

China Monetary Policy Report

Q3 2023

(November 27, 2023)

**Monetary Policy Analysis Group of
the People's Bank of China**

Executive Summary

Since the beginning of 2023, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, the Chinese economy has continued to improve and positive factors have continued to increase with the implementation of a mix of macro policies. GDP grew 4.9 percent year on year in Q3, bringing the two-year average to 4.4 percent, an acceleration of 1.1 percentage points from Q2. The growth laid a solid foundation for reaching the development goals for the entire year. Prices remained generally stable, with the CPI witnessing year-on-year growth of 0.4 percent in the first three quarters. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It implemented a sound monetary policy in a targeted and effective manner and it strengthened counter-cyclical adjustments, thereby helping to consolidate the positive trend of economic recovery.

First, money and credit witnessed reasonable growth. The PBOC lowered the required reserve ratio (RRR) by 0.25 percentage points in September, and it kept liquidity adequate at a reasonable level through multiple channels, including central bank lending and discounts, medium-term lending facility (MLF) operations, and open market operations (OMOs). Financial institutions were guided to maintain a moderate credit aggregate and a steady pace of credit growth so as to enhance the stability and the sustainability of credit growth. **Second**, the financing costs for the real economy remained stable with a slight decline. With the policy rate playing a guiding role, the OMO repo rate and the MLF rate dropped further by 10 and 15 basis points (bps), respectively, in August. As the loan prime rate (LPR) reform and the mechanism for market-oriented adjustments of deposit rates continuously played their roles, corporate loan rates were lowered and bank liability costs were stabilized. By adjusting and improving housing credit policies, the PBOC lowered the floor for mortgage rates and the rates on existing first-home loans. **Third**, the structural monetary policy toolkit continued to play its role. The PBOC increased the quotas for central bank lending for rural development and micro and small businesses (MSBs) to support disaster relief and reduction, and it enhanced support for the financing of technology-based enterprises. In addition, it continued to make full use of existing instruments, such as the carbon emission reduction facility (CERF) and the special central bank lending for clean and efficient coal use. **Fourth**, internal and external equilibria were maintained. While deepening the market-oriented reform of the exchange rate, the PBOC raised the macro-prudential adjustment parameter for cross-border financing and cut the RRR for foreign currency deposits as appropriate. Giving play to the role of the foreign exchange market self-disciplinary mechanism, it strengthened expectation guidance and adjusted supply and demand in the foreign exchange market, thus keeping the RMB exchange rate basically stable at an adaptive

and equilibrium level. **Fifth**, financial risk prevention and resolution were enhanced. The PBOC intensified risk monitoring, early warnings, and early corrections for financial institutions and strengthened timely resolution and hard constraints for risks so as to firmly defend the bottom line whereby no systemic financial risks will occur.

Overall, monetary policy this year has been targeted and sustainable, thereby providing stronger support for the real economy. Money and credit witnessed reasonable growth. At end-September, outstanding RMB loans reached RMB235 trillion, and broad money (M2) and outstanding aggregate financing to the real economy (AFRE) recorded year-on-year growth of 10.3 percent and 9.0 percent, respectively. In the first nine months of the year, new RMB loans registered RMB19.75 trillion, RMB1.58 trillion more than those during the same period of the previous year. The credit structure continued to improve. At end-September, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 24.1 percent and 38.2 percent year on year, respectively. Financing costs declined notably. In September, the weighted average rate on new corporate loans and on personal housing loans registered 3.82 percent and 4.02 percent, down 0.18 and 0.32 percentage points year on year, respectively. The adjustment of interest rates on existing housing loans was basically completed, with the rates dropping by 0.73 percentage points on average. The RMB exchange rate remained stable with an upward trend against a basket of currencies, appreciating 2.9 percent at end-September from end-June. Market expectations were stabilizing.

Currently, China's economy continues to recover with an upward trend. The growth momentum continues to strengthen, and transformation and upgrading are well underway. Meanwhile, China's economy faces challenges posed by the imbalanced global economic recovery and the unstable basis for economic rebound at home, among others. In spite of this, the sound fundamentals for long-term development remain unchanged, with the noticeable growth resilience, potential, and vitality. Therefore, we should provide sustained support and capitalize on the momentum so as to promote high-quality economic development. During the next stage, upholding and strengthening the CPC's overall leadership, and guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will thoroughly implement the guidelines of the 20th CPC National Congress and the Central Financial Work Conference, and it will apply the new development philosophy fully, faithfully, and comprehensively. With a deep understanding of the political nature and the people-centered nature of financial work, the PBOC will aim for high-quality development of the financial sector, focus on deepening supply-side structural reforms in the financial sector, and adhere to the general principle of pursuing progress while ensuring stability. It will improve financial macro adjustments and accelerate the pace of building up China's financial strength, firmly following the path of promoting financial development with Chinese characteristics. With serving the real economy as

the fundamental purpose of the financial sector, the PBOC will develop a modern central banking system and maintain the soundness of monetary policies. It also will strengthen high-quality financial services, provide stronger support to expand domestic demand, and work to stabilize foreign trade and foreign investment so as to provide high-quality services for economic and social development.

Pursuing a sound monetary policy in a targeted and effective manner, the PBOC will focus more on inter-temporal and counter-cyclical adjustments and it will enrich the policy toolkit so as to foster a favorable monetary and financial environment. Based on the pattern and the new features of money and credit supply and demand, the PBOC will enhance the role of money supply in adjusting both the aggregate and the structure. Using a mix of monetary policy instruments, it will keep liquidity adequate at a reasonable level, and it will ensure that the growth rates of M2 and the AFRE continue to be basically in line with nominal economic growth. The PBOC will step up efforts to smooth the monetary policy transmission mechanism, and it will enhance the stability of financial support for the real economy so as to cultivate a virtuous cycle between the economy and finance and to keep prices stable at a reasonable level. By continuing to deepen the market-oriented interest rate reform, unleashing the potential of the LPR reform, and giving play to the important role of the mechanism for market-oriented deposit rate adjustments, it will safeguard the order of the deposit and loan markets and guide financial institutions to lower actual lending rates. The structural monetary policy instruments will be targeted, appropriate, and flexible. The PBOC will ensure proper use of the increased quotas for central bank lending and discounts as well as the existing structural instruments. Meanwhile, by improving the funding structure, it will guide more financial resources toward sci-tech innovation, advanced manufacturing, green development as well as micro, small, and medium-sized enterprises (MSMEs). Efforts will be made to achieve the goals for developing technology finance, green finance, inclusive finance, pension finance, and digital finance and to speed up the cultivation of new economic growth drivers and new advantages. The 16 financial measures to bolster the real estate market will continue to be implemented, and more financial support will be provided for the rebuilding of run-down urban areas, the construction of public infrastructures for both daily and emergency uses, and the development of government-subsidized housing projects. The PBOC will pursue a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. For the benefit of long-term development, starting from the present it will take firm actions to correct pro-cyclical market behaviors, to punish conducts that disrupt market order, and to prevent risks arising from exchange rate overshooting. It will prevent expectations from becoming unanimously one-sided and self-reinforced so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBOC will prevent and resolve financial risks in key areas and it will guide financial institutions to support the resolution of local debt risks actively and prudently, thereby firmly

defending the bottom line whereby no systemic financial risks will occur.

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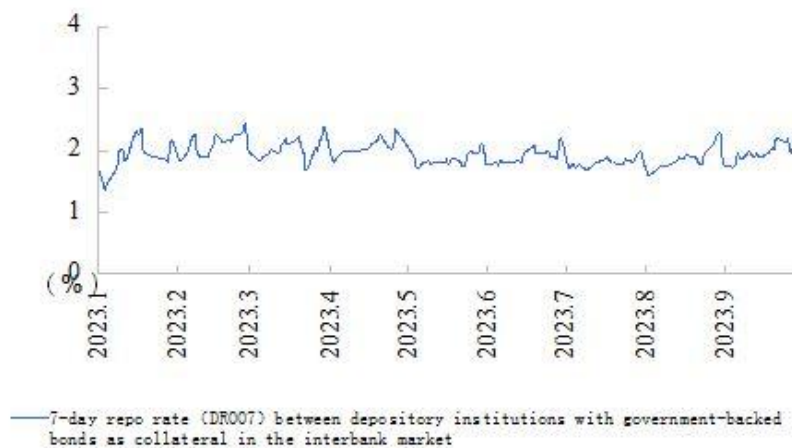
Part 1 Money and Credit Analysis

Since the beginning of 2023, the People's Bank of China (PBOC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and has fully implemented the guiding principles of the 20th National Congress of the Communist Party of China (CPC) as well as the Central Economic Work Conference and the requirements set forth in the *Report on the Work of the Government*. Taking stability as its top priority and pursuing progress while ensuring stability, the PBOC has implemented a sound monetary policy in a targeted and effective manner, increased the intensity of counter-cyclical adjustments, and made good use of policy space with a correct policy orientation. Since June, it has implemented a series of supporting measures, and it has coordinated policies with various departments to form a synergy. The policy measures are aimed at expanding domestic demand, boosting confidence, preventing risks, and hence providing stronger support for the real economy. Money, credit, and the AFRE have witnessed reasonable growth, overall financing costs have declined steadily, the credit structure has improved continuously, and the RMB exchange rate has remained basically stable at a reasonable and equilibrium level, thereby effectively buttressing an overall economic recovery and improvements.

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

Since the beginning of 2023, the PBOC has employed a mix of instruments, such as the cut in the required reserve ratio (RRR), central bank lending and discounts, the medium-term lending facility (MLF), and open market operations (OMOs) to inject liquidity into the economy in a targeted and effective manner and to keep liquidity in the banking system adequate and at a reasonable level. It has continued to guide money market interest rates to move smoothly around the central bank's open market reverse repo rate, thereby creating a favorable liquidity environment for promoting financial support for high-quality development of the real economy. On September 15, the PBOC cut the RRR for the second time in a year, releasing over RMB500 billion in long-term liquidity. At end-September, the excess reserve ratio for financial institutions registered 1.4 percent, flat with that during the same period of the previous year.

Figure 1 Movement of Money Market Interest Rates



Source: www.chinamoney.com.cn.

II. Lending by financial institutions grew rapidly, and lending rates remained at historic lows

Credit aggregates grew rapidly. In the first three quarters of 2023, loans issued by financial institutions witnessed a substantially larger year-on-year (YOY) increase. At end-September, outstanding loans issued by financial institutions in domestic and foreign currencies grew 10.2 percent year on year to RMB239.5 trillion, RMB19.5 trillion more compared with the beginning of 2023 or a YOY acceleration of RMB1.4 trillion. Outstanding RMB loans grew 10.9 percent year on year to RMB234.6 trillion. Current outstanding loans are roughly ten times the annual increment and the overall scale is even larger, which has effectively met the financing needs of the real economy on an on-going basis. The increment in a single month is susceptible to disturbances, such as the base effect, seasonal changes, and quarter-end assessments. From the perspective of the cumulative increment, new RMB loans from January to September reached RMB19.7 trillion yuan, an acceleration of RMB1.6 trillion yuan compared to the same period of the previous year. Since the beginning of this year, financial support for the real economy has been intensified.

The credit structure has been improving. At end-September, medium and long-term (MLT) loans to enterprises and public entities grew by RMB11.9 trillion from the beginning of 2023, accounting for 75.8 percent of total corporate loans. The YOY growth of MLT loans to the manufacturing sector registered 38.2 percent, 27.3 percentage points higher than the growth of total loans. Outstanding inclusive loans to MSBs grew 24.1 percent year on year, 13.2 percentage points higher than the growth of total loans. A total of 61.07 million MSBs were supported, a rise of 13.3 percent

year on year.

Table 1 The Structure of RMB Loans in the First Three Quarters of 2023

Unit: RMB100 million

	Outstanding amount at end-September	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB loans to:	2345925	10.9%	197482	15788
Households	796172	5.7%	38512	3499
Enterprises and public entities	1531911	13.6%	156753	11994
Non-banking financial institutions	5773	28.3%	-47	-271
Overseas	12068	36.3%	2264	566

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

Source: The People's Bank of China.

Table 2 New RMB Loans from Financial Institutions in the First Three Quarters of 2023

Unit: RMB100 million

	Increase from the beginning of the year	YOY acceleration
Chinese-funded large-sized banks ¹	113319	12537
Chinese-funded small and medium-sized banks ²	84305	387
Small-sized rural financial institutions ³	23017	1105
Foreign-funded financial institutions	108	272

Notes: 1. Chinese-funded large-sized banks refer to banks with assets (in both domestic and foreign currencies) of RM B2 trillion or more (according to the amount of total assets in both domestic and foreign currencies at end-2008). 2. Chinese-funded small and medium-sized banks refer to banks with total assets (both in domestic and foreign currencies) of less than RMB2 trillion (according to the amount of total assets in both domestic and foreign currencies at end-2008). 3. Small-sized rural financial institutions include rural commercial banks, rural cooperative banks, and rural credit cooperatives.

Source: The People's Bank of China.

The weighted average interest rate on loans remained at a historic low. The PBOC has continuously deepened the market-oriented reform of interest rates, effectively tapping into the loan prime rate (LPR) reform and bringing into play the key role of the market-based adjustment mechanism for deposit interest rates so as to promote a steady decline in actual lending rates. In September, the one-year LPR and the over-five-year LPR stood at 3.45 percent and 4.20 percent, respectively, down 0.2 and

0.1 percentage points from December 2022, respectively. In September, the weighted average interest rate on new loans recorded 4.14 percent, down 0.2 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.51 percent, down 0.14 percentage points year on year, and the weighted average interest rate on corporate loans was 3.82 percent, down 0.18 percentage points year on year, both of which represent a continuous increase in financial support for the real economy. In September, the share of ordinary loans with rates above, at, or below the LPR registered 57.11 percent, 5.62 percent, and 37.37 percent, respectively.

Table 3 Weighted Average Interest Rates on New Loans Issued in September 2023

Unit: %

	September	Change from last December	YOY Change
Weighted average interest rate on new loans	4.14	0.00	-0.20
on ordinary loans	4.51	-0.06	-0.14
of which: on corporate loans	3.82	-0.15	-0.18
on bill financing	1.80	0.20	-0.12
on mortgage loans	4.02	-0.24	-0.32

Source: The People's Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to September 2023

Unit: %

Month	LPR-bps	LPR	LPR+bps					
			Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	[LPR+3%, LPR+5%)	LPR+5% and above
January	37.38	6.28	56.34	16.65	19.06	10.22	5.70	4.72
February	37.60	6.02	56.38	16.32	16.84	10.28	6.54	6.40
March	36.96	6.88	56.16	17.10	17.57	10.57	6.18	4.74
April	36.62	6.20	57.18	15.54	17.18	11.14	7.08	6.24
May	36.28	5.52	58.20	13.98	16.79	11.71	7.98	7.74
June	37.74	5.59	56.67	17.79	17.31	10.81	6.09	4.68
July	37.05	5.13	57.82	16.60	16.43	10.44	7.12	7.23
August	35.76	4.92	59.32	17.08	16.40	10.75	7.57	7.51
September	37.37	5.62	57.11	16.70	16.88	10.62	6.71	6.19

Source: The People's Bank of China.

Interest rates on foreign-currency deposits and loans edged up. In September, the weighted average interest rates on demand large-value USD-denominated deposits and on large-value USD-denominated deposits with maturities within three months registered 2.26 percent and 4.50 percent, respectively, up 1.06 and 0.84 percentage points from December 2022, respectively. The weighted average interest rates on USD-denominated loans with maturities within three months and with maturities between three months (including three months) and six months registered 5.88 percent and 5.49 percent, up 0.85 and 0.50 percentage points from December 2022, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to September 2023

Unit: %

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year
January	1.25	3.99	4.62	5.34	5.46	4.96	4.91	5.12	5.10	5.53	5.99
February	1.42	4.18	5.10	5.51	5.50	5.44	5.08	5.23	5.39	5.46	5.58
March	1.64	4.23	5.02	5.53	5.67	5.54	5.25	5.33	5.11	5.34	5.86
April	1.76	4.50	5.29	5.49	4.91	5.72	5.39	5.47	5.49	5.64	5.62
May	1.78	4.63	4.65	5.68	5.63	5.64	5.55	5.46	5.52	5.39	5.98
June	1.65	4.46	5.29	5.63	5.47	5.75	5.68	5.63	5.46	5.41	5.71
July	2.13	4.44	5.12	5.50	5.52	5.28	5.68	5.66	5.59	5.31	5.65
August	2.19	4.37	4.57	5.45	5.45	5.25	5.72	5.14	5.30	5.34	5.46
September	2.26	4.50	5.20	5.34	5.58	5.39	5.88	5.49	5.45	5.42	6.34

Source: The People's Bank of China.

Box 1 Coordinating Interest Rate Policies to Support the Economic Recovery

Since the beginning of 2023, the PBOC has, taking into full account the features of economic and financial performance, implemented a series of interest rate policies with a proper timing. As a result, interest rate policies have become more targeted and better coordinated.

Financial costs were guided to remain stable with a slight decline, which stimulated credit demand in production and consumption. Since the beginning of this year, the PBOC has guided the reverse repo rate of open market operations (OMOs) and the medium-term lending facility (MLF) rate to move down 20 and 25 basis points,

respectively, bringing down the one-year and above-five-year loan prime rate (LPR) by 20 and 10 basis points, respectively. Meanwhile, the PBOC has continued to give play to the role of the market-based adjustment mechanism for deposit rates, guiding major banks to cut the one-year and the above-one-year deposit rates by 10-25 basis points. These efforts have alleviated the pressure on banks as a result of the significant increase in time deposits and long-term deposits, enhanced the investment and consumption impetus of enterprises and residents, and created favorable conditions for banks to cut profits in favor of the real economy.

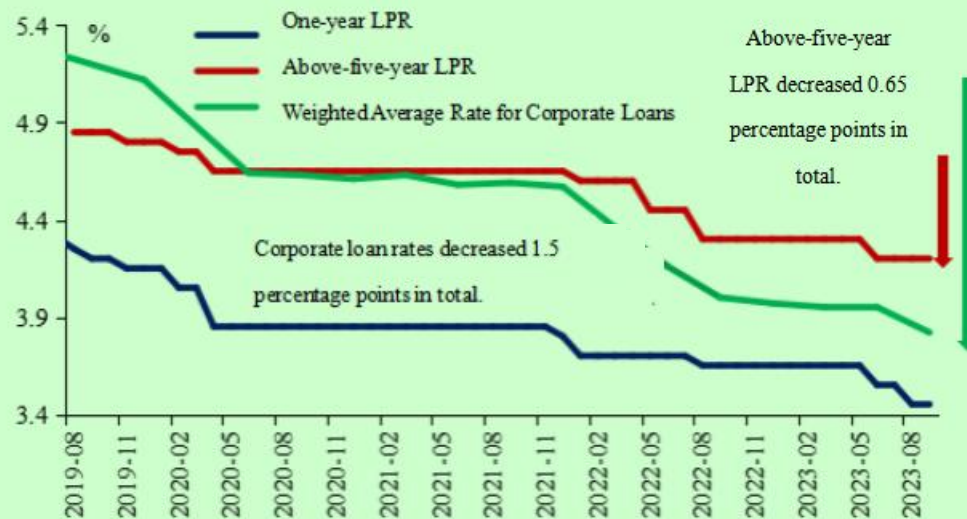


Figure: LPR and Weighted Average Interest Rate on Corporate Loans

The mortgage rate policy was adjusted and improved as the relationship between supply and demand in the real estate market underwent great changes. First, bringing down the interest rates on existing first-home mortgages. On August 31, the PBOC and the National Administration of Financial Regulation (NAFR) released the *Notice on Matters concerning Lowering the Interest Rates on Existing First-Home Mortgage Loans*. Second, dynamically adjusting the policy for first-home mortgage rates on a quarterly basis and adopting city-specific policies to facilitate a further reduction in first-home mortgage rates. Third, cutting the floor on second-home mortgage rates by 40 basis points from the LPR plus 60 basis points to the LPR plus 20 basis points. These measures aim to ease the interest burden on borrowers, dampen the impetus for prepayments, increase investments and consumption, satisfy essential demands for housing and the requirements for improving living conditions, and promote the stable and sound development of the real estate market.

These policies have achieved remarkable results, and the transmission effect of interest rates has been significantly enhanced. In September 2023, the weighted average rate for newly-issued corporate loans posted 3.82 percent, down 0.18 percentage points year on year and hitting a record low. As of end-September, interest rates on over RMB22 trillion of existing mortgage loans had been lowered. After the

adjustment, the weighted average interest rate on these mortgage loans was 4.27 percent, down 73 basis points on average. As a result, the interest paid by borrowers would be reduced by RMB160-170 billion per year, benefiting around 50 million households or 150 million individuals. Meanwhile, among 343 cities nationwide (at or above the prefecture level), 119 cities qualified to implement the policy of relaxing the floor on first-home mortgage rates chose to relax the floor. Specifically, 95 cities lowered their floor, which was 10-40 basis points lower than the national floor, while 24 cities removed the floor. In September 2023, the weighted average rate on newly-issued personal housing loans stood at 4.02 percent, down 0.32 percentage points year on year. On the whole, the PBOC adjusted interest rates based on the domestic situation, gave play to the key role of price-based instruments in financial resource allocations, and enhanced the transmission efficiency of monetary policy, thus providing effective support for the stable growth of the real economy.

Going forward, the PBOC will, in accordance with the decisions and arrangements of the CPC Central Committee and the State Council, continue to pursue a sound monetary policy, unleash the benefits of the LPR reform and give play to the role of the market-based mechanism for deposit rates on an on-going basis, and continue to implement those policies that have been rolled out, including lowering interest rates on existing mortgages. With these efforts, the PBOC aims to guide financing costs for enterprises and residents to remain stable with a slight decline, to give effective play to the role of monetary policies in promoting consumption, stabilizing investment, and expanding domestic demand, and to promote a sustained economic recovery.

Deposits grew significantly. At end-September, outstanding deposits in domestic and foreign currencies at all financial institutions increased 9.7 percent year on year to RMB286.6 trillion, up RMB22.1 trillion from the beginning of 2023 and a deceleration of RMB554.7 billion year on year. Outstanding RMB deposits grew 10.2 percent year on year to RMB281.0 trillion, an increase of RMB22.5 trillion from the beginning of 2023 and a deceleration of RMB273.7 billion year on year. Outstanding deposits in foreign currencies stood at USD778.9 billion.

Table 6 The Structure of RMB Deposits in the First Three Quarters of 2023

Unit: RMB100 million

	Outstanding deposits at end-September	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
RMB deposits:	2810037	10.2%	224830	-2737
Households	1347449	16.5%	144209	12094
Non-financial enterprises	790706	4.6%	45185	-14448

	Outstanding deposits at end-September	YOY growth (%)	Increase from the beginning of the year	YOY acceleration
Public entities	355732	7.2%	25307	4854
Fiscal entities	56751	6.8%	6738	4185
Non-banking financial institutions	239816	2.2%	958	-9430
Overseas	19584	10.3%	2433	8

Source: The People's Bank of China.

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

The monetary aggregate grew at a rapid pace. At end-September, outstanding broad money M2 registered RMB289.7 trillion, up 10.3 percent year on year; narrow money M1 and currency in circulation M0 registered RMB67.8 trillion and RMB10.9 trillion, respectively, up 2.1 percent and 10.7 percent year on year, respectively. The first three quarters of 2023 witnessed a net cash injection of RMB462.3 billion.

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



Source: The People's Bank of China.

According to preliminary statistics, the outstanding AFRE reached RMB372.5 trillion at end-September and its YOY growth registered 9 percent. In the first three quarters of 2023, the AFRE increment totaled RMB29.3 trillion, RMB1.4 trillion more than that during the same period of 2022. The AFRE was characterized by the following structural features: first, new RMB loans grew significantly year on year. In the first three quarters of the year, the increment in RMB loans issued by financial institutions to the real economy grew by RMB1.5 trillion year on year to RMB19.5 trillion, accounting for 66.6 percent of the AFRE increment during the same period. Second, government bond financing increased significantly, registering a net financing amount

of RMB6.0 trillion in the first three quarters of 2023. During the same period, corporate bond financing and domestic equity financing by non-financial enterprises registered RMB1.6 trillion and RMB674.4 billion, respectively. Third, there was a recovery in off-balance-sheet financing. In the first three quarters of 2023, new entrusted loans, trust loans, and undiscounted bankers' acceptances grew by more than RMB650 billion in total year on year. Fourth, loans were written off at a relatively rapid pace. In the first three quarters of the year, RMB745.1 billion of loans were written off.

Table 7 Aggregate Financing to the Real Economy in the First Three Quarters of 2023

	End-September 2023		First Three Quarters of 2023	
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)	YOY change (RMB100 million)
The AFRE	372.50	9.0	293298	14070
Of which: RMB loans	232.78	10.7	195192	15455
Foreign currency loans (RMB equivalent)	1.76	-19.3	-1365	852
Entrusted loans	11.36	1.3	1057	-2241
Trust loans	3.81	-1.4	639	5453
Undiscounted bankers' acceptances	2.91	-0.3	2417	3309
Corporate bonds	31.39	-0.3	16250	-6128
Government bonds	66.14	12.2	59571	462
Domestic equity financing by non-financial enterprises	11.31	9.4	6744	-1994
Other financing	10.82	5.9	4085	-2447
Of which: Asset-backed securities of depository institutions	1.77	-12.9	-2115	-770
Loans written off	8.26	13.6	7451	-775

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

namely consumer finance companies, wealth management companies, and financial asset investment companies into the scope of the financial statistics. Therefore, adjustments will be made to the data on “RMB loans issued by the real economy” and “loans written off” in the scale of social financing. ③YOY statistics in the table are on a comparable basis.

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

Box 2 Putting the Stock of Funds to Good Use and Improving the Efficiency of Fund Use

The Central Financial Work Conference in 2023 required that financial resources that had been inefficiently used should be put to good use to improve the efficiency of fund use. This requirement is of paramount significance for guiding monetary and credit work and promoting high-quality development of the financial sector both at present and in the years to come. It is necessary to have a deep understanding of the meaning and role of putting the stock of funds to good use and to look at the changes in the aggregates and the structure of credit from a scientific perspective.

1. The flow and circulation of stock funds is an important way to support the real economy

In recent years, transformation of the economic structure and the financial sector’s living up to its original mission of serving the real economy have brought about profound changes to the growth and structure of financing. Compared with other financing channels, China’s loan growth has maintained a stable two-digit-plus growth rate (see Figure 1), providing robust support for the real economy.

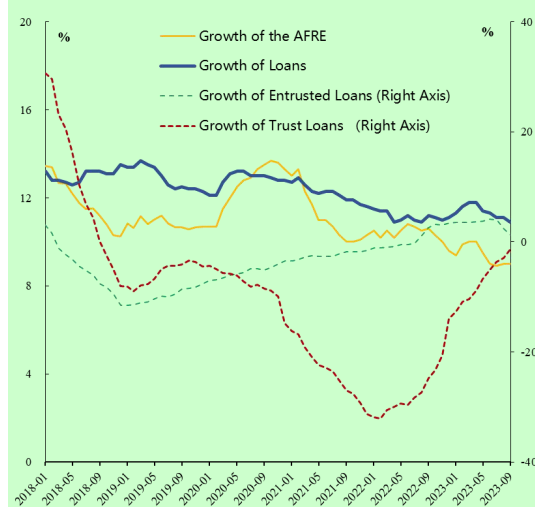


Figure 1 Stable Growth of Loans in China

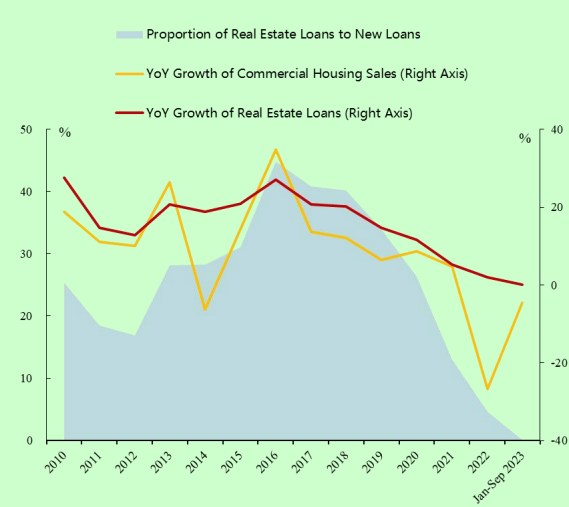


Figure 2 Proportion of Real Estate Loans to New Loans

Nonetheless, it should also be noted that not only can credit increments support development of the real economy but also the better use of inefficient existing loans can contribute to economic growth. At present, China's outstanding RMB loans exceed RMB230 trillion, with an annual increase of around RMB20 trillion. The stock of funds is much larger than the annual increments. In addition, business assets formed based on existing loans as well as derived monetary assets continue to play a role in economic circulation. Therefore, mobilizing financial resources that have been inefficiently used and improving the efficiency of fund use, which is not reflected in the loan increments, will inject a new impetus into high-quality economic development.

2. Putting the stock of funds to good use calls for an increase or a decrease in the provision of financial services for certain components of the credit structure.

In terms of the “increase” in the credit structure, it is necessary to continue to strengthen high-quality financial services for major strategies, key areas, and weak links in the national economy and to optimize the structure of fund supply. In recent years, the PBOC has leveraged the role of monetary instruments to adjust both the aggregate and the structure, encouraging and guiding financial institutions to invest more financial resources in key areas, such as sci-tech innovation, the manufacturing sector, green development, and inclusive micro and small businesses (MSBs). As of end-September 2023, outstanding loans to “specialized, sophisticated, distinctive, and innovative” enterprises, outstanding medium and long-term (MLT) loans to the manufacturing sector, outstanding loans for green development, and outstanding inclusive loans to MSBs witnessed an annual growth rate of 18.6 percent, 38.2 percent, 36.8 percent, and 24.1 percent, respectively, all of which were substantially higher than that the growth rate of all loans.

In terms of the “decrease” in the credit structure, growth of various sectors are bound to outpace one another during the economic transition and upgrading, and credit demand will change and adjust accordingly. First, the supply and demand relationship of China's real estate market has undergone significant changes. New real estate loans once accounted for 40 percent of all loan increments prior to 2018. With profound changes in housing demand, demand for real estate loans tends to decline and the proportion tends to decline as well (see Figure 2). **Second,** preventing and defusing local debt risks. The overall indebtedness of the Chinese government is at a lower middle level globally. As the financial sector has been playing an active role in defusing local debt risks, category-based measures on defusing outstanding debts have been adopted and strict controls on incremental debts have been imposed, and loans of some local financing platforms will be gradually repaid. **Third,** improving the efficiency of financial resource allocations. Years of investment and construction have built up a large stock of assets in infrastructure and

other fields. As the stock of assets is put to good use and the asset structure is gradually improved, existing credit assets that were inefficiently used are expected to decrease. **Fourth**, optimizing the financing structure. With the steady development of the capital market, a higher proportion of direct financing will have a positive substitution effect on loan financing. Moreover, banks will need to strike a balance between credit growth and narrowed net interest margins and to seek appropriate credit growth.

3. In line with the profound evolution of the economic and financial structures, credit growth analysis calls for multiple perspectives, a scientific approach, and trade-offs.

From the positive perspective, financial aggregate indexes should be analyzed from more diversified perspectives during the new development stage. When promoting high-quality financial development, we should not only monitor the growth of credit aggregates but also make sure that reasonable financing needs are fully met in key areas, such as sci-tech innovation, advanced manufacturing, green development, and micro, small, and medium-sized enterprises (MSMEs) so as to assess the overall effectiveness of incremental and existing loans in support of economic growth. In general, it is equally important to ensure effective use of existing loans and to optimize the channeling of new loans to buttress economic growth. In addition, we should pay more attention to indicators with a broader coverage, such as aggregate social financing, or to observe the changes in cumulative increments and growth of outstanding balances over a longer period of time.

From the negative perspective, we should avoid paying too much attention to loan increments when measuring the effectiveness of credit support for the real economy. As the Chinese economy has shifted from high-speed growth to high-quality development, credit growth must adapt to the gradual upgrading of economic development. Moreover, the increases and decreases in the credit structure may not be synchronized over time, leading to some fluctuations in short-term credit growth. It is necessary to avoid over-interpretations of high-frequency data, such as monthly increments.

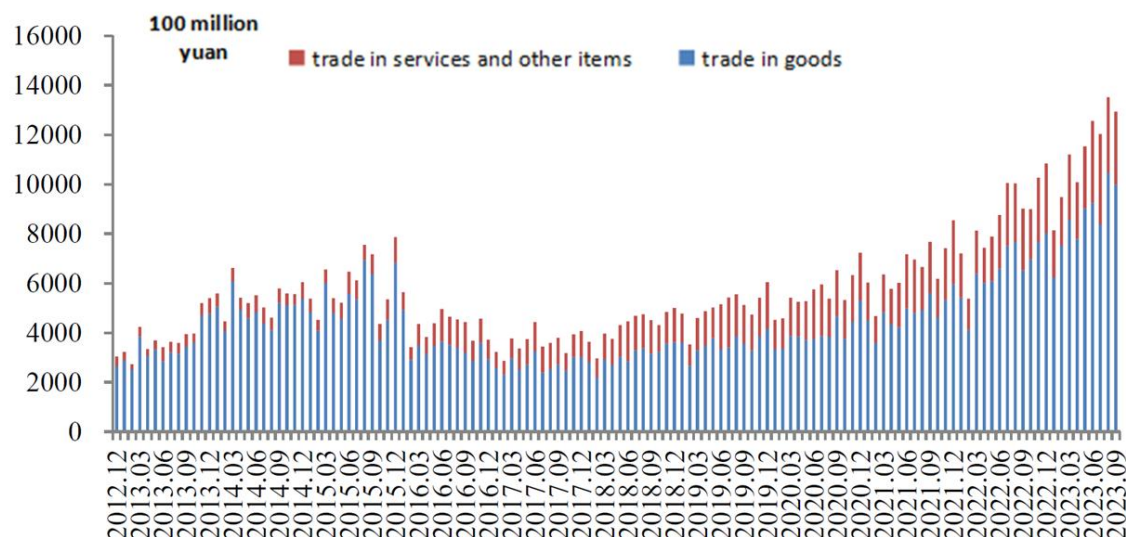
Going forward, the PBOC will continue to implement the guidelines of the Central Financial Work Conference and, in accordance with the decisions and arrangements of the CPC Central Committee and the State Council, implement a sound monetary policy. The PBOC will have an accurate understanding of the pattern and new features of monetary and credit supply and demand, and hence it will effectively upgrade and appropriately expand monetary credit and aggregate social financing.

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

Since the beginning of 2023, cross-border capital flows have been stable and orderly, supply and demand in the foreign exchange market have been basically in equilibrium, and the RMB exchange rate is expected to be generally stable. Against the backdrop of a complex and serious international situation, the interest rates of the major developed economies remain at a high level, with the U.S. Treasury yield once topping 5 percent, while the RMB exchange rate has fluctuated in both directions, playing its role as an auto stabilizer in macroeconomic management and the balance of payments, and generally maintaining basic stability at a reasonable and equilibrium level. In the first three quarters of 2023, based on market supply and demand, the RMB exchange rate remained basically stable against a basket of currencies with a slight appreciation. At end-September, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 99.55, appreciating 2.9 percent and 0.9 percent, respectively, from end-June 2023 and end-2022, respectively. According to calculations by the Bank for International Settlements (BIS), from 2005, when the reform of the RMB exchange-rate formation regime began, to end-September 2023, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 41.3 percent and 37.7 percent, respectively. At end-September, the central parity of the RMB against the U.S. dollar was 7.1798, appreciating 0.6 percent from end-June 2023 while depreciating 3 percent from end-2022. Since the beginning of the reform of the exchange-rate formation regime in 2005, the central parity of the RMB against the U.S. dollar has appreciated 15.3 percent in total. In the first three quarters of this year, the annualized volatility rate of the RMB against the U.S. dollar was 5.1 percent.

Cross-border RMB settlements have maintained a momentum, with receipts and payments basically reaching a balance. In the first three quarters of the year, cross-border RMB settlements increased 24 percent year on year to RMB38.9 trillion; meanwhile, in the same period cross-border RMB settlements under the current account increased 35 percent year on year to RMB10.2 trillion. In particular, RMB settlements under trade in goods registered RMB7.7 trillion and RMB settlements under trade in services and under other items registered RMB2.4 trillion. In the first three quarters of 2023, 24 percent of cross-border receipts and payments under trade in goods were settled in RMB.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In Q3 2023, the PBOC resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. Following the principle of seeking stability while making progress, the PBOC pursued a sound monetary policy in a targeted and effective manner. It strengthened counter-cyclical adjustments, kept liquidity adequate at a reasonable level, and enhanced the stability and sustainability of aggregate credit growth. The PBOC gave play to the guiding role of policy rates and facilitated a steady decline in the costs of corporate financing and residents' credit. It made good use of monetary and credit tools to optimize the flow of lending and guided financial institutions to scale up financial support for key areas and weak links, such as financial inclusion, sci-tech innovation, and green development. The PBOC gave consideration to both an internal and an external equilibrium and positively coped with the pressure of depreciation of the RMB exchange rate, creating a sound monetary and financial environment for the continuous recovery of the national economy.

I. Conducting open market operations in a flexible manner

Conducting open market operation in a flexible and effective manner. In Q3, the PBOC closely followed macroeconomic and financial developments and strengthened the assessment and monitoring of liquidity supply and demand in the banking system. It conducted reverse repo operations in the open market in a flexible and

forward-looking manner so as to offset the influence of government bond issuances, tax payments, reserve deposits, regulatory assessments at quarter-ends, and other factors in the supply and demand of liquidity in a timely manner, and it kept liquidity in the banking system adequate at a reasonable level. In late September, considering the relatively high cross-border capital demand in financial institutions as well as the long vacation for the Mid-Autumn Festival and the National Day holiday, the PBOC timely conducted 14-day reverse repos to provide cross-border funds in advance, effectively stabilizing market expectations, and it intensified open market operations based on the demands of primary dealers. From September 15 to September 28, the PBOC injected cross-quarter funds in a total amount of RMB2.45 trillion, ensuring a sufficient supply of liquidity and the smooth operation of market participants at quarter-end.

The rates paid on reverse repos again moved in a downward direction. On August 15, the rate of open market 7-day reverse repos dropped by 10 basis points to 1.80 percent, following a 10 basis points drop in June, clearly sending a policy signal of enhancing counter-cyclical adjustments that will be conducive to stabilizing market expectations and boosting market confidence. In Q3, the money market rate moved around the rate of open market reverse repos, and market rates remained stable.

In addition, in Q3 the PBOC continued to conduct central bank bill swap (CBS) operations on a monthly basis, which were conducive to improving liquidity in the secondary market of bank-issued perpetual bonds. Meanwhile, the PBOC issued more central bank bills in Hong Kong to better adjust the supply and demand of offshore RMB markets and to meet the demands of global investors. At end-September, the balance of central bank bills in Hong Kong reached RMB100 billion, up RMB20 billion from end-June, playing a positive role in promoting the sound development of the offshore RMB money market and the bond market.

Box 3 Actively Strengthening Coordination between Monetary Policy and Fiscal Policy

The report to the 20th National Congress of the Communist Party of China (CPC) emphasized “strengthening coordination between monetary policy and fiscal policy.” Fiscal policy and monetary policy are two vital pillars of the macroeconomic governance system, which are also two important means to provide support for expanding demand and for promoting high-quality economic development. In terms of the aggregate, an active fiscal policy can play a multiplier effect in expanding general demand, and a sound monetary policy can impact the economy through policies such as money and credit supply and interest rates. Both policies coordinate and cooperate with one another to create macro-policy space, to build a favorable monetary and financial environment, and to conduct positive inter-temporal and

counter-cyclical adjustments, facilitating economic operation that are within a reasonable range. In terms of the structure, fiscal policy focuses on giving play to the function of reallocations and leveraging, strengthens guarantees of public services, and reflects robust support for key areas. In the key areas and weak links that fiscal resources at all levels are unable to fully consider and that there is insufficient willingness for social funds to enter but there is an urgent need for strengthened financial support, monetary policy can take the initiative to fill the gap. By giving play to the role of incentives and guidance, it can encourage more financial resources to provide financing support, further optimize the banks' credit structure, and reflect the corresponding effect of structural adjustments. In recent years, the PBOC, in accordance with the arrangements made by the CPC Central Committee and the State Council, has proactively strengthened coordination between monetary policy and fiscal policy to provide support to stabilize growth and adjust the structure and to promote the high-quality development of the economy.

First, the PBOC mitigates the effects of daily fiscal revenues and expenditures.

According to the law, the PBOC is responsible for managing the State treasury, and it sets up a special account to deposit government funds on the liability side. When there are fiscal revenues and expenditures, there will be fund transfers between government deposit accounts and deposit accounts of financial institutions, which will affect the excess reserve balance of banks, i.e., the so-called "liquidity of the banking system." The PBOC continuously strengthens daily management of liquidity, follows and predicts changes in fiscal revenues and expenditures, and flexibly adopts instruments, such as open market reverse repos, to offset this influence. While effectively cooperating with fiscal policy, the PBOC keeps liquidity adequate at a reasonable level. Since the beginning of 2023, money market rates have moved around the OMO rate stably, with overall fluctuations at various points somewhat reduced.

Second, the PBOC supports the centralized issuance of government bonds.

Starting from the latter half of 2023, the pace of issuance of local government bonds has quickened, with an addition of 1 trillion worth of treasury bonds issued in Q4, which is conducive to making inter-temporal adjustments, supporting risk resolution, and stabilizing the macro economy. In the long run, funds raised from issuing fiscal bonds will be consecutively allocated and utilized, which will have a relatively neutral impact on total liquidity. In practice, as there is a time gap between bond issuances and expenditures, and banks purchasing government bonds are usually different from those having fiscal expenditures, the centralized large supply of government bonds will still need the central bank to make good liquidity arrangements. On the one hand, the PBOC increases liquidity supply in a forward-looking way through multiple channels, such as RRR cuts, the MLF, and OMOs, creating a favorable liquidity environment for financial institutions to purchase government bonds and smoothing out any possible short-term shocks. On the other hand, the PBOC widely uses treasury

bonds and local government bonds as collateral and it cooperates with the Ministry of Finance to conduct market-making operations in support of Treasury bonds so as to increase liquidity on the secondary government bond market, and to constantly enhance the attraction of investments. From end-2019 to end-2023, outstanding treasury bonds and local government bonds increased by RMB11.9 trillion and RMB17.5 trillion, respectively. The yield on 10-year treasury bonds in the corresponding period saw a cumulative decline of 0.46 percentage points.

Third, the PBOC makes coordinated efforts to promote adjustments and optimization of the economic structure. By establishing and improving the incentive mechanism, monetary policy can effectively guide banks to optimize the credit structure, to further increase fund supply to key strategies, key areas, and weak links, and to coordinate with fiscal policy to promote adjustments of the economic structure. During the past two years, these two policies have further strengthened coordination and cooperation, which has achieved an effect of “one plus one exceeds two.” In the latter half of 2022, the domestic economy faced serious “triple pressures,” which desperately needed infrastructure investments to act as an economic “cornerstone.”

Together with the National Development and Reform Commission and the Ministry of Finance, the PBOC supported the establishment of policy-backed and development-oriented financial instruments in two batches, totaling RMB739.9 billion. Coupled with fiscal funds, the credit funds can better promote a balance between investment efficiency and social benefits. In addition, the PBOC system closely cooperates with the fiscal departments at all levels to improve the supporting mechanisms for fiscal discounts, government subsidies, and financing guarantees so as to effectively ensure sustainable credit injections into key areas and weak links, such as technical renovations, support for rural development and MSBs, and green development.

In general, the above-mentioned PBOC measures have vigorously supported implementation of proactive fiscal policies. Internationally, although the central banks of the U.S. and Japan purchase treasury bonds, the ratio of treasury bonds held by commercial banks is relatively low. With funding support by the PBOC, the ratio of treasury bonds held by commercial banks in China stood at 64 percent, far surpassing that in the U.S. and Japan that were below 7 percent. Going forward, considering the necessity of additional issuances of government bonds, the PBOC will further strengthen coordination and cooperation with fiscal policy, accelerate the construction of bond markets, optimize the bondholder structure of treasury bonds, and encourage banks to develop over-the-counter sales and transactions of government bonds so as to facilitate the holding of treasury bonds by more enterprises and residents. This will help achieve diversification of treasury bond investment entities, which will not only

effectively guarantee the successful issuance of government bonds but also accelerate the development of direct financing.

II. Conducting MLF and SLF operations

Conducting MLF operations to fully meet market demand. The PBOC ensured the reasonable supply of medium and long-term liquidity and gave effective play to the signal role of medium-term policy interest rates and the guiding role of interest rates. In the first three quarters, the PBOC conducted a total of RMB3.386 trillion of MLF operations, all of which were with a maturity of one year, and those in Q3 reached RMB1.095 trillion. The MLF rates in the first five months, in June to July, and in August to September were 2.75 percent, 2.65 percent, and 2.50 percent, respectively. At end-September, outstanding MLFs registered RMB5.386 trillion, an increase of RMB836 billion from the beginning of 2023.

Conducting standing lending facility (SLF) operations. Locally-incorporated financial institutions were provided with a sufficient amount of short-term liquidity support as needed so as to stabilize market expectations and strengthen the stability of liquidity in the banking system. In the first three quarters, the PBOC conducted a total of RMB18.9 billion of SLF operations, among which those in Q3 reached RMB6.9 billion. At end-September, outstanding SLF operations registered RMB6 billion. The SLF rate continued to serve as the ceiling of the interest rate corridor, thereby helping to maintain smooth operations in the money market. In June and August, the SLF rate of all maturities declined 0.1 percentage points. At end-September, the overnight, 7-day, and 1-month SLF rates stood at 2.65 percent, 2.80 percent, and 3.15 percent, respectively.

III. Lowering the RRR for financial institutions

Lowering the RRR to inject long-term liquidity to facilitate lower comprehensive financing costs. On September 15, 2023, the PBOC reduced the RRR for financial institutions (excluding those that have already implemented an RRR of 5 percent) by 0.25 percentage points. This freed up over RMB500 billion in long-term funds. Two consecutive RRR cuts during the year strengthened the effects of policy support and further consolidated the recovery momentum of the real economy. After the RRR cuts, the weighted average RRR for financial institutions is 7.4 percent.

Lowering the foreign exchange RRR and strengthening management of foreign exchange liquidity for financial institutions. Since September 15, 2023, the PBOC lowered the foreign exchange RRR for financial institutions by 2 percentage points, from 6 percent to 4 percent, thereby increasing the foreign exchange capital supply, upgrading the capacity of foreign institutions to invest, and facilitating smooth

operations in the foreign exchange market.

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

Giving full play to the role of the macro-prudential assessment (MPA) in optimizing the credit structure and promoting supply-side structural reforms of the financial sector. In Q3, the PBOC further optimized the MPA framework and guided financial institutions to moderately flatten credit fluctuations, thereby maintaining appropriate credit aggregates at a steady pace, and to step up support for inclusive MSB loans, especially unsecured inclusive MSB loans, for medium and long-term financing to the manufacturing sector.

Refining the regulatory framework for systemically important financial institutions. On September 22, the PBOC and the National Administration of Financial Regulation released a list of systemically important banks (SIBs) in China. A total of 20 domestic SIBs were identified based on 2022 data assessments, one more than in 2022, including 6 state-owned commercial banks, 9 joint-stock commercial banks, and 5 urban commercial banks. These SIBs were divided into 5 groups from low to high according to their scoring in terms of systemic importance. There were 10 banks in the first group, including China Everbright Bank, China Minsheng Bank, Ping An Bank, Hua Xia Bank, Bank of Ningbo, Bank of Jiangsu, China Guangfa Bank, Bank of Shanghai, Bank of Nanjing, and Bank of Beijing; 3 banks in the second group, including China CITIC Bank, Shanghai Pudong Development Bank, and Postal Savings Bank of China; 3 banks in the third group, including Bank of Communications, China Merchants Bank, and Industrial Bank; 4 banks in the fourth group, including Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China; and no bank in the fifth group. Among these banks, Nanjing Bank was selected for the first time this year, while the groups of the other banks remained unchanged.

Adjusting the macro-prudential adjustment parameter for cross-border financing. On July 20, 2023, in order to further improve macro-prudential management of unified cross-border financing and to continue to expand the sources of cross-border funds for enterprises and financial institutions and to guide them to optimize their asset-liability structure, the PBOC and the State Administration of Foreign Exchange (SAFE) decided to raise the macro-prudential adjustment parameter for cross-border financing for enterprises and financial institutions from 1.25 to 1.5.

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

Actively using central bank lending in support of rural development and MSBs, central bank discounts, pledged supplementary lending (PSL), and other policy instruments. Central bank lending in support of rural development and MSBs was utilized to guide locally incorporated financial institutions to expand their credit supply for rural revitalization. Central bank lending for poverty alleviation was rolled over according to current regulations so as to consolidate the achievements in poverty alleviation. The PBOC promoted coordinated regional development by continuously guiding locally incorporated financial institutions in ten provinces to effectively use policy instruments, such as central bank lending, to expand the credit supply for weak links within the region, including agriculture, MSBs, and private enterprises. On August 16, the PBOC decided to increase the central bank lending quota in support of rural development and MSBs by RMB35 billion to provide financial support for flood prevention and relief as well as for post-disaster reconstruction in disaster-hit provinces (municipalities). At end-September, outstanding central bank lending in support of rural development, in support of MSBs, and for poverty alleviation posted RMB599.1 billion, RMB1.5655 trillion, and RMB130.4 billion, respectively. Outstanding central bank discounts registered RMB528.9 billion, and the outstanding PSL posted RMB2.9022 trillion.

Giving full play to the role of the existing structural instruments and ensuring that expired tools continue to have policy effects. The inclusive MSB loan facility continued to be implemented. At end-September, through these instruments, the PBOC provided incentive funding in the amount of RMB52.6 billion, an increase of RMB25.1 billion from the beginning of 2023. It supported an increase of RMB3.0205 trillion in inclusive MSB loans issued by locally incorporated financial institutions, up RMB1.4151 trillion from the beginning of 2023. The PBOC implemented the carbon emission reduction facility (CERF) in tandem with the targeted central bank lending facility for clean and efficient use of coal. At end-September, the outstanding amount of these two PBOC instruments registered RMB509.8 billion and RMB262.4 billion, respectively, an increase of RMB200.1 billion and RMB181.3 billion, respectively, from the beginning of 2023. The PBOC continued to implement the special central bank lending for inclusive elderly care. At end-September, the outstanding amount of this instrument posted RMB1.6 billion, up RMB900 million from the beginning of 2023. Special central bank lending for sci-tech innovation, for equipment upgrading, and for transport and logistics all expired and the PBOC exited from these facilities, but outstanding funds continue to play their role. At end-September, the outstanding amount of these three PBOC instruments registered RMB345.6 billion, RMB167.2 billion, and RMB45.1 billion, respectively, an increase of RMB145.6 billion, RMB86.3 billion, and RMB20.9 billion, respectively, from the beginning of 2023.

Leveraging policy tools to promote the steady and sound development of the real estate market. According to the arrangements of the CPC Central Committee and the

State Council, the PBOC continued to implement structural monetary policy tools, such as the loan support scheme, to ensure deliveries of presold housing projects with RMB200 billion, the rental housing loan support scheme with RMB100 billion, and the specialized central bank lending to provide relief for housing enterprises, thereby guiding financial enterprises to scale up financial support to ensure deliveries of presold housing projects and to facilitate implementation of the new real estate development model.

VI. Enhancing the efficiency and role of credit policy in structural guidance

Constantly improving the quality of financial services for private enterprises and MSBs. On August 3 and August 30, the PBOC successively held a symposium on providing financial support for the development of private enterprises and a conference on promoting financial support for the development of private enterprises. The PBOC made in-depth investigations of financial services for private enterprises and promoted supply and demand match-making between banks and enterprises, giving further play to coordination between departments and enhancing support for private enterprises. It earnestly implemented the project of enhancing financial services for micro, small, and medium enterprises (MSMEs), accelerated the establishment of the long-term mechanism for boosting the confidence, willingness, capacity, and professionalism of financial institutions to issue loans, and introduced the assessment scheme for credit policy in terms of supporting MSBs. Supervision and guidance were strengthened to continuously enhance the willingness, capability, and sustainability of financial institutions to serve the MSBs. All these moves were aimed at promoting an increase in the aggregate, expanding the coverage, and reducing the costs of MSB financing. At end-September, outstanding inclusive MSB loans and the number of inclusive MSBs that were granted loans registered a YOY increase of 24.1 percent and 13.3 percent, respectively, and the interest rate on newly issued inclusive MSB loans in September posted 4.29 percent.

Increasing financial support for rural revitalization. The PBOC has continuously promoted implementation of the *Guiding Opinions on Providing Financial Support for Advancing Rural Revitalization Across the Board and Stepping Up Efforts to Build Up China's Strength in Agriculture*. In coordination with the National Food and Strategic Reserves Administration, the *Notice on Effectively Carrying Out Work Related to the Purchase of Autumn Grain in 2023* was issued. It guided financial institutions to optimize resource allocations by continuously increasing the supply of financial resources for key areas, such as stable production and secure supplies of grain, and key agricultural products, sci-tech equipment innovation, green development in agriculture, and the high-quality development of rural industries. It promoted innovation in financial products and services so as to continuously enhance the quality and efficiency of financial services for rural revitalization. At

end-September, outstanding agro-related loans registered a YOY increase of 15.1 percent, reaching RMB55.8 trillion.

Continuously providing financial services for the manufacturing sector and sci-tech innovation. The PBOC improved the policy framework of financial support for sci-tech innovation and promoted the establishment of a diversified relay-style financial service system for sci-tech innovation. Jointly with the administrative agencies of the relevant industries, the PBOC improved match-making between financial institutions and key investment projects and enterprises in the manufacturing sector and sci-tech innovation so as to alleviate the asymmetric information problems between banks and enterprises. The PBOC periodically produced reports on loans issued to the manufacturing sector and for sci-tech innovation by the national banks and provided incentives to guide financial institutions to increase credit support for the manufacturing sector and for sci-tech innovation. As of end-September, outstanding medium and long-term loans to the manufacturing sector grew by 38.2 percent year on year to RMB12.1 trillion, while medium and long-term loans to the high-tech manufacturing sector and loans to sci-tech small and medium enterprises reached RMB2.6 trillion and RMB2.4 trillion, with a YOY growth of 38.2 percent and 22.6 percent, respectively. Outstanding loans to “specialized, sophisticated, distinctive, and innovative” enterprises grew by 18.6 percent year on year to RMB2.8 trillion, registering an obvious acceleration that surpassed that of all other loans.

Box 4 Continued and Stronger Financial Empowering to Support the Recovery and Development of the Private Economy

The private economy is an essential element in China’s economic system and has become an important force in promoting development of the socialist market economy. Supporting the development of private enterprises is also a significant aspect of the financial supply-side structural reforms. The PBOC has resolutely implemented the policy arrangements of the CPC Central Committee and the State Council, and worked unswervingly both to consolidate and develop the public sector and to encourage, support and guide the development of the non-public sector. It has introduced a series of policy measures and made concerted efforts with financial institutions to increase funding to private enterprises, with broader coverage and at lower costs, thus promoting greater, stronger, and quality development of the private economy.

Monetary and credit policies continue to enhance quality and effectiveness in support of private enterprises. First, continued and stronger monetary policy support. The PBOC has increased the quota of central bank lending and discounts by RMB235 billion to support rural development and micro and small businesses (MSBs), extended the instruments supporting inclusive MSB loans until the end of

2024, accumulatively provided incentive funding of RMB49.8 billion, and effectively supported locally incorporated financial institutions to boost inclusive MSB loans. The PBOC continued to leverage the effectiveness of the LPR reform to bring corporate funding costs to historic lows. **Second, broader funding channels for private enterprises.** The supporting instrument for bond financing of private enterprises (the so-called “second arrow”) has been expanded in duration and coverage to provide effective credit enhancements for such bond issuances. The PBOC has encouraged commercial banks to issue special financial bonds for MSBs and to expand the funding sources for such credit. It has also used the role of supply chain bills and other financial instruments, promoted the Credit Reference Center (CRC) receivables financing service platform, and supported corporate financing for private MSBs in the supply chain. **Third, enhanced funding services across the board.** The PBOC continued to carry out financial service capacity improvement projects for micro, small, and medium-sized enterprises (MSMEs), and it has guided financial institutions to improve mechanisms, such as funds transfer pricing (FTP), due diligence, and performance appraisals. At present, FTP concessions for MSBs in national commercial banks are no less than 50 bps, and the weight of inclusive financing in overall performance appraisals is no less than 10 percent.

Achievements have been made in financial support for the private economy. As of end-September, outstanding loans to privately held enterprises registered YOY growth of 10.9 percent to RMB41.3 trillion, adding 2.6 percentage points from the end of last year. New loans to such firms in the first three quarters reached RMB4.0 trillion, accounting for 21.6 percent of all new corporate loans, with YOY growth of 3.5 percentage points. For private enterprises, particularly those deeply engaged in areas that provide a new impetus for development, the notable increase in financial resources has strongly supported sustainable development as well as the transformation and upgrading of the economy. **First, solid support for inclusive finance.** Outstanding inclusive loans to MSBs grew from RMB11.6 trillion at end-2019 to RMB28.7 trillion at end-September 2023, with the annual growth rate more than 25 percent. The weighted average interest rate on new inclusive loans to MSBs stood at a relatively low level of 4.62 percent in September. **Second, moving ahead with diversified sci-tech funding.** As of end-September, outstanding loans to small and medium-sized sci-tech companies grew 22.6 percent from the previous year to RMB2.4 trillion. The combined amount of sci-tech innovation bills and corporate bonds issued by sci-tech companies registered about RMB450 billion. Over 1600 “specialized, sophisticated, distinctive, and innovative” small and medium-sized enterprises (SMEs) were listed on the A-share market. **Third, rapid growth of green loans.** As of end-September, outstanding green loans issued by financial institutions grew 36.8 percent from the previous year to reach RMB28.6 trillion, 26.6 percentage points higher than the YOY growth of total loans. New green loans in the first three quarters reached RMB6.6 trillion.

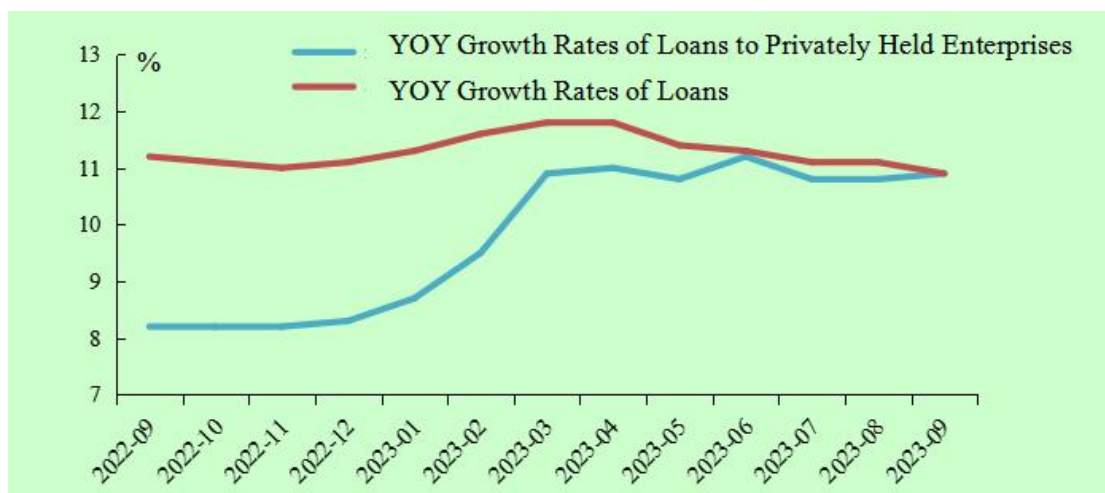


Figure: YOY Growth Rates of Loans to Privately Held Enterprises and Growth Rates of All Loans

Going forward, the PBOC will continue to step up monetary policy support for private MSBs, ensure implementation of issued policy documents, make systemic arrangements for financial support of private economic development, and guide financial institutions to foster the idea that all companies are treated equally. By adopting measures such as setting annual targets for private enterprises and raising the weight of business operations related to private enterprises in the performance appraisals, the PBOC will ramp up financial support for private enterprises, guide financial institutions to provide private enterprises with good funding link-ups and continuation services, push to lower the overall costs of corporate financing, and try to ensure that financial support for the private economy is in step with the contribution of the private economy to economic and social development.

VII. Improving the formation and transmission mechanism of the market-based interest rate

Continuously deepening the market-oriented interest rate reform, improving the formation and transmission mechanism of the market-based interest rate, and promoting a decline amidst stability in the financing costs of the real economy.

The benefits of the LPR reform have been continuously unleashed, the rates for OMOs and the Midterm Lending Facility (MLF) have declined by 0.1 percentage points and 0.15 percentage points, respectively. The one-year LPR issued in August was guided to decline 0.1 percentage points, promoting a decline in actual loan rates. In September, the weighted average interest rate of corporate loans stood at 3.82 percent, declining 0.18 percentage points year on year and remaining at a historical low. Banks were guided to further improve the pricing mechanism for loan rates and to regulate an orderly market for the pricing of deposit rates. The effect of the market-based adjustment mechanism on deposit interest rates came further into play. In September, the major banks voluntarily lowered the quoted deposit rates for some

maturities and simultaneously lowered the authorized ceiling of internal rates. This was the third time since September 2022 that commercial banks had voluntarily adjusted the posted deposit rates in accordance with their operational needs and market supply and demand. This has been conducive to enhancing the sustainability of financial support for the real economy. It further increases marketization of deposit interest rates and improves the efficiency of interest rate transmission.

Adjusting the interest rate policy for individual mortgage loans. A reduction of existing first-home mortgage rates was promoted. Starting from September 25, financial institutions lowered the interest rates for eligible existing first-home loans in accordance with market-based and law-based principles. The PBOC continued to implement the dynamic adjustment mechanism for first-home mortgage interest rates, adopted city-specific policies so as to promote that more cities reduce or remove the interest rate floor on first-home loans. The PBOC lowered the interest rate floor for second-home loans by 40 bps, down from LPR plus 60 bps to LPR plus 20 bps. The adjustments and improvements in the interest rate policy for mortgage loans have brought down interest rates for newly issued and existing mortgage loans.

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

The PBOC continued to advance the market-based reform of the RMB exchange rate and to improve the managed floating exchange-rate regime based on market supply and demand with reference to a basket of currencies. Ensuring that the market plays a decisive role in determining the exchange rate, the PBOC gave play to the role of the exchange rate as an auto stabilizer and as a shock absorber for macroeconomic management and for the balance of payments. With comprehensive measures, the PBOC strengthened expectation guidance and kept the RMB exchange rate basically stable at an adaptive and equilibrium level. In the first three quarters of 2023, the highest and lowest RMB central parities against the U.S. dollar were 6.7130 and 7.2258, respectively. During the 182 trading days, the RMB appreciated on 97 days, depreciated on 84 days, and remained flat on 1 day. The biggest intraday appreciation and depreciation was 1.0 percent (654 bps) and 0.9 percent (630 bps), respectively. The RMB witnessed both an appreciation and a depreciation against the major international currencies, with two-way fluctuations. As of end-September, the central parity of the RMB against the U.S. dollar, the euro, the pound sterling, and the Japanese yen had appreciated 0.6 percent, 3.9 percent, 4.3 percent, and 3.5 percent from end-June, respectively. From 2005 when the reform of the RMB exchange-rate formation regime began to end-September 2023, the RMB appreciated by a cumulative 15.3 percent, 32 percent, 64.4 percent, and 51 percent, respectively, against the U.S. dollar, the euro, the pound sterling, and the Japanese yen. Direct RMB trading was rather buoyant in the interbank foreign exchange market with stable

liquidity so that the exchange costs for enterprises were reduced and bilateral trade and investment was promoted.

IX. Forestalling and defusing financial risks

Strengthening the monitoring and assessment of systemic risks. The PBOC continued to strengthen its monitoring and assessment of systemic financial risks and to improve its framework for the monitoring and assessment of financial stability. It continued to improve risk monitoring in the banking sector, securities sector, insurance sector, and financial markets. The PBOC also organized banking financial institutions to conduct stress tests and provided them with timely risk warnings, thus guiding financial institutions to operate in a sound manner.

Continuously advancing the prevention and resolution of financial risks. The PBOC mitigated financial risks in major regions and areas in an orderly manner. It conducted central bank ratings on financial institutions on a regular basis, covering over 4,000 banking financial institutions, so as to thoroughly determine the financial risks and precisely identify the high-risk institutions. For institutions rated level 1-7, the PBOC will organize early warning exercises on a quarterly basis. For high-risk institutions rated level 8-10, it will distinguish previously identified institutions from newly identified institutions and take effective measures to reduce the number of high-risk institutions. The PBOC rectified emerging bank problems through early warnings so as to identify and resolve risks at an early stage.

Enhancing international cooperation on risk assessments. Since July, the PBOC and other relevant authorities have engaged in several rounds of on-site meetings with the Financial Sector Assessment Programme (FSAP) group, discussing topics about liquidity management of financial institutions, stress tests in the banking sector, climate risk analyses, etc. The FSAP jointly launched by the International Monetary Fund (IMF) and the World Bank in the wake of the Asian financial crisis, has now become a widely recognized global financial stability assessment framework. China participated in the FSAP twice, in 2009-2011 and 2016-2017, respectively.

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

Promoting the coverage and quality of facilitation policies for quality enterprises. The SAFE has steadily moved forward with the reforms to facilitate foreign exchange payments and settlements for trade firms, improved settlement efficiency for cross-border trade, and actively supported new forms of trade, thus lowering costs and improving the performance of market entities engaged in foreign trade activities. The SAFE has strengthened public communications with quality enterprises on trade

payment and settlement facilitation policies and it has supported more banks and enterprises with good credit, excellent capabilities, as well as real demands to receive the benefits of the facilitation policies. These actions have continuously expanded the coverage of the facilitation policies for small and medium-sized quality enterprises. In the first three quarters of 2023, facilitation-related transactions amounted to more than USD700 billion.

Deepening international monetary and financial cooperation. The PBOC continued to steadily expand its progress in bilateral currency swap arrangements, improved the currency swap framework, and gave play to the role of currency swaps in supporting the development of the offshore RMB market and facilitating trade and investment. With a focus on neighboring countries and countries along the Belt and Road, the PBOC strengthened currency settlement cooperation with its counterparts and fostered a better environment for overseas use of the RMB. As of end-September 2023, under the bilateral currency swap agreements between the PBOC and overseas monetary authorities, the overseas monetary authorities utilized a total of RMB117.109 billion and the PBOC utilized foreign currencies equivalent to USD426 million. These operations have played an active role in promoting bilateral trade and investment.

Table 8 Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in Q3 2023

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD	NZD
Trading volume	169548.10	2057.57	1334.05	643.69	111.08	91.76	33.22
Currency	SGD	CHF	CAD	MYR	RUB	ZAR	KRW
Trading volume	21.48	36.22	88.29	9.55	24.38	1.15	11.45
Currency	AED	SAR	HUF	PLN	DKK	SEK	NOK
Trading volume	0.67	11.02	0.09	0.17	2.81	12.44	1.01
Currency	TRY	MXN	THB	KHR	KZT	MNT	IDR
Trading volume	0.39	9.57	19.00	0	0.01	0	6.47

Source: China Foreign Exchange Trade System.

Part 3 Financial Market Conditions

In Q3 2023, the performance of the financial market was generally stable. Money market interest rates edged up, with market transactions remaining active. The interest rates of treasury bond and financial bond issuances were basically stable, with an increase in the volume of issuances. The securities and insurance markets maintained an overall stable performance.

I. Financial market overview

1. Money market interest rates were higher than those in H1, with increasingly active market transactions

Money market interest rates rebounded to a certain extent. In September 2023, the monthly weighted average interest rate for interbank lending was 1.87 percent, and the monthly weighted average interest rate for pledged repos posted 1.96 percent, 30 basis points and 29 basis points higher than those in June 2023, respectively. The monthly weighted average interest rate for government-backed bond pledged repos among depository institutions posted 1.77 percent, 19 basis points lower than the monthly weighted average interest rate for pledged repos. At end-September, the overnight and 7-day Shibor posted 2.16 percent and 2.20 percent, respectively, up 20 basis points and down 2 basis points from end-December 2022, respectively.

Market transactions remained active. In the first three quarters, the cumulative volume of bond repos trading on the interbank market registered RMB1271.2 trillion, representing an average daily turnover of RMB6.8 trillion and an increase of 21.3 percent year on year. The cumulative volume of trading for interbank lending registered RMB111.7 trillion, representing an average daily turnover of RMB597.3 billion and a decrease of 2.2 percent year on year. In terms of the maturity structure, overnight repos accounted for 87.8 percent of the total turnover in bond repos, up 1.2 percentage points year on year, and overnight lending constituted 90.1 percent of the total turnover in interbank lending, up 0.6 percentage points year on year. In the first three quarters, the volume of bond repos trading on the exchange markets increased 14.8 percent year on year to RMB341.9 trillion.

Table 9 Fund Flows Among Financial Institutions in Q1-Q3, 2023

Unit: RMB100 million

	Repos		Interbank lending	
	Q1-Q3 2023	Q1-Q3 2022	Q1-Q3 2023	Q1-Q3 2022
Chinese-funded large banks ^①	-5,688,684	-3,800,317	-423,236	-358,932
Chinese-funded medium-sized banks ^②	-868,101	-1,221,984	-48,237	-132,360

Chinese-funded small-sized banks ^③	441,190	59,544	77,755	65,321
Securities institutions ^④	1,691,783	1,325,740	335,675	337,330
Insurance institutions ^⑤	173,500	168,461	1,170	1,382
Foreign-funded banks	50,398	51,445	-11,188	-12,790
Other financial institutions and vehicles ^⑥	4,199,913	3,417,111	68,061	100,049

Notes : ① Chinese-funded large banks include the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, China Development Bank, Bank of Communications, and Postal Savings Bank of China. ② Chinese-funded medium-sized banks refer to policy banks, China Merchants Bank, and eight other joint-equity commercial banks, Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu. 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, private 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 interbank lending market. ⑦ A negative sign indicates net lending and a positive sign indicates net borrowing.

Source: China Foreign Exchange Trade System.

Interbank Certificates of Deposits (CDs) and negotiable CD businesses operated orderly. In Q3 2023, about 5,908 interbank CDs were issued on the interbank market, raising RMB6.2 trillion. The total volume of trading on the secondary market registered RMB68.3 trillion. At end-September, outstanding interbank CDs reached RMB14.6 trillion. The weighted average interest rate of 3-month interbank CDs was 2.17 percent, 6 basis points higher than that of the 3-month Shibor. In Q3, about 11,123 negotiable CDs were issued by financial institutions, raising RMB2.7 trillion and increasing by RMB30.1 billion year on year.

Interest rate swap transactions increased slightly. In Q3 2023, the RMB interest rate swap market witnessed 101,000 transactions, increasing 39.5 percent year on year, with the volume of the notional principal totaling RMB9 trillion, an increase of 43.8 percent year on year. In terms of the maturity structure, contracts with maturities of up to one year traded most briskly, and the volume of the notional principal posted RMB6.1 trillion, accounting for 67.3 percent of the principal of all maturities. The 7-day fixing repo rate (FR) and the Shibor served as the main reference rates for the floating leg of the RMB interest rate swaps, accounting for 92.3 percent and 6.5 percent, respectively, of the total notional principal of the interest rate swaps. In Q3, interest rate swaps anchored to the loan prime rate (LPR) witnessed 304 transactions,

with RMB75.9 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in Q3 2023

	Transactions	Notional principal (RMB100 million)
Q3 2023	101,068	89,984
Q3 2022	72,428	62,557

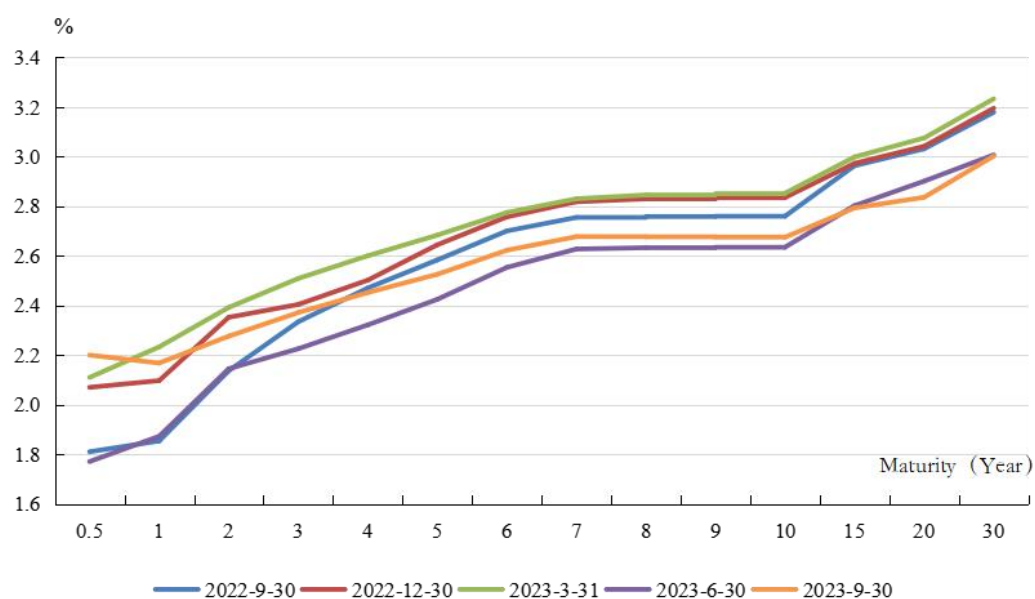
Source: China Foreign Exchange Trade System.

The interest rate options business developed at a steady pace. In Q3 2023, a total of 252 interest rate options transactions were concluded, totaling RMB33.7 billion, all of which were LPR interest rate cap/floor transactions.

2. The coupon rates of bonds remained generally stable, while bond issuances and trading increased

The coupon rates of government securities and financial bonds fell slightly. In September 2023, the yield on 10-year government securities issued by the Ministry of Finance was 2.64 percent, 1 basis point lower than the rate in June. The coupon rate of 10-year financial bonds issued by the China Development Bank (CDB) was 2.69 percent, 6 basis points lower than the rate in June. The average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 3.64 percent, 17 basis points higher than the rate in June.

Figure 4 Yield Curves of Government Securities in the Interbank Market



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

On the whole, the yield on government securities edged upward in Q3. At

end-September, yields on 1-year, 3-year, 5-year, 7-year, and 10-year government securities increased by 30 basis points, 15 basis points, 10 basis points, 5 basis points, and 4 basis points, to 2.17 percent, 2.37 percent, 2.53 percent, 2.68 percent, and 2.68 percent from end-June, respectively. The term spread between 1-year and 10-year government securities was 51 basis points, decreasing 26 basis points from end-June.

Bond issuances increased year on year. The cumulative value of bonds issued in the first three quarters grew by 12.8 percent year on year to RMB52.8 trillion, RMB6 trillion more than that in the same period of last year mainly due to the large increase in government securities, interbank certificates of deposits, and corporate bonds. At end-September, outstanding bonds held in custody amounted to RMB153.9 trillion, representing an increase of 7 percent year on year.

The trading volume of spot bonds grew. In Q1-Q3, the value of cash bonds traded on the bond market posted RMB262.9 trillion, registering an increase of 14.4 percent year on year. Specifically, the value of cash bonds traded on the interbank market was RMB229.1 trillion, representing an increase of 14.1 percent year on year. The value of cash bond transactions on the stock exchanges totaled RMB33.8 trillion, an increase of 17 percent year on year.

Table 11 Bond Issuances in Q1-Q3 2023

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government securities	75,412	10,815
Local government bonds	69,525	6,040
Central bank bills	0	0
Financial bonds ^①	273,235	39,737
Of which: Financial bonds issued by the CDB and policy financial bonds	49,031	3,024
Interbank certificates of deposits	190,132	33,434
Corporate credit bonds ^②	108,515	2,924
Of which: Debt-financing instruments of non-financial enterprises	68,096	-3,449
Enterprise bonds	3,459	-976
Corporate bonds	28,330	6,732
Bonds issued by international institutions	1182	428
Total	527,869	59,944

Notes: ① Including financial bonds issued by the CDB, policy financial bonds, bonds issued by commercial banks (including ordinary bonds, subordinated bonds, and hybrid bonds), bonds issued by securities firms, and interbank certificates of deposit. ② Including debt-financing

instruments issued by non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, privately offered SME bonds, and asset-backed securities on the Shanghai Stock Exchange and the Shenzhen Stock Exchange issued by non-financial enterprises.

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

3. The bill acceptance business rose moderately, and bill financing business grew stably

The bill acceptance business rose. In Q1-Q3, commercial drafts issued by enterprises totaled RMB21.1 trillion, increasing 3.3 percent year on year. At end-Q3, outstanding commercial drafts stood at RMB16.6 trillion, decreasing by 2.3 percent year on year. Outstanding commercial draft acceptances increased. At end-September, outstanding commercial draft acceptances increased by RMB376.2 billion from the end of June. Of the outstanding bankers' acceptances, 69.2 percent were issued by micro, small, and medium-sized enterprises (MSMEs).

Bill financing witnessed steady growth, with interest rates rising slightly. In Q1-Q3, total discounts by financial institutions amounted to RMB43.2 trillion, increasing 4.6 percent year on year. At end-September, the balance of bill financing was RMB12.5 trillion, up 1.0 percent year on year. The balance accounted for 5.3 percent of the total outstanding loans, down 0.5 percentage points year on year. In Q3, the interest rates for bill financing went up.

4. The stock market indices remained fluctuating

The trend in the Shanghai and Shenzhen Stock Exchange markets experienced a small divergence. The stock market index was generally smooth in the first quarter, and declined in the second and third quarters. At end-September, the Shanghai Stock Exchange Composite Index closed at 3,110 points, up 1.2 percent from end-2022. The Shenzhen Stock Exchange Component Index closed at 10,110 points, down 8.1 percent from end-2022. In Q1-Q3, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB162.6 trillion, and the average daily turnover was RMB893.7 billion. In Q1-Q3, cumulative funds in the amount of RMB735.8 billion were raised.

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

In Q1-Q3 of 2023, total premium income in the insurance sector amounted to RMB4.3 trillion, up 11 percent year on year, an acceleration of 6.4 percentage points compared to that recorded in 2022. Claim and benefit payments totaled RMB1.4 trillion, representing a year-on-year increase of 20.1 percent. Specifically, total property insurance claims and benefit payments increased by 17.9 percent year on year and total life insurance claims and benefit payments increased by 22.2 percent year on year.

Table 12 Asset Allocations in the Insurance Sector at End-September 2023

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-September 2023	End-September 2022	End-September 2023	End-September 2022
Total assets	295889	267093	100.0	100.0
of which: Bank deposits	27484	28587	9.3	10.7
Investments	244296	216685	82.6	81.1

Source: National Administration of Financial Regulation.

The growth of assets in the insurance sector accelerated. At end-September 2023, total assets in the insurance sector increased 10.8 percent year on year to RMB29.6 trillion, an acceleration of 1.7 percentage points from end-2022. Specifically, bank deposits decreased by 3.9 percent, while investment-linked assets increased by 12.7 percent year on year.

6. The turnover of spot foreign exchange transactions increased while that of swap and forward transactions declined year on year

In Q1-Q3 of 2023, the cumulative turnover of spot RMB/foreign exchange transactions registered USD7.3 trillion, an increase of 11.5 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD15.3 trillion, a decrease of 0.3 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD10.2 trillion, accounting for 66.6 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD92.7 billion, decreasing 12.1 percent year on year. The turnover of foreign currency pair transactions totaled USD1.3 trillion, increasing by 15.1 percent year on year. In particular, the EUR/USD pair registered the largest trading volume, accounting for 38.4 percent of the total market share.

7. The volume of gold trading expanded year on year, while gold prices went up

At end-September 2023, international gold prices closed at USD1,870.5 per ounce, representing an increase of 3.2 percent from end-2022. The Au99.99 on the Shanghai Gold Exchange closed at RMB447.1 per gram, increasing by 8.9 percent from end-2022. In Q3 2023, the volume of gold traded on the Shanghai Gold Exchange was 10,000 tons, a decrease of 9.7 percent year on year. The turnover posted RMB4.7 trillion, up 7.6 percent year on year.

II. The development of institutional arrangements in financial markets

1. Institutional arrangements in the money and bond markets

The regulated development of over-the-counter (OTC) business in the interbank bond market was promoted. In August 2023, the PBOC released the *Notice on Matters Concerning the OTC Business in the Interbank Bond Market (Exposure Draft)* for public comments. The *Notice* eased restrictions on institutional investors for OTC investment in the interbank bond market, and emphasized the internal control, investor suitability management and other requirements for institutions offering OTC services, so as to better facilitate the business and to motivate participants.

Broker quotes and data displays were regulated. On August 30, the PBOC, the National Administration of Financial Regulation (NAFR), the China Securities Regulatory Commission (CSRC), and the State Administration of Foreign Exchange (SAFE) jointly released the *Notice on Matters Concerning Data Services for Money Brokers*, regulating data services provided by money brokers and encouraging the proper use of data in compliance with the law so as to ensure data security, enhance the transparency of market information, and promote fair competition.

2. Reform and institutional arrangements in the securities market

The independent director system of listed companies was improved. On August 4, the CSRC released the *Measures for the Administration of Independent Directors of Listed Companies*, highlighting the independence of independent directors, refining the specific requirements for this system, and ensuring that independent directors play their due roles so as to facilitate an improvement in the governance of listed companies and the sound development of the capital market.

The high-quality development of the Beijing Stock Exchange was advanced. On September 1, the CSRC released the *Special Provisions on the Market-making Trading Business of Securities Companies on the Beijing Stock Exchange*. Subsequent to the introduction of the market-making arrangements for stock transactions on the Beijing Stock Exchange in February, the *Provisions* further clarified market access standards for market makers on the bourse, moderately relaxed the requirements on capital strength and classified rating, gave effective play to the role of market-making trading mechanism, and ensured that market liquidity remained at a proper level.

3. Institutional arrangements in the insurance market

The eligibility criteria of the preferential personal income tax policy for commercial health insurance were expanded. In July, the NAFR released the *Notice on Matters Concerning Products Covered by the Favorable Policy of the Personal Income Tax for Commercial Health Insurance*, expanding the eligibility criteria of the preferential personal income tax for commercial health insurance products to medical insurance, long-term care insurance, illness insurance, and other major types of commercial health insurance. It expanded the coverage of products and enhanced the flexibility, which will effectively reduce medical expense burdens and promote the orderly

linking-up of medical insurance programs at different levels.

Insurance sales were regulated. In September, the NAFR released the *Measures for the Administration of Insurance Sales*, imposing restrictions on insurance sales throughout the entire process, namely, before, during, and after sales. This will better protect the rights and interests of consumers and further encourage insurance companies to live up to the requirements for insurance sales management.

The pilot program of the personal tax deferred annuity (PTDA) linked up with the personal pension. In September, the NAFR released the *Notice on Matters Concerning the link-up of the PTDA Pilot Program with the Personal Pension*, clarifying the working requirements, business adjustments, product management, and policy transfer during the linking-up process. It also required all work to be conducted in an orderly manner and to be accomplished before end-2023.

The regulatory standards for the solvency of insurance companies were improved. In September, the NAFR released the *Notice on Improving the Regulatory Standards for the Solvency of Insurance Companies*. Its major contents are as follows. First, Implementing differentiated capital regulation on insurance companies with different sizes and different product ranges. Second, improving capital measurement standards, ensuring that asset management fits with liability management, and guiding insurance companies to return to their original mission of providing protection. Third, improving risk factors, requiring insurance companies to enhance long-term appraisal of investment income, and guiding them to provide support for the real economy and sci-tech innovation.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The global economy continued to recover, with diverging growth prospects and universal challenges including high inflation, high interest rate, and high debt. In the U.S. and Europe, labor market remained tight, inflation pressures have generally eased while price stickiness still persisted, and thus policy rates could remain high for a rather long period of time. Looking into the future, the drag on economic growth by the slowing growth of global trade, the disturbances on inflation trend from energy prices, and financial risks potentially triggered by global high debt and high interest rate levels, are all worth attention for some period of time.

1. Economic performance and financial markets in the major economies

Economic growth and recovery prospects diverged. In Q3 2023, quarterly real GDP increased at an annual rate of 4.9 percent in the U.S., significantly higher than

the 2.1 percent in Q2, registering the highest growth rate since 2022 and showing signs of ‘soft landing’ for the U.S. economy. In September, the U.S. manufacturing PMI posted 49, rising for three straight months. In Japan, economy growth has slowed in the second half of this year, the annual rate of quarterly real GDP growth turned negative to -2.1 percent in Q3, meanwhile, the manufacturing PMI experienced a downward trend with oscillations. In the euro area, the year-on-year GDP growth posted 0.1 percent in Q3, slowing down for six straight quarters, and the manufacturing PMI decreased to 43 in October, staying below 50 for sixteen straight months, with the risk of an economic downturn rising.

Inflation stickiness stayed strong in the U.S. and Europe. In Q3, the U.S. inflation has increased a bit. The year-on-year growth rate of headline CPI rebounded to 3.2 percent in July, and further increased to 3.7 percent in August and September, while core inflation rate maintained a downward trend. In September, the HICP in the euro area rose by 4.3 percent on a year-on-year basis, a significant decrease compared to the 5.5 percent increase in June, and the core HICP dropped to 4.5 percent. In the U.K., the CPI registered a year-on-year increase of 6.7 percent in September, on par with that in August, while maintaining an overall decreasing trend.

Labor market remained strong but uncertainties persisted. In Q3, the U.S. nonfarm payrolls continued to rise, with an increase of 236 thousand in September, 149 thousand higher than that in August, far above market expectations. In September, the U.S. unemployment rate posted 3.8 percent, and labor force participation rate reached 62.8 percent, both on par with numbers in August. Job vacancies increased from 8.92 million in July to 9.5 million in August. Average hourly earnings for nonfarm payrolls increased by 4.3 percent year on year in September, on par with the increase in August, maintaining a rather rapid growth. In October, the U.S. labor market showed signs of marginal slackness, monthly increase in nonfarm payrolls dropped to 150 thousand, and unemployment rate further increased to 3.9 percent.

Global financial markets witnessed large fluctuations. In Q3, global equity markets experienced corrections. From August to September, the S&P 500 in the U.S., the EURO STOXX 50 in the euro area, and the Nikkei 225 in Japan cumulatively dropped by 6.6 percent, 6.6 percent, and 4.0 percent, respectively. Influenced by the continued large rate hikes of the Fed and the supply shock of U.S. Treasuries, the 10-year U.S. Treasury yield sharply increased and reached 4.59 percent at end-September, up by 71 bps compared with end-2022. On October 23, the yield once rose to over 5 percent in intraday trading, hitting a new 16-year high. In Germany and the U.K., 10-year Treasury yields closed at 2.86 percent and 4.45 percent at end-September, up by 35 bps and 65 bps from end-2022, respectively. The U.S. dollar index generally stayed above 100 with wide-range fluctuations. On July 13, the U.S. dollar index fell to 99.76, and then strengthened again, with a closing price of 106.19

at end-September, up 6.4 percent from the trough in July.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q3 2022			Q4 2022			Q1 2023			Q2 2023			Q3 2023		
		Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	Real GDP Growth (annualized quarterly rate, %)	2.7			2.6			2.2			2.1			4.9		
	Unemployment Rate (%)	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8
	CPI (year-on-year, %)	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7
	DJ Industrial Average (end of the period)	32845	31510	28726	32733	34590	33147	34086	32657	33274	34098	32908	34408	35560	34722	33508
Euro Area	Real GDP Growth (year-on-year, %)	2.4			1.8			1.2			0.5			0.1		
	Unemployment Rate (%)	6.7	6.7	6.7	6.6	6.7	6.7	6.7	6.6	6.5	6.5	6.5	6.4	6.5	6.4	6.5
	HICP (year-on-year, %)	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3
	EURO STOXX 50 (end of the period)	3708	3517	3318	3618	3965	3794	4163	4238	4315	4359	4218	4399	4471	4297	4175
United Kingdom	Real GDP Growth (year-on-year, %)	2.1			0.7			0.5			0.6			0.6		
	Unemployment Rate (%)	3.6	3.5	3.6	3.7	3.7	3.7	3.7	3.8	3.9	3.8	4.0	4.2	4.3
	CPI (year-on-year, %)	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7
	FTSE 100 (end of the period)	7423	7284	6894	7095	7573	7452	7772	7876	7632	7871	7446	7532	7699	7439	7608
Japan	Real GDP Growth (annualized quarterly rate, %)	-0.4			-0.2			3.7			4.5			-2.1		

Unemployment Rate (%)	2.6	2.5	2.6	2.6	2.5	2.5	2.4	2.6	2.8	2.6	2.6	2.5	2.7	2.7	2.6
CPI (year-on-year, %)	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0
Nikkei 225 (end of the period)	27802	28092	25937	27587	27969	26095	27327	27446	28041	28856	30888	33189	33172	32619	31858

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

2. Monetary policies of the major economies

The rate hike cycles of central banks in the major advanced economies were coming to an end. The Fed raised rates in July by 25 bps, with the target range of federal funds rates increasing to 5.25-5.5 percent. It paused its rate hikes in September and November, and its Chair Powell has stated that future policy decisions will be based on ongoing assessments of the evolving outlook and risks. Meanwhile, the Fed continued to shrink its balance sheet as scheduled. The ECB raised policy rates at its July and September meetings by 25 bps each time, and paused in October, with the interest rate on its main refinancing operations, marginal lending facility, and deposit facility staying at 4.5 percent, 4.75 percent and 4 percent, respectively. In July, the ECB ended the reinvestment of the principal payments from maturing securities under the Asset Purchase Program (APP). The Bank of England (BOE) raised its policy rate by 25 bps to 5.25 percent in August. The BOE raised rates by 25 bps to 5.25 percent in August, and paused in September, meanwhile it decided to reduce its stockpile of government bonds by 100 billion British pounds to 658 billion pounds over the next 12 months. The Bank of Japan (BOJ) maintained its short-term policy rate at -0.1 percent and its target yield on 10-year Japanese government bond (JGB) at around zero percent, but it increased the flexibility of yield curve control (YCC), setting the upper bound of 1 percent as a reference for 10-year JGB yield fluctuations in its market operations. Besides, the Bank of Canada raised rates by 25 bps in Q3, while the central banks of Australia, South Korea, and New Zealand kept their benchmark rates unchanged.

Monetary policies in emerging economies diverged. In Q3, the central banks in Argentina, Turkey, Russia, and Egypt hiked rates by 2100 bps, 1500 bps, 550 bps, and 100 bps, respectively, while those in India, Mexico, Indonesia, Malaysia, and South Africa stood pat on rates, and the central banks of Chile and Brazil cut rates by 175 bps and 100 bps, respectively.

3. Issues and trends that merit attention

The economic growth has not yet recovered to the pre-pandemic levels. Geopolitical situations remain complicated, as Russia-Ukraine conflict continues and Hamas-Israel conflict escalates. Accumulative effects from the rate hikes of the advanced economies continue to emerge, and the momentum of global economic

growth has slowed down. The World Trade Organization (WTO) estimates that the global trade growth in 2023 will only be 0.8 percent, much lower than the 2.7 percent in 2022. The IMF projects that, global economic growth will decrease from 3.5 percent in 2022 to 3 percent in 2023, far below the average growth rate of 3.8 percent between 2000 and 2019.

Inflation pressures still exist under the high interest rate environment. Since the beginning of 2023, inflation pressures in the major advanced economies have generally eased, but inflation rates are still generally above target levels, and thus central banks in the major advanced economies may maintain a high interest rate environment for a rather long period of time. Currently, labor markets in the U.S. and Europe remain tight, with a rather swift wage growth, while the service inflation excluding rents stays firm, indicating that the pressure of a ‘wage-price’ spiral still exists. Meanwhile, as the major oil-producing countries extend their production reduction measures and the tensions in the Middle East continue, energy prices could witness another round of fluctuations.

Global debt levels reached historical high. The IMF data indicates that total global debt amounted to the high level of USD 235 trillion in 2022, equivalent to 238 percent of global GDP, up by 9 percentage points compared to 2019. As the interest rates keep surging, government debt services have increased a lot, debt repayment expenditures in many developing countries have exceeded social expenditures for education and health, and some developing countries have defaulted on their sovereign debts.

Potential global financial risks are gradually accumulating. Financial systems in the advanced economies, such as the U.S. and Europe, are facing pressures under high interest rate conditions. Since March 2023, some of the small and medium banks have consecutively closed, while risks and hidden problems accumulated over previous periods of monetary easing may gradually emerge. Against the backdrop of interest rates remaining at high levels in the major advanced economies, some of the emerging market economies have already paused rate hikes or started rate cuts, so the widening interest rate spreads between domestic and foreign currencies may lead to capital outflows and rising pressures of currency depreciation in these emerging economies. In some countries, fiscal risks have increased, which may also transform into financial risks.

II. Macroeconomic developments in China

In the first three quarters of 2023, faced with the complex and severe international environment and the arduous tasks of domestic development, reform and stability, all regions and departments had earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, putting emphasis on expanding

domestic demand, boosting confidence, and preventing risks. The national economy witnessed a continuous recovery, with production and supply steadily increasing, market demand continuing to expand, overall employment and prices improving, and development quality steadily enhanced. Positive factors witnessed cumulative growth. According to preliminary statistics, GDP in the first three quarters grew by 5.2 percent year on year to RMB91.3027 trillion on a comparable basis. Specifically, GDP in Q3 grew by 4.9 percent year on year and 1.3 percent quarter on quarter.

1. Consumption grew rapidly, investments continued to expand, and imports and exports were generally stable

Residents' income grew steadily and consumption continued to recover. In the first three quarters, China's per capita disposable income posted RMB29398, increasing by 6.3 percent year on year in nominal terms, or 5.9 percent in real terms, an acceleration of 0.1 percentage points from H1. The structure of income distribution continuously improved. The nominal and real growth rates of rural residents' income were 2.4 percentage points and 2.6 percentage points higher than those of urban residents, respectively. In the first three quarters, total retail sales of consumer goods grew by 6.8 percent year on year. Consumption of basic living items, such as clothing, shoes, and hats, grain, oil and food saw stable growth. Sales of upgraded products such as entertainment products, jewelry and cosmetics increased fairly rapidly. In the first three quarters, retail sales of services increased by 18.9 percent year on year.

The scale of investments continued to expand and investments in the high-tech industry grew rapidly. In the first three quarters, total fixed-asset investments throughout China (those by rural households excluded) increased by 3.1 percent year on year to RMB37.5035 trillion. In terms of sectors, investments in the manufacturing sector increased by 6.2 percent, 3.1 percentage points higher than the total investment growth. Investments in infrastructure increased by 6.2 percent. Investments in real estate development decreased by 9.1 percent year on year. Investments in the high-tech industry grew by 11.4 percent year on year, 8.3 percentage points higher than the total investment growth. Specifically, investments in the high-tech manufacturing industry and high-tech services industry grew by 11.3 percent and 11.8 percent year on year, respectively. In the high-tech manufacturing industry, investments in the aviation/spacecraft/instrument manufacturing sector and medical equipment/instrument manufacturing sector increased by 20.7 percent and 17.0 percent year on year, respectively. In the high-tech services industry, investments in the service sector of the commercialization of sci-tech achievements and professional technical service sector increased by 38.8 percent and 29.6 percent year on year, respectively.

Imports and exports were generally stable, with the trade structure continuously improving. In the first three quarters, imports and exports of goods decreased by 0.2

percent year on year to RMB30.8021 trillion. Specifically, exports grew by 0.6 percent year on year and imports fell by 1.2 percent year on year, with the trade surplus in goods posting RMB4.4029 trillion. The trade structure continued to improve. Imports and exports of private enterprises increased by 6.1 percent, accounting for 53.1 percent of total imports and exports. Imports and exports of mechanical and electrical products increased by 3.3 percent, accounting for 58.3 percent of total imports and exports, an acceleration of 1.5 percentage points year on year. Imports and exports with trading partners continued to rise, with imports and exports to countries along the Belt and Road growing by 3.1 percent year on year, accounting for 46.5 percent of total imports and exports.

Foreign direct investment (FDI) was basically stable and the quality of investments continued to improve. In the first three quarters, actually utilized FDI decreased by 8.4 percent year on year to RMB920 billion. Actually utilized FDI in the manufacturing and the high-tech manufacturing industries increased by 2.4 percent and 12.8 percent year on year, respectively. Specifically, the electronic and communications equipment manufacturing sector and medical equipment/instrument manufacturing sector grew by 21.5 percent and 31.7 percent year on year, respectively.

In the high-tech services industry, actually utilized FDI in research and development and design services increased by 10.2 percent year on year.

2. Agricultural production was generally stable, industrial production rebounded rapidly, and the service industry continued to recover

In the first three quarters, the value-added of the primary industry totaled RMB5.6374 trillion, up 4.0 percent year on year. The value-added of the secondary industry totaled RMB35.3659 trillion, up 4.4 percent year on year. The value-added of the tertiary industry totaled RMB50.2993 trillion, up 6.0 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In the first three quarters, the value-added of agriculture (farming) increased by 3.6 percent year on year. The sowing area of autumn grains was stable, with a slight rise, and there is likely to be a bumper harvest. In the first three quarters, the output of pork, beef, lamb, and poultry grew by 3.9 percent year on year. Specifically, the output of pork grew by 3.6 percent year on year. At end-Q3, the number of hogs in stock decreased by 0.4 percent year on year and the number of hogs for slaughter increased by 3.3 percent year on year.

The recovery of industrial production accelerated and the manufacturing industry maintained rapid growth. In the first three quarters, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 4.0 percent year on year, an acceleration of 0.2 percentage points from H1. In terms of sectors, the value-added of

the mining sector and of the manufacturing sector increased by 1.7 percent and 4.4 percent year on year, respectively. The electricity, heat, gas, and water production and supply sector increased by 3.5 percent year on year. In terms of products, the output of solar cells, charging stations, and new energy vehicles grew by 63.2 percent, 34.2 percent, and 26.7 percent year on year, respectively. Profits of enterprises recovered rapidly. In August, total profits of the IEDS returned to the positive territory for the first time since H2 2022 and increased by 17.2 percent year on year. In September, total profits of the IEDS increased by 11.9 percent year on year.

The service industry continued to recover rapidly, with the contact service industry and modern service industry playing an enhanced driving role. In the first three quarters, the value-added of the service industry grew by 6.0 percent year on year. Specifically, the value-added of accommodations and catering, electronic information transmission/software/information technology services, and the finance sectors grew by 14.4 percent, 12.1 percent, and 7.0 percent year on year, respectively. In September, the Index of Service Production (ISP) increased by 6.9 percent year on year, an acceleration of 0.1 percentage points from August and accelerating for two consecutive months. Specifically, the ISP of accommodations and catering, electronic information transmission/software/information technology services, and transportation/storage/postal services increased by 17.7 percent, 11.3 percent, and 9.3 percent year on year, respectively. The Business Activities Index for the services industry reached 50.9 percent in September, an acceleration of 0.4 percentage point from August. The revenue of enterprises above a designated size in the services industry increased by 7.2 percent from January to August.

3. Consumer prices increased moderately, and the decline in production prices continued to narrow.

Consumer prices increased moderately. In Q1-Q3, the CPI increased by 0.4 percent year on year, a deceleration of 0.3 percentage points from H1. The CPI in July, August, and September increased by -0.3 percent, 0.1 percent, and 0.0 percent, respectively. Due to ample supply and the high base effect, the decline in pork and fresh vegetable prices widened, resulting in a shift from a rise to a fall in food prices, which means a 1.2 percent increase in Q2 turned into a 2.2 percent decrease in Q3. Service prices continued to increase, and the decline in prices of industrial consumer goods continued to narrow, leading to a rebound in non-food price growth, with a shift from a 0.2 percent decrease in Q2 to a 0.4 percent increase in Q3. The year-on-year growth in Core CPI (food and energy excluded) posted 0.7 percent, which is generally on par with that in H1.

The decrease in producer prices narrowed moderately. Due to the rebound in prices of energy resources, such as oil, and the gradual weakening of the base effect, the decline in prices of products in downstream-related industries continued to narrow. In

Q1-Q3, the Producer Price Index (PPI) decreased by 3.1 percent year on year, which is generally on par with that in H1. The decrease in the PPI in July, August, and September posted 4.4 percent, 3.0 percent, and 2.5 percent, respectively. In Q1-Q3, the Purchasing Price Index for Industrial Products (PPIRM) decreased 3.6 percent year on year, a deceleration of 0.6 percentage points from H1. The Corporate Goods Price Index (CGPI) monitored by the PBOC decreased by 2.2 percent year on year, generally on par with that in H1 and a deceleration of 6.9 percentage points from Q3 of 2022.

4. Fiscal revenue rose steadily and fiscal expenditures remained stable.

In Q1-Q3, revenue in the national general public budget posted RMB16.7 trillion, increasing 8.9 percent year on year. Specifically, central and local fiscal revenue increased by 8.5 percent and 9.1 percent, respectively. National tax revenue amounted to RMB13.9 trillion, increasing 11.9 percent year on year. Specifically, the domestic value-added tax increased by 60.3 percent year on year mainly due to the large amount of value-added tax (VAT) credit refunds and the low base over the same period of 2022.

In Q1-Q3, expenditures in the national general public budget posted RMB19.8 trillion, increasing by 3.9 percent year on year. Specifically, expenditures in the central level general public budget and the local level general public budget increased by 6.6 percent and 3.5 percent year on year, respectively. In terms of the expenditure structure, expenditures related to housing, social security and employment, and education grew rapidly, witnessing a YOY increase of 6.8 percent, 8.2 percent, and 4.3 percent, respectively.

5. The employment situation remained generally stable

The surveyed urban unemployment rate continued to decline. In Q1-Q3, the surveyed urban unemployment rate averaged 5.3 percent, declining 0.3 percentage points from the same period last year, with a month-on-month improvement. In September, the surveyed urban unemployment rate posted 5.0 percent, 0.2 percentage points lower than that in August. This marks a decline for two consecutive months and represents the lowest value for a single month during this year. The employment situation for migrant workers continued to improve. In Q1-Q3, the average unemployment rate of the rural registered labor force in urban areas posted 5.1 percent, decreasing 0.5 percent from the same period last year.

6. The balance of payments and the external debt

According to preliminary statistics, China's current account surplus registered USD208.9 billion in Q1-Q3, accounting for 1.6 percent of GDP over the same period and remaining within a reasonable and balanced range. Specifically, according to the balance of payments statistics, trade in goods recorded a surplus of USD454.2 billion,

reaching a historical high for the period. Trade in services recorded a deficit of USD168.2 billion, steadily returning to normal. The balance of payments maintained a self-balanced pattern featuring a current account surplus and a non-reserve financial account deficit. As of end-September 2023, outstanding foreign currency reserves stood at USD3.1151 trillion, generally remaining stable. Regarding the external debt, at end-June the balance of full-caliber foreign debt (denominated in both domestic and foreign currencies) posted USD2.4338 trillion. Specifically, the short-term external debt balance posted USD1.373 trillion, accounting for 56 percent of the total external debt balance.

7. Analysis by sector

7.1 The real estate sector

Real estate sales in key cities have stabilized to some extent. In September 2023, among 70 medium and large-sized cities nationwide, newly-built and second-hand residential housing prices decreased by 0.6 percent and 3.2 percent year on year, respectively, which in the third quarter showed signs of stabilization. In the first three quarters, the total floor area of sold commercial housing decreased by 7.5 percent year on year. Housing sales decreased by 4.6 percent year on year. Investment in real estate development decreased by 9.1 percent year on year. Specifically, investment in residential housing development decreased by 8.4 percent year on year.

Table 14 Floor Area of Newly Started, Under Construction, and Completed Real Estate Projects from January to September 2023

	Floor area (100 million square meters)	YOY change (%)	Growth change from the first half of 2023 (percentage points)
Floor area of newly started real-estate projects	7.2	-23.4	0.9
Floor area of real estate projects under construction	81.6	-7.1	-0.5
Floor area of completed real-estate projects	4.9	19.8	0.8

Source: National Bureau of Statistics of China.

Costs of lending for residential consumption declined. As of end-September, interest rates on existing first-time housing loans witnessed an average decline of about 0.73 percentage points. The weighted average interest rate on newly-issued individual housing loans fell by 0.32 percentage points to better support rigid demand as well as demand for upgraded housing. Outstanding real estate loans by major financial institutions (including foreign-funded financial institutions) fell by 0.2 percent year on year to RMB53.2 trillion. Specifically, outstanding individual housing loans fell by

1.2 percent year on year to RMB38.4 trillion. Outstanding housing development loans grew by 2.2 percent year on year to RMB9.8 trillion.

7.2 The tourism sector

The tourism sector plays a significant role in driving the stable and healthy development of the economy. Since early 2023, the recovery of the tourism sector has been accelerating due to the smooth shift in the COVID-19 response. **First, tourism-related travel demands increased, and tourist trips and tourism revenue saw an accelerated recovery.** The first three quarters of 2023 saw 3.67 billion domestic tourist trips, up 75.5 percent year on year, and domestic tourism revenue increased 114.4 percent year on year to RMB3.7 trillion. The number of tourist trips and the amount of tourism revenue this summer in China registered 1.84 billion and RMB1.2 trillion, respectively, a notable increase from that over the same period in 2019. During the Mid-Autumn festival and the National Day holiday, the number of tourists and tourism revenue recovered to pre-pandemic levels, up 4.1 percent and 1.5 percent, respectively, from those over the same period of 2019. **Second, the quality of tourism-related services improved, and tourism products integrated with culture have become a new focus of consumption.** Various cultural and entertainment activities such as concerts and music festivals have strongly boosted tourism consumption. The ticket sales of commercial performances over the first three quarters registered RMB31.54 billion, significantly higher than that for the whole year of 2019. The ticket sales during the Mid-Autumn festival and the National Day holiday witnessed a YoY growth of 82.6 percent. New norms of tourism such as study tours, family trips, and night tours have become new growth engines for tourism consumption. **Third, tourism has played a more significant role in driving the overall development of related service sectors.** Boosted by increasing tourism-related travel demand, related service sectors such as accommodation, catering and transportation have maintained fairly fast growth. The added value of the service industry in the first three quarters grew by six percent, among which the accommodation and catering sector, as well as the transportation, storage, and postal sector grew by 14.4 percent and 7.5 percent year on year, respectively.

Moving forward, in accordance with the requirements of the *Development Plan for the Tourism Sector During the 14th Five-Year Plan Period (2021-2025)* and the *Measures for Unleashing the Tourism Consumption Potential and Promoting the High-Quality Development of Tourism*, efforts will be made to develop high-quality tourism products, to enhance overall sectoral management, and to further promote high-quality development in the tourism sector. **First, stimulating tourism consumption demand.** China will improve the festival and holiday system, promote the establishment and implementation of paid annual vacation system, improve policies that both boost consumption and benefit the consumers, enhance tourism and transportation services, promote regional cooperation and interconnected development,

so as to better meet multi-layered and diversified needs of the people. **Second, stepping up the supply of premium tourism products and services.** It involves advancing the deep integrated development of culture and tourism, developing products such as ecological tourism, ice and snow tourism, and marine tourism, improving input into tourism infrastructure, putting idle tourism projects to better use, improving the supply system of tourism products, so as to forge a new development paradigm that integrates multiple industries. **Third, establishing a modern tourism governance system.** It involves putting in place a strengthened tourism credit system, improving the mechanism for comprehensive regulation of tourism markets, enhancing law enforcement in the tourism market, and advocating civilized tourism.

Part 5 Monetary Policy Outlook

I. Outlook for the Chinese economy

There are many favorable factors for the continued stable development of the Chinese economy. In the second half of the year, with the package of macro policies coming into effect, China has seen its economic recovery gradually taking hold and positive factors increasing across the board. Moreover, GDP growth in Q3 beat market expectations. Looking ahead, the endogenous drivers of the economy will continue to gain steam. First, the consumption potential will be further released. Income has risen at a rate higher than nominal economic growth for two consecutive quarters. While policies, such as raising standards for deductions of the personal income tax and cutting interest rates on existing home loans, are working out well, more support will be provided to boost the people's income and consumption ability. Second, the new investment driver will help stabilize aggregates and optimize the structure. Investment in the manufacturing sector has seen faster growth for two consecutive months, with private investment in manufacturing continuing to rise at a high rate of 9 percent. The construction of affordable housing and public infrastructure for both normal and emergency use and the renovation of shanty towns in cities will be conducive to stabilizing real estate investment. Third, exports are still highly competitive. In the context of a slowdown in global trade growth, China's exports took up a share of 14.2 percent in the first half of the year, expanding by 0.4 percentage points year on year. Overall, with fiscal, monetary, industrial, and employment policies playing their roles effectively, the joint synchronized effect will further materialize so that the virtuous circle between the economy and finance will work more smoothly. The Chinese economy will continue getting back on track for normal operations, and it is expected that the annual growth target of around 5 percent will be successfully achieved.

The stable operation of the economy is also confronting a number of internal and external challenges. Globally, geopolitical conflicts have intensified and

uncertainties regarding economic growth are mounting throughout the world. As interest rates in the advanced economies remain high, the spillover risks may impact the emerging market economies via channels such as exchange rates, capital flows, and external debt. Domestically, the debt-driven economic growth has become less efficient, while major changes have taken place regarding supply and demand in the real estate market. Therefore, it is more imperative that we speed up the economic transformation. **Nevertheless, it should be noted that the fundamentals for China's development remain unchanged in light of general economic trends.** Given a combination of factors, such as the stage of development as well as the conditions and advantages for development, China still has promising prospects for growth over the long run. It is important to remain focused, to pursue progress while ensuring stability, and to stay firmly committed to deepening reform and expanding the opening-up. More emphasis will be placed on implementing macro policy adjustments effectively and advancing high-quality economic development while keeping economic growth at a reasonable level.

Prices will remain low in the short term and will return to normal in the future.

China has recently seen its year-on-year CPI growth hovering at around 0 percent, mainly due to the base effect caused by the surge in pork prices during the same period of the last year. Year-on-year core CPI growth has remained basically stable, while the CPI for services has risen at a faster pace than it did in the first half of the year, a pickup basically in line with the economic recovery trend. The decline in the PPI has generally been narrowing. With the faster implementation of a mix of policies and the continuous improvements in domestic demand, prices will gain more steam for a rebound. From a medium- to long-term perspective, supply and demand in the Chinese economy will be generally balanced, China will continue to pursue a sound monetary policy and inflation expectations will remain stable. Therefore, there is no basis for long-term deflation or inflation in China.

II. Outlook for monetary policy in the next stage

Upholding and strengthening the CPC's overall leadership, and guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will thoroughly implement the guidelines of the 20th CPC National Congress and the Central Financial Work Conference, and it will apply the new development philosophy fully, faithfully, and comprehensively. With a deep understanding of the political nature and the people-centered nature of financial work, the PBOC will aim for high-quality development of the financial sector, focus on deepening supply-side structural reforms in the financial sector, and adhere to the general principle of pursuing progress while ensuring stability. It will improve financial macro adjustments and accelerate the pace of building up China's financial strength, firmly following the path of promoting financial development with Chinese characteristics.

With serving the real economy as the fundamental purpose of the financial sector, the PBOC will develop a modern central banking system and maintain the soundness of monetary policies. It also will strengthen high-quality financial services, provide stronger support to expand domestic demand, and work to stabilize foreign trade and foreign investment so as to provide high-quality services for economic and social development.

Pursuing a sound monetary policy in a targeted and effective manner, the PBOC will focus more on inter-temporal and counter-cyclical adjustments and it will enrich the policy toolkit so as to foster a favorable monetary and financial environment. Based on the pattern and the new features of money and credit supply and demand, the PBOC will enhance the role of money supply in adjusting both the aggregate and the structure. Using a mix of monetary policy instruments, it will keep liquidity adequate at a reasonable level, and it will ensure that the growth rates of M2 and the AFRE continue to be basically in line with nominal economic growth. The PBOC will step up efforts to smooth the monetary policy transmission mechanism, and it will enhance the stability of financial support for the real economy so as to cultivate a virtuous cycle between the economy and finance and to keep prices stable at a reasonable level. By continuing to deepen the market-oriented interest rate reform, unleashing the potential of the LPR reform, and giving play to the important role of the mechanism for market-oriented deposit rate adjustments, it will safeguard the order of the deposit and loan markets and guide financial institutions to lower actual lending rates. The structural monetary policy instruments will be targeted, appropriate, and flexible. The PBOC will ensure proper use of the increased quotas for central bank lending and discounts as well as the existing structural instruments. Meanwhile, by improving the funding structure, it will guide more financial resources toward sci-tech innovation, advanced manufacturing, green development as well as micro, small, and medium-sized enterprises (MSMEs). Efforts will be made to achieve the goals for developing technology finance, green finance, inclusive finance, pension finance, and digital finance and to speed up the cultivation of new economic growth drivers and new advantages. The 16 financial measures to bolster the real estate market will continue to be implemented, and more financial support will be provided for the rebuilding of run-down urban areas, the construction of public infrastructures for both daily and emergency uses, and the development of government-subsidized housing projects. The PBOC will pursue a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. For the benefit of long-term development, starting from the present it will take firm actions to correct pro-cyclical market behaviors, to punish conducts that disrupt market order, and to prevent risks arising from exchange rate overshooting. It will prevent expectations from becoming unanimously one-sided and self-reinforced so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBOC will prevent and resolve financial risks in key areas and it will guide financial institutions

to support the resolution of local debt risks actively and prudently, thereby firmly defending the bottom line whereby no systemic financial risks will occur.

First, the PBOC will maintain appropriate aggregates and a steady pace in the supply of money and credit. By using a mix of monetary policy tools, the PBOC will keep liquidity adequate at a reasonable level. It will support efforts by financial institutions to meet the effective financing needs of the real economy based on market principles and the rule of law, placing emphasis on a balanced supply of loans and ensuring a well-coordinated connection of credit work at the turn of the year. Moreover, the PBOC will properly smooth credit fluctuations and make the growth of credit aggregates more stable and sustainable so that the growth rates of money supply and the AFRE continue to be basically aligned with nominal economic growth. Meanwhile, the PBOC will further improve its knowledge and understanding of a “basic alignment” from a longer-term inter-temporal perspective. The PBOC will also put effort into raising the quality and efficiency of monetary and credit support provided to boost recovery of the real economy. Paying more attention to the ongoing use of existing loans, it will mobilize the financial resources being poorly used and promote more efficient utilization of funds. Mobilizing existing loans, improving their utilization efficiency, and optimizing the use of new loans are of equal importance in bolstering economic growth. Additionally, the PBOC will continue to strengthen monitoring and analysis of liquidity supply and demand in the banking system as well as financial market movements, while keeping close watch on the monetary policy shifts of the major central banks. By doing so, it will conduct open market operations (OMOs) in a flexible and effective manner to keep liquidity in the banking system stable and to maintain the stable movement of money market rates.

Second, the PBOC will give play fully to the guiding role of monetary and credit policies. It will use structural monetary policy tools in a targeted, appropriate, and flexible manner while keeping central bank lending and discount policies stable. It will continue to implement the structural monetary policy tools still in effect and to step up support for key fields and weak links, such as inclusive services for micro and small businesses (MSBs), the manufacturing sector, green development, sci-tech innovation, and infrastructure construction. The PBOC will attach importance to implementing the *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy*. It will make solid efforts to assess the effectiveness of implementation of MSB credit policies in order to increase the availability of financing to MSBs and to make the process more convenient. Moreover, the PBOC will guide financial institutions to continue with implementation of the *Guiding Opinions on Providing Financial Support for Advancing Rural Revitalization Across the Board and Stepping Up Efforts to Build Up China's Strength in Agriculture* to better meet the diverse financing needs of agro-related sectors. It will improve macro-prudential management of real estate finance to meet the reasonable financing needs of real estate companies, regardless of their ownership types. Financial institutions should not hesitate to lend to real estate companies operating normally,

nor should they suspend or terminate loans to such companies. The PBOC will further bring into play the “second arrow” to support bond financing by private property companies. It will also support reasonable equity financing by property companies in the capital market. Meanwhile, the PBOC will adopt city-specific measures and make effective use of the policy toolkit to better support people’s rigid demand for housing and their needs to improve living conditions. It will speed up work on the the construction of affordable housing and public infrastructure for both normal and emergency use and the renovation of shanty towns in cities, to promote establishment of a new development model for the property sector.

Third, the PBOC will properly manage internal and external equilibria regarding the interest rate and the exchange rate. Continuing to advance the market-oriented interest rate reform, the PBOC will improve the market-oriented interest rate formation and transmission mechanism, optimize the central bank policy rate system, and increase the credibility of benchmark market rates. At the same time, it will continuously tap into the LPR reform and enhance the role of the LPR in guiding actual loan rates so as to stabilize and bring down financing costs for the real economy. The PBOC will regulate the setting of loan rates to maintain order, and it will properly handle the relationship among the prices of new loans, existing loans, and other financial products in a coordinated manner. Moreover, it will bring into play the important role of the mechanism for market-oriented deposit rate adjustments and stabilize bank liability costs, thereby enhancing the sustainability of financial support for the real economy. Taking steady steps to deepen the market-oriented exchange rate reform, the PBOC will improve the managed floating exchange rate regime that is based on market supply and demand with reference to a basket of currencies. Letting the market play a decisive role in the formation of exchange rates, it will give play to the role of the exchange rate as an automatic stabilizer for the macro economy and the balance of payments. Furthermore, it will strengthen expectation management, take steps in light of long-term considerations as well as the current situation, duly conduct monitoring and analysis of cross-border capital flows, and stress risk prevention. Upholding bottom-line thinking, the PBOC will take firm actions to rectify pro-cyclical conduct in the market, to punish the behaviors that disrupt market order, and to prevent the risks of exchange rate overshooting. These measures are aimed at preventing the formation and self-reinforcement of one-sided, unanimous expectations and keeping the RMB exchange rate basically stable at an adaptive and equilibrium level. In addition, the PBOC will strengthen management of the foreign exchange market. Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing services of exchange rate risk hedging for MSMEs with authentic needs based on a risk-neutral concept, thereby maintaining the stable and sound development of the foreign exchange market.

Fourth, the PBOC will make continued efforts to deepen the financial reforms

and opening-up. It will improve the legal system for the bond market and consolidate the legal basis for corporate credit bonds. Meanwhile, it will continue bringing into play the catalyzing and guiding roles of the support instrument for bond financing by private enterprises (the so-called “second arrow”) in order to intensify support of the bond market for the real economy. By establishing a mechanism linking up market-makers and OMO primary dealers, the PBOC will push for integration of bond underwriting and market-making to enhance the synergy between the primary and secondary markets as well as the effectiveness of bond pricing and its function as a transmission channel. Additionally, it will speed up development of the over-the-counter bond market and guide the market to be properly tiered so that the interbank bond market will operate more efficiently and its infrastructures will offer diversified services. Adhering to market principles and the rule of law, the PBOC will continue to adopt a zero-tolerance approach and step up efforts to crack down on illegal and irregular conduct in the bond market. At the same time, it will remain firmly committed to advancing the opening-up of the bond market. Moreover, the PBOC will advance RMB internationalization in an orderly manner. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary and financial cooperation, and promote development of offshore RMB markets. It will steadily move ahead with the convertibility of the RMB under the capital account and the institutional opening-up of financial markets.

Fifth, the PBOC will work proactively and prudently to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning. It will also enrich the macro-prudential policy tools and steadily expand the coverage of the macro-prudential policy. The PBOC will improve regulation of systemically important financial institutions. It will urge systemically important banks to meet the additional regulatory requirements as scheduled. Meanwhile, work will continue regarding the *Measures for the Assessment of Systemically Important Insurers*. The PBOC will pick up pace in pushing China’s global systemically important banks to establish and improve their total loss-absorbing capacity so as to effectively enhance their risk prevention ability. Moreover, the PBOC will advance, in a steady and orderly manner, the resolution of risks in key regions, key institutions, and key fields and push ahead with reforms to defuse their risks. It will improve the system for financial risk monitoring, assessment, prevention, and control while strengthening prompt corrections of risks. The PBOC will coordinate the efforts to provide financial support for the mitigation of debt risks of local financing platforms. It will see to it that local governments fulfill their responsibilities, and it will support local governments in defusing existing risks with prudence and in strictly guarding against emerging risks. The PBOC will enhance the financial stability guarantee system, facilitate an accelerated launch of the *Law on Financial Stability*. Additionally, it will fully leverage the role of deposit insurance in resolving risks to improve routine

mechanisms for risk resolution that are based on market principles and the rule of law.