of services provided by senior-care agencies. For example, safety hazards are noteworthy, the equipment is far from adequate, the quality of services varies substantially, and the building up of professional teams for senior care should be strengthened.

Third, the market is not well developed as the industry is fragmented. A market-oriented senior-care service system has not yet been established.

Fourth, a gap exists between the urban and rural areas as well as among the various regions. The coverage of senior-care facilities in the eastern regions is notably wider than that in the central and western regions. Compared with the cities, the community-based senior-care services in the rural areas were established later, with a weaker foundation and less input, resulting in a fledgling services market and fewer service facilities and professionals. In 2017, the urban coverage of community service centers reached 78.6 percent, whereas rural coverage was only 15.3 percent. There are only 118,000 employees working in senior-care agencies in the rural areas, 60,000 less than those working in the urban areas.

Going forward, a variety of simultaneous measures should be adopted to promote development of the senior-care services industry. The basic senior-care services system must be improved with public senior-care agencies (including privately managed public agencies) as the key players to meet the basic demands of disabled seniors. Efforts should be made to improve national quality standards and the evaluation system for senior-care services, to strengthen the training of senior-care professionals, and to promote the expansion and availability of optimum resources for services. The role of public resources should be well utilized to guide private capital to the senior-care services industry and to promote innovations in providing financial products and services adapted to the features of the industry. Ongoing efforts will be made to develop cooperative senior-care services in the rural areas, coordinate plans to construct public welfare facilities for senior-care services, and encourage urban capital, assets, and resources to be injected into rural senior-care services.

Part 5. Monetary Policy Stance to be Adopted during the Next Stage

I. Outlook for the Chinese economy

During the next period, a number of favorable factors will support the sound growth of the Chinese economy. Despite mounting downward pressures, the global economy has maintained stable growth. In the long run, the Chinese economy will continue to face important strategic opportunities. Good progress has been made in the three critical battles of preventing and mitigating key risks, poverty reduction and pollution control, and supply-side structural reforms. Aggregate supply and demand are basically balanced, and growth remains resilient. The reform and opening-up has made headway, the job market is stable, and the people’s livelihood has seen further improvements. As a result, sustained and healthy economic development and social stability has been achieved. The effects of the proactive fiscal policy and the prudent monetary policy are gradually unfolding, with strengthened financial support for the real economy, remarkable alleviation of credit contraction, and large-scale tax and fee reductions. Currently, the PBC has ample room and adequate tools for monetary policy and it is capable of navigating through domestic and foreign uncertainties. In Q1 of 2019, major macro-economic indicators remained within a reasonable range, with improving market confidence, an accelerated shift from old to new growth drivers, and generally stable economic performance that was better than expected. In April, the International Monetary Fund (IMF) made an upward adjustment, by 0.1 percentage point, to its projection of China's growth in 2019. Meanwhile, structural deleveraging has made headway, and efforts to prevent financial risks have produced results. Financial support to the real economy has further improved in terms of quality and efficiency, and the structure of the economy has been further optimized. The PBC's Quarterly Survey of Entrepreneurs and Bankers in Q1 of 2019 indicates that corporate confidence rose quarter on quarter. The Survey of Urban Depositors shows that household employment expectations edged up by 0.4 percentage point quarter on quarter to 53.7 percent and remained at a relatively high level.

It is worth noting that growth is still facing some deep-rooted problems and marked difficulties. Globally, the elevated complexity and geopolitical risks remain in the world economy. As a whole, the external economic environment has become more serious. Domestically, some of the key traditional industries are adjusting, while the manufacturing sector and private investment have slowed down. Reliance on the real-estate sector and infrastructure development remains high, whereas the momentum for endogenous growth must be strengthened. Some of these factors are cyclical, but more are structural and institutional, and they should be tackled with determination, perseverance, and courage.

Prices are generally stable, but uncertainties have increased. The pace of price hikes is mainly determined by both the economic fundamentals and the relative changes in supply and demand. Recently, domestic economic performance has largely been stable. Aggregate supply and demand are basically balanced, and the core CPI remains generally stable. Supply-side structural reforms have been further advanced, the role of the market has been put into better play, and overcapacity has been significantly alleviated. These are all favorable factors for price stability. Meanwhile, the reduction in pig stock as a result of African swine fever may have a major impact on pork prices. Climbing prices of international crude oil have pushed up the prices of domestic industrial products, including oil products and steel. Moreover, the effects of the tax reductions on different industries may vary. In general, going forward the price levels will be subject to developments on both the supply and demand sides. Uncertainties still remain, which warrant continued monitoring.

Box 6 Structural Deleveraging and the Sound Monetary Policy

It was noted at the first meeting of the Central Committee for Financial and Economic Affairs in 2018 that efforts should be made to adhere to the basic approach of structural deleveraging based on the varying requirements of the different sectors and debt types, and to reduce the leveraging ratio of local governments and companies, in particular the state-owned enterprises, as soon as possible, with the aim of gradually stabilizing and reducing the macro-leverage ratio. Structural deleveraging plays a fundamental role in the uphill battle against financial risks, and a sound monetary policy is an important policy arrangement for China’s macro-economic management. These two undertakings, while complementary, focus on deepening the supply-side structural reforms and contributing to high-quality economic development.

A sound monetary policy helps to create a favorable macro-economic as well as monetary and financial environments for structural deleveraging. As far as structural deleveraging is concerned, maintaining economic and financial stability is both a target and a prerequisite. During the past two years, China's GDP grew at an annual rate of 6.7 percent, and the average annual CPI growth rate posted 1.8 percent. The average annual average broad money (M2) growth rate, all-system financing aggregates, and nominal GDP registered 8.1 percent, 11.6 percent, and 10.3 percent respectively. The better alignment of these three indicators point to better macro-economic performance, featuring steady economic growth, stable prices, and a basically stable macro-leverage ratio.

A sound monetary policy that is appropriate in intensity helps to strike a good balance between the disposal of stock debts and the control of new debts, enabling coordinated steps to stabilize the overall leverage ratio and to carry out structural deleveraging. The change in the leverage ratio is a result that reflects the dynamics of the debt financing of economic entities, such as the use, applications, rollovers, returns, and repayment of debts, and a full range of factors should be taken into account when it comes to the impact of monetary policy. If the monetary policy is too loose, although it will be easier for stock debts to turn around in the short term, there may be a disorderly expansion of new debts and idle funds in the economy. If the monetary policy becomes too tight, although new debts may be better contained, there may be excessive pressures for the payment of stock debts, resulting in repayment difficulties in the credit and bond markets. Thus, in the process of structural deleveraging, either an overly loose or an overly tight monetary policy may deviate from the original intention of maintaining financial stability and promoting sustainable and healthy economic development. A sound monetary policy that stresses the appropriate degree of tightness helps to strike a balance between stock debts and new debts as well as between the total amount of leveraging and its structure, therefore reflecting the principle of seeking progress while maintaining stability.

In addition, it should be noted that the deepening of the supply-side structural reforms in the financial sector and the appropriate use of structured monetary-policy tools that focus on providing well-targeted financing support and enhancing support to key sectors and weak links in the economy, such as the private sector and small and micro businesses in a market-based manner, will help to continuously optimize financing support for different sectors and economic entities and will promote structural deleveraging in a prudent and efficient manner. In the process of structural deleveraging, market clearance, which is necessary, may release locked-up resources, improve capital efficiencies, smooth the monetary-policy transmission channels, and create a virtuous cycle. Going forward, a sound monetary policy will be adopted to maintain the appropriateness of the intensity, to ensure reasonably adequate liquidity, to coordinate with the structural deleveraging, and to strike a balance between maintaining steady growth and preventing risks.

II. Monetary policy during the next stage

Looking forward, the PBC will act in accordance with the overall arrangements of the CPC Central Committee and the State Council, follow the guidance of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, and adhere to the guiding principles of seeking progress while maintaining stability, highlighting the focus, safeguarding the bottom-line, and carrying out management in a well-measured manner. It will place an emphasis on stabilizing demand through supply-side structural reforms, adhere to structural deleveraging, prevent and resolve risks while promoting high-quality development, and resolutely win the three critical battles. It will closely focus on the three major tasks of serving the real economy, preventing financial risks, and deepening financial reforms, and it will adopt innovative approaches and improve financial macro-management. Aimed at promoting high-quality development, it will pay more attention to improving the quality of growth and activating the vitality of market entities. Efforts will be made to deepen supply-side structural reforms in the financial sector, adjust and optimize the structure of the financial system, and continuously improve financial services. Against the backdrop of the changing economic environment at home and abroad, more targeted macro-management will be conducted in a well-paced and well-measured manner. Efforts will be made to maintain a sound monetary policy with appropriate intensity, make counter-cyclical adjustments in a timely and appropriate manner, conduct timely fine-tunings in light of the changes in economic growth and price levels. Measures will be taken to further enhance policy coordination, smooth the monetary-policy transmission channels, make innovations in monetary-policy tools and mechanisms, further reduce the financing costs for the real economy, especially for small and micro-businesses (SMBs), and enhance the ability and willingness of the financial sector to serve the real economy. The PBC will maintain good control of the money supply and keep liquidity at a reasonable and adequate level while refraining from providing massive and indiscriminate stimuli so that the growth of broad money M2 and all-system financing aggregates will be better aligned with nominal GDP. A three-pronged approach should be taken, including implementing a sound monetary policy, enhancing the vitality of market players, and making good use of the capital market so as to foster a virtuous cycle in the national economy.

First, the PBC will implement a sound monetary policy with appropriate intensity, conduct timely fine-tunings based on changes in the situation, maintain reasonably adequate liquidity, and keep market interest rates at an appropriately stable level. The two-pillar macro-management framework underpinned by the monetary policy and the macro-prudential policy will be improved by enhancing management in a more forward-looking, targeted, and effective manner, carefully calibrating management measures and strengthening guidance of expectations to stabilize market expectations. Continuous efforts will be made to flexibly adopt a mix of monetary-policy tools, to enhance policy coordination, and to conduct preemptive adjustments and fine-tunings in a timely manner. Measures will be taken to strike a balance between the aggregates and the structure, to give full play to the synergies among the relevant government agencies, to lay a solid micro foundation for smooth monetary-policy transmission from both the supply and the demand sides, and to maintain reasonable growth of money, credit, and all-system financing. Efforts will be made to strengthen macro-prudential management and to facilitate capital replenishment by commercial banks via multiple channels. The PBC will continue to implement and improve macro-prudential assessments (MPA) and will guide financial institutions to step up support for private enterprises, SMBs, and the agro-linked sector, so as to improve the efficiency of the financial sector to service the real economy.

Second, monetary policy will promote structural optimization and better

support the real economy. Efforts will be made to give full play to monetary and credit policies to promote structural optimization and to allow the financial sector to support the supply-side structural reforms. Multiple monetary-policy instruments will be adopted, such as the targeted RRR cuts, the targeted Medium-term Lending Facility (MLF), and central-bank lending and central-bank discounts, the mix of which will be innovative and will enrich the monetary-policy tools. Efforts will be made to give play to structural monetary-policy instruments to provide a targeted money supply and to guide financial institutions to continuously provide quality financial services to key sectors and weak links in the economy. Measures will be taken to deepen the supply-side structural reforms of the financial sector, to smooth the monetary-policy transmission mechanism, and to focus on improving the access of SMBs and private enterprises to financing. The effects of credit policy guidance will be evaluated and the results of the evaluations will be put to better use. Efforts will be made to guide large commercial banks to shift their focus to smaller clients and to change their mindsets, to promote the development of private banks and community banks, to guide locally incorporated financial institutions to return to their original businesses, and to focus on providing financial services to the real economy, such as the SMBs. Management of central-bank lending for poverty reduction will be continuously optimized, and financial institutions will be encouraged and supported to step up credit injections for poverty alleviation purposes. Efforts will be made to enhance implementation of the key tasks in poverty reduction, such as linking industrial development and poverty alleviation and building infrastructure, and, in the process, to strengthening risk prevention. Measures will be taken to provide financial services to win the critical battle of poverty alleviation and to revitalize the rural areas, to promote the sustainability of financial support for poverty reduction, and to constantly improve rural financial services. Continuous efforts will be made to ensure a smooth transition after expiration of the pilot program on collateralized lending against the rights for contractual management of rural land and for using rural homesteads. Measures will be taken to improve financial services to support g key areas, such as high-quality development of the manufacturing industry and the elimination of overcapacity. Efforts will be made to step up financial support for new consumption areas, such as elderly care, education, and health care, and for key areas in the national economy, such as self-employment and innovation, science and technology, culture, the marine economy, and the strategic emerging industries. The PBC will continuously improve policies that aim to support self-employment of key groups, such as veterans, university graduates, and women, and to provide financial services for the weak links, such as student aid and the underprivileged, such as the returned migrant workers and the ethnic minority groups. Measures will be adopted to provide financial services for the major national strategies, such as Beijing-Tianjin-Hebei coordinated development, the Belt and Road Initiative, the Guangdong–Hong Kong–Macao Greater Bay Area, the Yangtze River Economic Belt, and civil-military integration.

Third, reforms for market-based interest rates and the RMB exchange-rate formation regime will be further deepened to raise the efficiency of allocation of financial resources and to improve the financial management system. Steady efforts will be made to promote convergence of the benchmark deposit and lending interest rate with the money-market interest rate, strengthen the guiding role of the policy rates system, improve the interest-rate corridor mechanism, enhance the PBC's capacity to manage interest rates, with a focus on improving the transmission of central-bank policy rates to the market rates, especially to the lending rates. It will enhance the capability of financial institutions to price loans and appropriately increase market competition so as to better serve the real economy. Continuous efforts will be made to develop market-based benchmark rates, to improve the yield curves of government securities, and to improve the market-based interest-rate pricing mechanism. Supervision and management of the irrational pricing of financial institutions will be strengthened and the guiding role of the self-disciplinary mechanism for market interest-rate pricing will be tapped. Effective incentives and restraints will be adopted for interest-rate pricing, while industry self-discipline and risk prevention will be reinforced to maintain fair order for interest-rate pricing and to keep bank costs basically stable on the liability side . Reform of the market-based RMB exchange-rate regime will be steadily deepened to improve the managed floating exchange rate based on market supply and demand and with reference to a basket of currencies and to maintain the flexibility of the RMB exchange rate. Macro-prudential management will be strengthened to stabilize market expectations. These efforts aim to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. In accordance with the principle that finance should serve the real economy, development of the foreign-exchange market will be accelerated to provide exchange-rate risk management services for import and export enterprises based on their actual needs. The PBC will steadily promote convertibility of the RMB under the capital account, promote development of the market for the direct trading of the RMB against other currencies, improve the policy framework and infrastructure for the use of RMB in cross-border transactions, and strike a balance between development, reform, and risk prevention, thus supporting use of the RMB in cross-border trade and investment.

Fourth, the financial market system will be improved to fulfill its role in stabilizing growth, facilitating restructuring, promoting reforms, and preventing risks. In accordance with market-based and law-based principles, efforts will be made to enhance the capacity of the financial sector to serve the real economy and to promote capital replenishment via multiple channels, such as the issuance of perpetual debts by commercial banks. Measures will be taken to further promote the development of tools supporting bond financing of private enterprises, enhance risk prevention and a resolution mechanism for bond defaults, to step up regulation over illegal behavior in the bond market, to develop the over-the-counter market of commercial banks, to promote the harmonization of rules for the issuance, market access, and information disclosure of corporate credit and debt instruments, and to strengthen the supervision and management of green financial bonds at their maturity. The two-way opening-up of the bond market will continue to be promoted in a steady and orderly manner by encouraging various overseas institutions to issue bonds on the onshore RMB market and encouraging domestic institutions to place bonds on offshore markets and to promote overseas institutions to invest in the onshore bond market. Development of the secondary bond market will be further facilitated by constantly optimizing institutional arrangements for trading, clearing, and settlement, and improving the market-based assessment system for market-makers so as to enhance liquidity in the bond market and to create a more user-friendly and enabling investment environment for market participants. An overarching management framework for the infrastructure of the financial market will be set up and improved to further enhance market infrastructure and to ensure safe and efficient functioning and the overall stability of the financial market. A unified law enforcement mechanism for the bond market featuring well-defined responsibilities, close cooperation, and effective synergies will be further improved to crack down on crimes and illegal activities so as to protect investors' interests and to promote the healthy and sound development of the bond market

Fifth, supply-side structural reforms of the financial sector will be deepened, the opening-up of the financial sector will be expanded, and financial services will be improved by optimizing supply and enhancing competition. The PBC will firmly implement a new development concept and enhance the functions of financial services. Committed to serving the real economy and people's daily needs, it will focus on adjusting and optimizing the financial structure, including the financing structure, the system of financial institutions, and the market and product systems, so as to provide higher-quality and more efficient financial services for the real economy and to better satisfy treasonable financial needs to accommodate high-quality development. The reform of large commercial banks and other large financial institutions will be further deepened by improving corporate governance, regulating the relationship among the shareholders' meeting, the board of directors, the board of supervisors, and management, improving the institutions relating to the power of attorney, forming an effective system for decision making, execution, and checks and balances, and improving the operational capacity and risk management. Further reforms of the management and operational mechanisms of the Agricultural and Rural Financial Service Department of the Agricultural Bank of China will continue to be promoted, and effective measures will be adopted to further stimulate the vitality and provision of agricultural and rural financial services at the county level to constantly improve its capacity to serve the real economy at the county level. The reform program for development and policy financial institutions will be implemented in a comprehensive manner to improve corporate governance and specify the scope of businesses in a timely manner. The reforms will aim to rapidly establish development and policy financial institutions with Chinese characteristics that can better serve the economy at the current stage while operating on a sustainable basis and creating an enabling policy environment.

Sixth, efforts will be made to win the critical battle of forestalling and defusing major financial risks. Following the leadership of the Financial Stability and Development Committee under the State Council, the PBC will earnestly play its role as the committee's secretariat, press ahead with implementation of the plan and measures to prevent and mitigate major financial risks, and promote orderly structural deleveraging. It will attach importance to preventing risks while stabilizing growth, better support development of the real economy, prevent abnormal fluctuations of the financial market, and dispose of risks in key areas accurately and effectively. It will deal with regulatory deficiencies, highlight the responsibility of financial institutions in preventing risks, and earnestly promote the reform and opening-up of the financial sector. By doing so, it will aim to enhance the adaptability of the financial structure, enhance the capacity of the financial system to serve the real economy, significantly improve the legal framework of the financial sector, and comprehensively enhance the institutional arrangements with hardening constraints so as to effectively prevent and control systemic risks and to create a favorable financial environment for building a moderately prosperous society in all respects by the year 2020.