China Monetary Policy Report

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2024, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, China has deepened reform and opening-up, strengthened macro regulation and control, and managed to combat risks and challenges. Economic performance overall was stable with steady progress, sustaining an upward trend. In first half year of 2024 (H1), the GDP grew 5 percent year on year and the CPI rose 0.1 percent year on year. Production increased steadily, demand continued to recover, employment and prices remained generally stable, and new growth drivers grew faster. 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 pursued a sound monetary policy in a flexible, moderate, precise, and effective manner, and strengthened counter-cyclical adjustments, thereby creating a favorable monetary and financial environment for social and economic development.

First, money and credit maintained reasonable growth. The PBOC used a mix of tools, including required reserve ratio (RRR) cut, open market operations (OMOs), medium-term lending facility (MLF) operations, and central bank lending and discounts, and conducted temporary repo and reverse repo operations to keep liquidity adequate at a reasonable level. It promoted a balanced supply of credit, mobilized the existing low-efficient financial resources, reduced the phenomenon of idle funds within the financial system, and rectified behavior of luring depositors with manual interest subsidies. These efforts improved the quality and efficiency of financial services for the real economy. **Second,** overall social financing costs remained stable with a downward trend. The PBOC cut the interest rate on central bank lending for rural development, the interest rate on central bank lending for micro and small businesses (MSBs), and the central bank discount rate by 0.25 percentage points, respectively, in January, and cut the 7-day reverse repo rate by 0.1 percentage points in July. It continued to promote the market-based reform of the deposit rate and guided market rates, including the loan prime rate (LPR), to move in a downward direction. **Third,** the credit structure was improved. The PBOC launched RMB500 billion of central bank lending for sci-tech innovation and technological transformation as well as RMB300 billion of central bank lending for government-subsidized housing. It lowered the threshold for access to inclusive MSB loans and expanded the list of financial institutions eligible for the carbon emission reduction facility (CERF), making good use of existing structural monetary policy tools. It also launched a mix of measures to boost the real estate market, including lowering the minimum down payment ratio for housing mortgages, removing the floor of mortgage rates, and cutting interest rates on personal housing provident fund loans. **Fourth,** the exchange rate remained basically stable. Upholding the decisive role of the market in the formation of the exchange rate, the PBOC gave play to the role of the exchange rate in adjusting the macro economy and the balance of payments, maintained exchange rate flexibility, strengthened expectation guidance, and resolutely prevented the risks of exchange rate overshooting. **Fifth,** risk prevention and resolution were strengthened. The PBOC intensified financial risk monitoring and assessment and appropriately handled risks in key areas and with key institutions. The work of providing financial support to help resolve the debt risks of financing vehicles was promoted in an orderly way, and the development of a financial stability guarantee system was stepped up.

Overall, since the beginning of 2024 the monetary policy stance has been accommodative, providing financial support for a sustained economic recovery. Financial aggregates witnessed reasonable growth. At end-June, outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) recorded year-on-year growth of 8.1 percent and 6.2 percent, respectively. New loans registered RMB13.3 trillion in H1. The credit structure continued to improve. At end-June, inclusive MSB loans and medium and long-term (MLT) loans to the manufacturing sector grew by 16.5 percent and 18.1 percent year on year, respectively, both outpacing overall loan growth. Financing costs were stable with a slight decline. In June, the weighted average rate on new corporate loans registered 3.63 percent, down 0.32 percentage points year on year. The RMB exchange rate remained stable with an upward trend against a basket of currencies. By end-June, the China Foreign Exchange Trade System (CFETS) RMB Index had risen by 2.7 percent from the end of 2023.

In H1, the external environment was more complex, grim, and uncertain, which had an unfavorable impact. Domestically, insufficient effective demand, the transition to new growth drivers, and the deepening of restructuring also posed challenges. However, it should be noted that the policies launched earlier remain effective, and positive factors are on the rise. China’s development trend, which features stable economic performance and sustained growth in the long run, remains unchanged. Therefore, we should have firm confidence in development. During the next stage, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully follow the guiding principles of the 20th National Congress of the CPC, the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Central Financial Work Conference. It will adhere to the general principle of seeking progress while maintaining stability and apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will speed up efforts to build China into a financial powerhouse, promote high-quality financial development, and deepen institutional reform in the financial sector. It will also speed up efforts to improve the central banking system and promote transition of the monetary policy framework. In pursuing a sound monetary policy, the PBOC will work to strike a balance between short-term and long-term concerns, between growth stability and risk prevention, and between internal and external equilibria. It will enhance consistency in the macroeconomic policy orientation, strengthen counter-cyclical adjustments, and cement the trend for an upward economic recovery, thereby creating a favorable monetary and financial environment for achieving this year's social and economic development goals.

Sound monetary policies will be flexible, moderate, precise, and effective. Based on a rational understanding of the relationship between the two largest financing markets, namely, the bond market and the credit market, the PBOC will guide reasonable growth and a balanced supply of credit. By doing so, it will keep liquidity adequate at a reasonable level and keep aggregate financing and money supply in step with the projected economic growth and the CPI increase. Maintaining price stability and promoting a moderate price recovery will be important considerations for the implementation of monetary policy. The PBOC will enhance policy coordination to keep prices at a reasonable level. It will improve the market-based interest rate formation and transmission mechanism, give play to the guiding role of the central bank policy rate, and unleash the efficacy of the LPR reform and the mechanism for market-oriented deposit rate adjustments so as to help financial institutions enhance their ability to set prices independently and to keep the costs of business financing and of consumer credit stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will work to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance and it will step up efforts to provide high-quality financial services for major strategies, key areas, and weak links. It will smooth the transmission mechanism of monetary policy and diversify the monetary policy toolkit so as to enhance the efficiency of fund utilization. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate. It will take a holistic approach to policy implementation and stabilize expectations. It will firmly correct pro-cyclical activities so as to prevent market expectations from becoming unanimously one-sided and self-reinforced, and it will firmly prevent risks arising from exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBOC will effectively implement the measures for preventing and resolving the risks associated with key fields, such as the real estate sector, local government debts, and small- and medium-sized financial institutions. It will see to it that financial risks will be prevented and resolved alongside making efforts to promote high-quality economic development.

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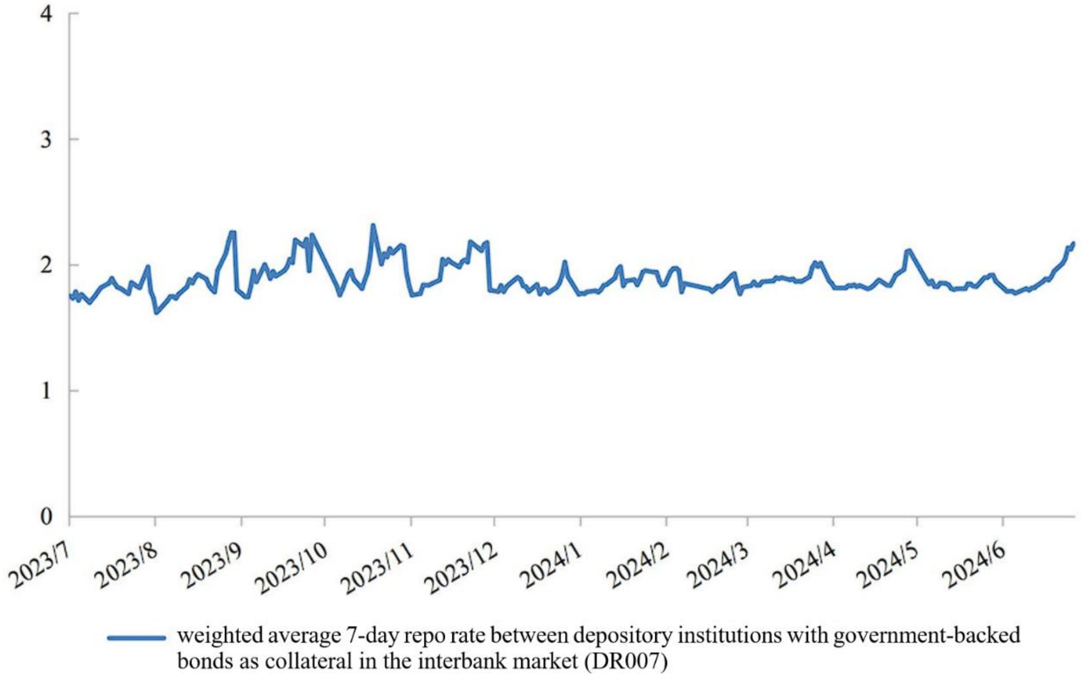
Part 1 Money and Credit Analysis

Since the beginning of 2024, the People's Bank of China (PBOC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and has fully implemented the guiding principles of the 20th CPC National Congress, the Central Economic Work Conference, the Central Financial Work Conference, as well as the requirements set forth in the *Report on the Work of the Government*. It has implemented a sound monetary policy that is flexible, moderate, precise and effective, and has strengthened counter-cyclical adjustments. Money, credit, and the aggregate financing to the real economy (AFRE) have witnessed reasonable growth, overall financing costs have remained stable with a slight decline, the credit structure has improved continuously, and the RMB exchange rate has remained basically stable at an adaptive and equilibrium level.

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

In the first half of 2024, the PBOC employed a mix of instruments, such as the cut in the required reserve ratio (RRR), open market operations (OMOs), the medium-term lending facility (MLF), and central bank lending and discounts to inject liquidity into the economy. Specifically, the PBOC cut the RRR by 0.5 percentage points in February, releasing over RMB1 trillion in medium and long-term liquidity. It also managed the intensity and pace of OMOs in a flexible manner and guided money market rates to move smoothly around the central bank's open market reverse repo rates. In the first half of 2024, the weighted average 7-day repo rate（DR007）between depository institutions in the interbank market averaged 1.87 percent, which was only 7 basis points higher compared with the 7-day open market reverse repo rates during the same period, and the fluctuation range was obviously narrowed. At end-June, the excess reserve ratio for financial institutions registered 1.5 percent, indicating that liquidity in the banking system was adequate at a reasonable level.

Figure 1 Movement of Money-Market Interest Rates



Source: www.chinamoney.com.cn

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

Credit aggregates grew reasonably. In the first half of 2024, the PBOC guided financial institutions to strengthen the balanced supply of credit. It also worked together with the National Bureau of Statistics（NBS）to improve the accounting method of the quarterly value-added of the financial sector, so as to reduce and prevent the circulation of funds solely within the financial system. As a result, although the financial aggregate data may shrink in the short term, the quality, efficiency and stability of credit growth will be enhanced in the long run, which will be conducive to improving the efficiency of monetary policy transmission, alleviating the distortions in resource allocation, and providing high-quality financial services for economic and social development. At end-June, outstanding loans issued by financial institutions in domestic and foreign currencies grew 8.3 percent year on year to RMB255.3 trillion, increasing RMB13.1 trillion from the beginning of 2024. Outstanding RMB loans grew 8.8 percent year on year to RMB250.9 trillion, up RMB13.3 trillion from the beginning of 2024.

The credit structure has been improving. At end-June, medium and long-term (MLT) loans to enterprises and public entities grew by RMB8.1 trillion from the beginning of 2024, accounting for 73.5 percent of total corporate loans. The year-on-year (YOY) growth of MLT loans to the manufacturing sector registered 18.1 percent, 9.3 percentage points higher than the growth of total loans. Outstanding inclusive loans to

MSBs grew 16.5 percent year on year, 7.7 percentage points higher than the growth of total loans. A total of 62.09 million MSBs was supported, a rise of 4.5 percent year on year.

Table 1 The Structure of RMB Loans in H1 2024

Unit: RMB100 million

	Outstanding amount at end-June	YOY growth (%)	Increase from the beginning of the year
RMB loans to:	2508527	8.8%	132654
Households	815642	3.8%	14589
Enterprises and public entities	1664013	10.7%	109957
Non-banking financial institutions	11649	100.7%	3889
Overseas	17223	56.0%	4218

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

Source: The People's Bank of China.

Table 2 New RMB Loans from Financial Institutions in H1 2024

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	76500
Chinese-funded small and medium-sized banks②	56496
Small-sized rural financial institutions③	16175
Foreign-funded financial institutions	-138

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

Source: The People's Bank of China.

The weighted average interest rate on loans remained at a historic low. The PBOC has continuously advanced the market-oriented reform of interest rates, tapping into the 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 lending rates. In June, the one-year LPR stood at 3.45 percent, the same as that in

December 2023, while the over-five-year LPR posted 3.95 percent, down 0.25 percentage points from December 2023. In June, the weighted average interest rate on new loans recorded 3.68 percent, down 0.51 percentage points year on year. In particular, the weighted average interest rate on ordinary loans registered 4.13 percent, down 0.35 percentage points year on year, and the weighted average interest rate on corporate loans was 3.63 percent, down 0.32 percentage points year on year, both of which represented a continuous increase in financial support for the real economy. In June, the share of ordinary loans with rates above, at, or below the LPR registered 49.55 percent, 6.16 percent, and 44.29 percent, respectively. In July, the one-year LPR and the over-five-year LPR decreased further by 10 basis points.

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

Unit: %

	June	Change from last December	YOY Change
Weighted average interest rate on new loans	3.68	-0.15	-0.51
on ordinary loans	4.13	-0.22	-0.35
of which: on corporate loans	3.63	-0.12	-0.32
on bill financing	1.60	0.13	-0.43
on mortgage loans	3.45	-0.52	-0.66

Source: The People’s Bank of China.

Table 4 Shares of RMB Lending Rates at Different Levels, from January to June 2024

Unit: %

Month	LPR-bps	LPR	LPR+bps					
			Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	[LPR+3%, LPR+5%)	LPR+5% and above
January	42.37	6.34	51.28	14.69	16.74	9.82	5.47	4.57
February	41.70	6.52	51.77	14.27	15.99	10.30	6.19	5.03
March	40.44	6.74	52.81	15.64	16.72	10.26	5.53	4.66
April	40.61	6.35	53.04	13.73	16.34	10.71	6.21	6.06
May	42.45	5.96	51.59	13.35	16.17	10.35	5.89	5.83
June	44.29	6.16	49.55	14.04	15.84	10.11	5.08	4.47

Source: The People’s Bank of China.

On the whole, interest rates on foreign-currency deposits and loans increased. In June, 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 2.64 percent and 4.93 percent, respectively, up 0.41 and 0.23 percentage points from December 2023, 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 5.93 percent and 5.84 percent, an increase of 0.13 and 0.04 percentage points compared to December 2023, respectively.

Table 5 Average Interest Rates on Large-value USD-denominated Deposits and Loans, from January to June 2024

Unit: %

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year
January	2.37	4.64	5.24	4.92	5.44	4.82	5.91	5.42	5.29	5.05	5.77
February	2.37	4.74	5.20	4.62	5.00	4.99	5.76	5.65	5.20	5.34	5.28
March	2.46	4.89	5.29	5.25	4.73	5.27	5.83	5.75	5.39	5.32	6.09
April	2.49	4.90	4.95	5.37	5.19	5.22	5.90	5.78	5.50	5.46	6.00
May	2.60	4.87	4.99	5.45	5.39	5.25	5.90	5.88	5.53	4.93	6.23
June	2.64	4.93	4.97	5.31	4.10	5.30	5.93	5.84	5.73	5.25	6.69

Source: The People's Bank of China.

Box 1 Establishment of a Sound Formation Mechanism for Deposit and Loan Rates Determined by Market Supply and Demand

The formation mechanism for deposit and loan rates is an important link in the transmission of monetary policy. After the reform and opening-up, China began to explore the market-oriented reform of interest rates, with the objectives and paths gradually clarified in the 1990s. A formation mechanism for deposit and loan rates that is determined by market supply and demand was then established and improved, with financial institutions given a higher degree of discretion in setting deposit and loan rates, and the PBOC guides the market rates via the use of monetary policy instruments. Currently, deposit and loan rates are generally determined by the market.

Historically, the benchmark deposit and loan rates once served as important monetary policy instruments. Prior to 1978, China implemented a highly centralized interest rate management system, with all types of deposit and loan rates directly determined by the government. After the reform and opening-up, authority to set the interest rates was gradually delegated. Since 1984, when the PBOC started to function exclusively as a central bank, it has adjusted the benchmark rates on various types and maturities of deposits and loans on several occasions, in accordance with the needs of macroeconomic developments and monetary policy regulation. Meanwhile, the PBOC has been deepening the market-oriented interest rate reform by continuously expanding the floating range of the interest rates. The PBOC liberalized the loan rate caps and deposit rate floors of financial institutions in 2004 before then lifting all limits on loan rates in 2013 and on deposit rates in 2015. During this process, the PBOC's adjustment mechanism for interest rates also transitioned gradually to a market-based one. Instead of directly regulating the deposit and loan rates, the PBOC adopted monetary policy instruments to indirectly guide market rates. Since October 2015, no adjustment has been made to the benchmark deposit and loan rates, which, in fact, have petered out.

At present, the deposit rates are mainly adjusted independently by financial institutions and complemented by industry self-regulation to safeguard rational and orderly competition. Drawing on the experience of developed markets in their market-oriented interest rate reforms, the PBOC guided the establishment of the Self-Regulatory Pricing Mechanism for Market Interest Rates in September 2013, while gradually relaxing interest rate controls. Industry self-regulation maintains order in market competition, thus securing orderly progress in the market-oriented interest rate reform. Due to the high homogeneity, competition for deposits relies largely on prices. For the purpose of avoiding disorderly and vicious competition, the cap on deposit rates is still managed through industry self-regulation, and financial institutions may independently determine the deposit rates under the cap. In April 2022, the PBOC guided the Self-Regulatory Pricing Mechanism to establish a market-based adjustment mechanism for deposit rates, which aims to help financial institutions and the market better adapt and become accustomed to market-based adjustments of the deposit rates. By the end of July 2024, large-sized banks had voluntarily lowered their deposit rates on five occasions.

Loan rates are determined by financial institutions independently, which then form the Loan Prime Rate (LPR). The LPR is a major benchmark for floating rate loans. With reference to the practices in the United States, Japan, and other major economies, the LPR was introduced in October 2013. However, the LPR moved synchronously with the benchmark loan rates in the same direction and magnitude for a long period of time, which failed to reflect changes in market interest rates in a timely manner. To smooth the transmission mechanism for interest rates, the PBOC deepened the LPR reform in August 2019. The new LPR, which is released on a monthly basis, is an average of 20 quoting banks' actual loan rates granted to their best-quality clients. The actual loan rates applied to clients are now determined by financial institutions independently, of which the floating rate loans mostly refer to the LPR in stipulating the repricing rules. Regarding the mortgage rates, the PBOC scrapped the loan rate floors in 2013, while provisionally retaining the personal mortgage rate floors that were used as a regulatory tool in consideration of the overheated real estate market at the time, which played an important role in maintaining the stability and healthy development of the real estate market. In order to accommodate the new situation whereby supply and demand in China's real estate market have undergone significant changes, the PBOC abolished the personal mortgage rate floors nationwide on May 17, 2024. The vast majority of cities have canceled the local mortgage rate floors for first-home and second-home buyers, which means that financial institutions may independently determine the interest rates on personal mortgage loans granted to their clients. As a result, all commercial loan rates are now liberalized, and financial institutions are able to independently set the deposit and loan rates according to their operational needs, and to maintain a reasonable spread between loans and deposits.

Moving forward, the PBOC will conscientiously implement the guiding principles of the Third Plenary Session of the 20th Central Committee of the CPC. Based on serving the development of a high-standard socialist market economy, the PBOC will continuously deepen the market-oriented interest rate reform by abolishing unsuitable policies that restrict competition and by urging and guiding financial institutions to enhance their market-based pricing capability, so as to better play the role of a market mechanism. Meanwhile, the PBOC will implement the requirements for improving the macro regulation system, improve the market-based interest rate regulatory mechanism, and give better play to the role of the Self-Regulatory Pricing Mechanism for Market Interest Rates, so as to regulate market competition and maintain sound market order.

Deposits continued to grow. At end-June, outstanding deposits in domestic and foreign currencies at all financial institutions increased 6.0 percent year on year to RMB301.7 trillion, up RMB11.8 trillion from the beginning of 2024. Outstanding RMB deposits grew 6.1 percent year on year to RMB295.7 trillion, an increase of RMB11.5 trillion from the beginning of 2024. Outstanding deposits in foreign currencies stood at USD836.5 billion, an increase of USD38.7 billion from the beginning of 2024.

Table 6 The Structure of RMB Deposits in H1 2024

Unit: RMB100 million

	Outstanding deposits at end-June	YOY growth (%)	Increase from the beginning of the year
RMB deposits:	2957172	6.1%	114562
Household deposits	1462620	10.6%	92725
Non-financial enterprise deposits	772130	-2.9%	-14463
Public entity deposits	368559	4.9%	14826
Fiscal deposits	55503	11.3%	-2434
Non-banking financial institution deposits	278044	11.4%	22122
Overseas deposits	20317	14.0%	1786

Source: The People's Bank of China.

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

The monetary aggregate grew at a reasonable pace. At end-June 2024, outstanding broad money M2 registered RMB305.0 trillion, up 6.2 percent year on year; narrow money M1 registered RMB66.1 trillion, down 5.0 percent year on year; currency in circulation M0 registered RMB11.8 trillion, up 11.7 percent year on year. In total, the first half year of 2024 witnessed a net cash injection of RMB429.2 billion, up RMB350.3 billion year on year.

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

Source: The People's Bank of China.

The AFRE grew stably. According to preliminary statistics, the outstanding AFRE reached RMB395.1 trillion at end-June 2024 and its YOY growth registered 8.1 percent. In H1 2024, the AFRE increment totaled RMB18.1 trillion. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In H1 2024, RMB loans issued by financial institutions to the real economy increased by RMB12.5 trillion and accounted for 68.8 percent of the AFRE increment during the same period. Second, government bond financing remained at a moderate level. In H1 2024, the net financing amount of government bonds was RMB3.3 trillion, RMB39.3 billion less than that in H1 2023. Direct financing of enterprises grew by a smaller margin year on year. In H1 2024, the net financing amount of corporate bonds increased by RMB237.0 billion year on year, and domestic equity financing by non-financial enterprises decreased by RMB338.2 billion year on year. Third, there was a downtick in off-balance-sheet financing. In H1 2024, increments of new trust loans were RMB287.0 billion, while entrusted loans and undiscounted bankers' acceptances decreased by a larger margin of RMB166.0 billion and RMB321.9 billion year on year, respectively. Fourth, loans were written off at a relatively rapid pace. In H1 2024, the increment of written-off loans stood at RMB589.5 billion, up RMB124.0 billion year on year.

Table 7 Aggregate Financing to the Real Economy in H1 2024

	End-June 2024		H1 2024
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)
The AFRE	395.11	8.1	180991
Of which: RMB loans	247.93	8.3	124567
Foreign currency loans (RMB equivalent)	1.66	-12.2	-80
Entrusted loans	11.18	-1.3	-917
Trust loans	4.21	11.8	3098
Undiscounted bankers' acceptances	2.25	-18.2	-2365
Corporate bonds	32.02	2.2	14071
Government bonds	73.13	15.0	33390
Domestic equity financing by non-financial enterprises	11.55	4.1	1214
Other financing	10.91	2.5	1706
Of which: Asset-backed securities of depository institutions	0.95	-48.3	-4090
Loans written off	9.20	15.3	5895

Notes: ① The AFRE (stock) refers to outstanding funds provided by the financial system to the real economy at the end of a period. The AFRE (flow) refers to the volume of funds provided by the financial system to the real economy within a certain period of time. ②Since January 2023, the PBOC has included three types of non-depository financial institutions, namely, consumer finance companies, wealth management companies, and financial asset investment companies, into the scope of the financial statistics. Therefore, adjustments will be made to the data on "RMB loans issued by the real economy" and "loans written off" in the scale of social financing. ③YOY statistics in the table are on a comparable basis.

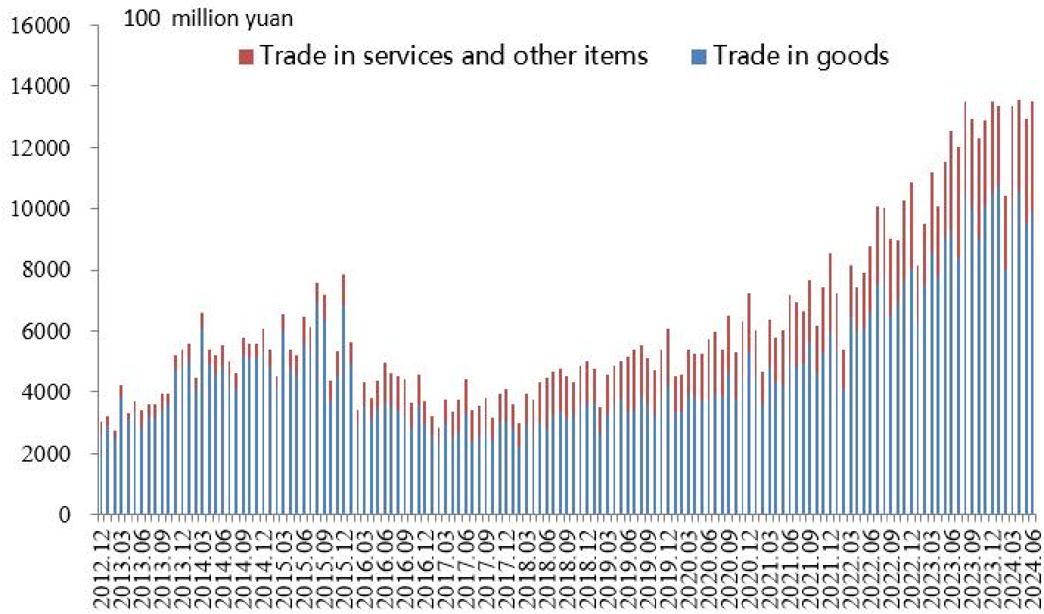
Sources: The People's Bank of China, National Financial Regulatory Administration, China Securities Regulatory Commission, China Central Depository & Clearing Co., Ltd., National Association of Financial Market Institutional Investors, etc.

IV. The RMB exchange rate remained basically stable

Since the beginning of 2024, cross-border capital flows have been stable and orderly, supply and demand in the foreign exchange market has been basically in equilibrium, and RMB exchange rate expectations have been generally stable. With the monetary policies of major economies diverging and international geopolitical uncertainties heightened, the U.S. Dollar Index remained high, weighing down on non-US currencies. In contrast, the RMB exchange rate has performed steadily among the world's major currencies, remaining basically stable at an adaptive and equilibrium level. In H1 2024, based on market supply and demand, the RMB exchange rate appreciated against a basket of currencies. At end-June 2024, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 100.04, appreciating 2.7 percent from end-2023. According to calculations by the Bank for International Settlements (BIS), from 2005, when the reform of the RMB exchange-rate formation regime began, to end-June 2024, the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated 44.3 percent and 36.2 percent, respectively. At end-June 2024, the central parity of the RMB against the US dollar was 7.1268, depreciating 0.6 percent from end-2023 while appreciating 16.1 percent in total since the beginning of the reform of the exchange-rate formation regime in 2005.

Cross-border RMB businesses have maintained growth, with receipts and payments basically reaching a balance. In H1 2024, cross-border RMB settlements increased 25 percent year on year to RMB30.6 trillion. Specifically, cross-border RMB receipts and payments registered RMB14.8 trillion and RMB15.8 trillion, respectively. Cross-border RMB settlements under the current account increased 22 percent year on year to RMB7.7 trillion. In particular, RMB settlements under trade in goods registered RMB5.9 trillion and RMB settlements under trade in services and under other current account items registered RMB1.8 trillion. Cross-border RMB settlements under the capital account grew by 26 percent year on year to RMB22.8 trillion.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People's Bank of China.

Part 2 Monetary Policy Operations

In Q2 2024, with resolute implementation of the decisions and arrangements of the CPC Central Committee and the State Council, the PBOC pursued a sound monetary policy in a flexible, appropriate, targeted, and effective manner, with a view to strengthening counter-cyclical adjustments and keeping liquidity adequate at a reasonable level. It guided reasonable growth and a balanced provision of credit, promoted a slight decline in the overall stable social financing costs, and channeled more financial resources into the major strategies, key areas, and weak links. These efforts consolidated and enhanced the positive momentum for an economic rebound.

I. Conducting open market operations in a flexible manner

Conducting open market operations in a flexible manner. In Q2, the PBOC closely monitored the economic and financial condition. Factoring in ultra long-term special government bond issuances, reserve requirement fulfillment, tax payments, and end-of-season regulatory assessments, as well as their impact on liquidity supply and demand, the PBOC flexibly managed the scale and timing of reverse repo operations to keep liquidity in the banking system adequate at a reasonable level, thus guiding money market rates to move smoothly around the open market operation rates. In late June, in response to the increased short-term funding demands of financial institutions at the end of the half-year and the continued decline in bond market yields, the PBOC flexibly adjusted the scale of its open market reverse repo operations. This approach helped maintain stable liquidity at the half-year end, while preventing further overheating in bond market sentiment.

Announcing and cutting the 7-day reverse repo rate. Given that the 7-day reverse repo rate in the open market has been effectively functioning as the main policy rate, the PBOC has moved to reinforce the authority of the policy rate and to stabilize market expectations. On July 22, the PBOC issued an announcement on the open market business, stating that henceforth, the 7-day reverse repo operations in the open market would be conducted through quantity bidding at a fixed interest rate. Simultaneously, to further strengthen financial support for the real economy, the 7-day reverse repo rate was lowered by 10 basis points, from 1.8 percent to 1.7 percent.

Launching government bond borrowing operations. It was proposed at the Central Financial Work Conference to enhance the monetary policy toolkit by gradually increasing the purchase and sale of government bonds in the central bank's open market operations. In response, the PBOC conducted thorough research and promoted implementation of specific plans, arranging flexible support measures based on the conditions in the bond market. Since the beginning of 2024, government bond yields have declined continuously and quickly, with the 10-year government bond yield falling to nearly 2.2 percent in late June—a 20-year low—significantly deviating from a reasonable level and contributing to the accumulation of financial risks. On July 1, the PBOC announced the launch of government bond borrowing operations and indicated that, if necessary, it would sell bonds in the open market to balance supply and demand and to address the buildup of risks in the financial market.

Conducting more ad hoc repo and ad hoc reverse repo operations. To enhance the precision and effectiveness of open market operations, the PBOC announced on July 8 that it will conduct ad hoc repo or ad hoc reverse repo operations as appropriate between 16:00 and 16:20 in the afternoon. Different from the regular daily 7-day reverse repo operations, these ad hoc operations will be executed by the PBOC based on institutional needs and market dynamics, with an overnight maturity and interest rates fixed at the 7-day reverse repo rate minus 20 basis points and plus 50 basis points, respectively. The ad hoc operations will be limited only to primary dealers, with a differential of 70 basis points in the interest rates. Without altering the existing interest rate corridor framework, these operations are designed to maintain sufficient elasticity and flexibility in monetary operations, while also facilitating the smooth functioning of short-term interest rates around the policy rate.

In addition, in the second quarter, the PBOC continued its monthly Central Bank Bills

Swap (CBS) operations to enhance the liquidity of bank-issued perpetual bonds in the secondary market. Simultaneously, the PBOC maintained its regular issuance of RMB-denominated central bank bills in Hong Kong, achieving a RMB30 billion increase in the outstanding balance of these bills during the first half of 2024. This strategy has positively contributed to the healthy development of the offshore RMB money market and bond market.

Box 2 Further Improving the Market-oriented Mechanism for Interest Rate Regulation

It was noted at the Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC) that work needs to be done to further deepen reforms comprehensively, to improve the macro-regulation framework, and to coordinate the reforms in fiscal, financial and other key areas. The PBOC has earnestly implemented the guiding principles of the Third Plenary Session and has advanced reforms through monetary policy regulation. On the foundation of basically establishing a framework for interest rate formation, regulation and transmission, the central bank has clearly set out its main policy rate, smoothed the transmission channel for monetary policy, and continued to deepen the market-based interest rate reform.

Adjusting the open market operation (OMO) tender method, and strengthening the role of the open market 7-day reverse repo rate as the main policy rate. The 7-day reverse repo operation has served as the main OMO instrument to adjust liquidity supply and demand. Earlier, reverse repo operations were in the form of interest rate biddings with a pre-set tender amount, and the bid winning rate was subject to the bids of primary dealers at various price levels. In theory, the movements of the bid winning rates could well reflect market liquidity conditions. However, as the 7-day reverse repo rate has basically acted as the main policy rate, its frequent movements are inappropriate and may distort policy signals. To this end, the central bank needs to communicate with primary dealers in advance and get to know their demand at various price levels, so as to determine the appropriate amount of operations. The cost of communications went increasingly higher with the development of the financial market and the growing complexity of liquidity management. Sometimes, an appropriate amount clashed with a stable operation rate. Against this backdrop, the 7-day reverse repo operation has switched to fixed-rate quantity bidding. A well-specified operation rate helps to bolster its role as a policy interest rate, enhance operation efficiency, and stabilize market expectations.

Adding ad hoc repo and reverse repo operations in the afternoon to guide the stable movement of market interest rates around policy interest rates. Since 2016, the PBOC has successively conducted OMOs on a daily basis, and it has met the needs of liquidity management. However, conducting only one reverse repo operation each morning sometimes encounters shocks brought by unexpected daily liquidity changes. Therefore, by adding ad hoc repo and reverse repo operations, liquidity management is expected to be more scientific, standardized, and precise. Specifically, ad hoc reverse repos are aimed to provide liquidity, while ad hoc repos are aimed to withdraw liquidity. These two policy tools are at the discretion of the PBOC, and they can be used together to achieve two-way adjustments and to smooth out liquidity disruptions from tax periods, end-of-quarter assessments and other factors. The interest rates on ad hoc repos and reverse repos are fixed at the 7-day reverse repo rate minus 20 bps and plus 50 bps, respectively. Without changing the current interest rate corridor, these two tools provide the central bank with sufficient elasticity and flexibility, contribute to the movement of short-term interest rates within a relatively narrow range, and enhance the role of the 7-day reverse repo rate as the main policy rate.

Improving the loan prime rate (LPR) and smoothing the transmission of short-term interest rates to long-term interest rates. When the PBOC started the LPR reform in August 2019, the transmission mechanism of short-term policy rates to credit market rates was not robust enough. At that time, the LPR was quoted with reference mainly to the prevailing medium-term policy rate, i.e., the 1-year medium-term lending facility (MLF) rate, taking into account funding costs, risk premiums and other market factors. With the deepening of the market-oriented interest rate reforms, the pricing capabilities of commercial banks improved, the market-oriented interest rate formation mechanism became more efficient, and the role of the MLF rate in reference to the LPR weakened. Plus, the quotations of some panel banks were relatively high, and they largely deviated from the rates commercial banks offered to their prime clients, thus to some extent impacting the quotation quality. In response, the 7-day reverse repo rate was specified as the main policy rate, and the role of the MLF rate was gradually reduced. An example of the rate movements in July 2024 is that the 7-day reverse repo rate on July 22 fell by 10 bps, and the LPR on the same day responded swiftly and adjusted accordingly, while the MLF rate on July 15th remained unchanged. The above case indicates that LPR quotations take reference more from central bank short-term interest rates, and the transmission of short-term interest rates to long-term interest rates has been gradually enhanced.

In balance, the deepening market-oriented interest rate reform was a progressive process. Next, the PBOC will continue to maintain the soundness of monetary policy, further improve the market-oriented mechanism for the formation, regulation and transmission of interest rates, enhance the authoritativeness of the policy rates, analyze to appropriately narrow the interest rate corridor, and signal a clearer target to assure the market. Meanwhile, the PBOC will continue its ongoing reform to improve the LPR with a focus on enhancing the quality of LPR quotations, better playing the role of an interest rate self-regulatory mechanism, safeguarding a rational competition order, and smoothening the interest rate transmission, thus fostering a sound monetary and financial environment for economic recovery and high-quality development.

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

Properly managing the timing of MLF operations. The PBOC ensured a reasonable supply of medium-term and long-term liquidity. In the first half of 2024, a total of RMB2.3 trillion of MLF operations was conducted, each with a term of one year and an interest rate of 2.5 percent. At end-June, outstanding MLFs totaled RMB7.1 trillion, reflecting a decrease of RMB2 billion from the beginning of 2024. To further address the liquidity needs of financial institutions, following the loan prime rate (LPR) quotation in July, an additional MLF operation was introduced on July 25. The rate of this operation decreased by 0.2 percentage points to 2.3 percent, thereby softening the MLF's role as policy rates.

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

Conducting SLF operations in a timely manner. SLF operations provided locally incorporated financial institutions with a sufficient amount of short-term liquidity support as needed, helping to stabilize market expectations, strengthen liquidity stability in the banking system, and prevent liquidity risks. In the first half of 2024, the PBOC conducted a total of RMB8.8 billion in SLF operations. At end-June, outstanding SLF registered RMB2.6 billion. SLF rates have effectively functioned as the ceiling of the interest rate corridor, ensuring the smooth operation of the money market. At end-June, 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 by 0.5 percentage points. On February 5, to ensure money supply before the Spring Festival and to provide long-term, stable, and low-cost funding to the banking system, the PBOC reduced the RRR for financial institutions by 0.5 percentage points, freeing up over RMB1 trillion in medium and long-term liquidity. This move was conducive to signaling intensified macro-policy adjustments to boost confidence, and to optimizing the structure of the PBOC's supply of liquidity to the banking system. After the RRR cut, the weighted average RRR for financial institutions posted 7.0 percent.

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

Giving full play to the guiding role of the macro-prudential assessment (MPA). The PBOC guided financial institutions to place emphasis on a balanced supply of credit and to bring down as appropriate the "end-of-period rush for lending". Moreover, it guided a slowdown in the pace of credit supply in the direction of the historical average in order to strengthen the sustainability of support for the real economy. The PBOC maintained robust credit support for inclusive MSB loans and medium and long-term financing to the manufacturing sector, while also directing additional credit resources to key areas and weak links.

Refining the regulatory framework for systemically important financial institutions. Institutional development has progressed steadily. The PBOC is studying and formulating additional regulations for systematically important issuers (SIIs). Enhanced monitoring and analysis have been implemented to closely track the operations of systemically important banks (SIBs). The PBOC urged the implementation of additional capital requirements to enhance the risk resistance ability and level of SIBs. SIBs were guided to conduct recovery plan drills to improve their practicality, operability and effectiveness. Moving forward, the PBOC will continuously shore up additional supervision of systemically important financial institutions and leverage the combined efforts of macro-prudential management and micro-prudential supervision, so as to consolidate the foundation for stability in the financial system.

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

Continuing its efforts to develop inclusive finance. Central bank lending for rural development and for MSBs, as well as central bank discounts, were utilized to guide locally incorporated financial institutions to expand their credit supply for agriculture-related businesses, MSBs, and private enterprises. Central bank lending for poverty alleviation was rolled over in accordance with current regulations so as to consolidate the achievements in poverty alleviation and to support rural revitalization. The PBOC promoted coordinated regional development by continuously guiding locally incorporated financial institutions in ten provinces to effectively use central bank lending and other policy instruments. At end-June, outstanding central bank lending in support of rural development, in support of MSBs, and in support of poverty alleviation posted RMB677.1 billion, RMB1.7 trillion, and RMB108.5 billion, respectively, and outstanding central bank discounts registered RMB600 billion.

Maintaining consistent support for green finance. The PBOC continued to implement the carbon emission reduction facility (CERF) and expanded its coverage. Some locally incorporated financial institutions and foreign financial institutions were added to the list of participants. The outstanding funds of expired special central bank lending for the clean and efficient use of coal that the PBOC has exited will continue to play a role. At end-June, the outstanding amount of CERF registered RMB547.8 billion, cumulatively supporting financial institutions in the granting of carbon emission reduction loans worth over RMB1.1 trillion. The outstanding amount of special central bank lending for the clean and efficient use of coal stood at RMB219.4 billion.

Continuously ramping up financial support for technology. The PBOC continued to put in place two central bank lending facilities, i.e., central bank lending for sci-tech innovation and central bank lending for equipment upgrading and renovation, to guide financial institutions to provide credit support for sci-tech-oriented small and medium-sized firms and for technical transformation and equipment renewal projects, thus assisting key sectors in becoming more digitized, smart, advanced, and green. The outstanding funds of the above two expired facilities that the PBOC has exited continue to play roles. At end-June, the outstanding amount of these two facilities registered RMB154.8 billion and RMB155.7 billion, respectively.

Advancing the development of old-age finance at a solid pace. Special central bank lending for inclusive elderly care services will be implemented on a continuous basis from a pilot to a nationwide rollout, and it will extend its support to the operation of public welfare and inclusive elderly care institutions, the construction of the at-home and the community-based elderly care system, and the manufacturing of products for the elderly included in the catalogue. At end-June, the outstanding amount of the instrument posted RMB1.7 billion, cumulatively supporting 80 inclusive elderly care institutions in the granting of preferential loans worth over RMB2.65 billion.

Supporting the stable and healthy development of the real estate market. In June, the PBOC established a central bank lending facility for government-subsidized housing, incentivizing and guiding financial institutions to support local state-owned enterprises in their purchase of completed but unsold commercial housing, with the aim of accommodating rental and sale needs. Meanwhile, the loan support scheme for rental housing was not applicable, and its quota of RMB100 billion was incorporated into the central lending facility for government-subsidized housing, with the quota rising to RMB300 billion accordingly. The purchase target expanded from commercial residential housing to commercial housing, with the use also being expanded from rental only to both rental and sale. By the end of June, outstanding rental housing loans issued by China's financial institutions registered RMB24.7 billion, with the balance of the loan support scheme for rental housing amounting to RMB12.1 billion. The pledged supplementary lending (PSL) facility was utilized effectively to support policy-backed and development-oriented financial institutions to grant loans for the development of affordable housing, the renovation of urban villages, and the construction of public infrastructure for both normal and emergency uses. At end-June, the outstanding amount of the PSL posted RMB2.8 trillion.

Box 3 Supporting the Sustainable Development of the Rental Housing Industry

The 20th National Congress of the CPC proposed accelerating the pace of building a housing system featuring multiple suppliers and various channels of support that encourages both housing rentals and purchases. Fostering and developing the housing leasing market is a major part of establishing the new development model in the real estate sector, which will also contribute to the stable and sound development of the real estate market. The PBOC has been improving the system of providing financial support for the housing rental market, jointly releasing with the National Financial Regulatory Administration (NFRA) the *Opinions on Financial Support for the Development of the Housing Rental Market*. On May 17, the PBOC unveiled a policy mix to support the real estate sector jointly with relevant departments, launching the central bank lending for affordable housing based on prior pilot programs to support absorbing the existing housing stock and improving the new housing supply in a coordinated and market-based manner.

Rent is the core variable influencing housing value. An asset has its value as it will generate future cash flows as returns. In theory, the value of housing is mainly influenced by the discounted present value of future rents. The residential nature of housing and the overall stability of the discounted present value of rents determine the base price and the fundamental value of the property, while expectations about future price fluctuations also play a role. In recent years, expectations regarding house prices have undergone significant changes, and market interest rates and discount rates have tended to move down, increasing the focus on the impact of discounted rental income on property value. The “rent-to-price ratio”, which is the ratio of housing rent to price, is a simplified indicator for measuring housing value. This ratio has generally risen in recent years. According to the estimations of some market institutions, the current price-to-rent ratio has approached 2 percent in first-tier cities and risen to around 3 percent in second- and third-tier cities. However, this indicator is static, assuming that future rents will remain unchanged. In reality, for long-term held housing assets, the growth rate of rents is also crucial, as it enhances the return on rental housing. Since the COVID-19, rent growth in China has slowed, but as the economy gradually recovers, rents are expected to steadily rise over the long term. During the past decade, the annual growth rate of the rent component in China's Consumer Price Index (CPI) has exceeded 1.2 percent. If this growth rate can be maintained over the long term, the total return on rental housing, compared to fixed home purchase costs, is likely to increase to over 3 percent from the level calculated based on the static rent-to-price ratio, surpassing the return rates of most assets.

The housing rental industry is a key direction for the future development of the real estate market. Given the new development of profound changes in the supply-demand relationship in the real estate market, the scale of existing housing stock in China is already substantial, making the housing rental industry an important direction for the new development model of the real estate sector. In terms of the demand side, in recent years, not only low-income groups but also new urban residents and fresh graduates who have just started working have greater rental demands for "good housing" Some market institutions estimate that over 200 million people in China will need to rent housing in the future, indicating significant market potential. In terms of the supply side, in the past, rental housing in China was mainly provided by individuals. However, in recent years, with the rebounding in the rent-to-price ratio and the reduction in financing and operating costs, the housing rental industry has been more sustainable commercially. More and more housing rental enterprises are entering the market, operating on a large scale and in an intensive manner, which will help provide higher-quality and more stable rental housing services.

Activating existing housing and de-stocking will contribute to launching the rental housing industry. Currently, China's rental housing industry is still in its infancy, and the real estate market is undergoing a special period of adjustment. It is necessary to give play to the synergies of financial and other policies to foster the rental housing industry by activating existing housing and de-stocking. Recently, the PBOC upgraded the original loan support scheme for rental housing to central bank lending for affordable housing. Through market-oriented approaches, this initiative aims to achieve three major functions. First, it promotes the establishment of a new development model for the real estate sector and supports the development of the rental housing industry. Enterprises purchase existing housing in bulk, forming collective purchasing power. The resultant purchase price discounts will further enhance the investment returns and enterprises' participation willingness in the rental housing industry. Second, it increases the supply of affordable housing. The acquired commodity housing can be sold or rented as affordable housing, accelerating the activation of existing housing and market de-stocking while meeting the demands for affordable housing. Third, it works in tandem with the "ensured delivery of presold housing projects" and "whitelist" mechanisms to reduce risks in the real estate market. Real estate enterprises voluntarily participate, and the funds they recover must be used to ensure the delivery of presold housing projects and other ongoing projects.

This will help more projects satisfy the “whitelist” conditions and improve the financial conditions of real estate enterprises. As of end-June, financial institutions had issued RMB24.7 billion in loans for rental housing, with outstanding central bank lending for affordable housing registering RMB12.1 billion. The subsequent issuance of loans is expected to accelerate further. At the same time, local governments are also providing supportive policies in areas such as fiscal and tax policies, land, and supporting facilities, which will help reduce costs for enterprises and enhance the commercial sustainability of the rental housing industry.

In the future, as the real estate market pricing becomes more rational, rental demand is further released, the rent-to-price ratio continues to improve and rebound, and the operational capabilities of rental housing enterprises are continuously improved, it is well-grounded for the rental housing market to achieve commercially sustainable development. In the next stage, it will be necessary to continue to give play to the role of supportive policies in promoting the rental housing industry, and to improve the financial support system for housing rentals. In the meantime, we should fully motivate market institutions and mobilize more social funds to establish a sustainable business model, so as to support the de-stocking of existing commodity housing and to facilitate the transition and development of the real estate sector.

VI. Enhancing the quality and effectiveness of credit policies

Improving the quality and effectiveness of financial services for private enterprises and MSBs. The *Notice on Strengthening Financial Support Measures to Boost the Development and Growth of the Private Economy* has been fully implemented. Financial institutions were guided to work out implementation details, further establish the philosophy of “treating all business entities equally regardless of their ownership”, and continuously enhance financial services for private enterprises. The plan to evaluate the effects of financial services for the private economy was improved to enhance incentives and constraints for financial institutions. At end-June, outstanding loans to the private economy and inclusive MSB loans witnessed a year-on-year increase of 8.1 percent and 16.5 percent, respectively. The weighted average interest rate on newly issued inclusive MSB loans in June posted 4.4 percent.

Continuing to promote financial support for all-round rural revitalization. Aiming to build up China’s strength in agriculture, the supply of financial resources to key areas, such as food security, Protected Agriculture, and rural industries, was increased. Financial institutions were guided to strengthen the integration of agro-related credit information and the employment of sci-tech methods and to enrich the supply of financial products, thus better serving the diversified financing needs of rural revitalization. The evaluation of financial institutions’ services for rural revitalization in 2023 was conducted, urging financial institutions to improve systems and mechanisms and to enhance the quality and effectiveness of services for rural revitalization. At end-May, outstanding agro-related loans registered a year-on-year increase of 12.1 percent, reaching RMB60 trillion.

Enhancing financial services for sci-tech innovation. Support for sci-tech innovation as well as for restructuring and upgrading of the manufacturing sector were provided in a targeted manner to continuously improve the capacity, intensity, and level of financial services for science and technology. The *Work Plan on Boosting the Development of Technology Finance* was published to provide financial services for various innovation entities throughout the whole chain and full life cycle of their sci-tech innovation activities. Financial institutions were guided to channel more credit resources to technology-based innovation and to improve professionalism by establishing a specialized organization structure, risk control regimes, and assessment mechanisms for sci-tech innovation. At end-June, outstanding medium and long-term loans to the high-tech manufacturing sector grew by 16.5 percent year on year to RMB2.9 trillion. At end-May, outstanding loans granted to sci-tech small and medium enterprises and to "specialized, sophisticated, distinctive, and innovative" enterprises recorded RMB2.7 trillion and RMB4.1 trillion, respectively, a year-on-year increase of 19.2 percent and 15.9 percent, respectively. The growth rate of loans issued to the above areas significantly outpaced overall loan growth.

Giving full play to the role of green finance as policy guidance. Structural monetary policy instruments and green bonds played a vital role in promoting the development of green financial products and the market as policy guidance. A sound work mechanism for developing green finance to serve the Beautiful China initiative was established, continuously strengthening coordination and cooperation among industrial departments, financial departments and market entities and promoting the rapid development of green loans. At end-June, outstanding green loans posted RMB34.8 trillion, a year-on-year increase of 28.5 percent. The self-regulation of green bond assessment and certification institutions should be continuously promoted to achieve the high-quality development of the green bond market. At end-June, the cumulative issuance of green bonds reached RMB3.71 trillion, of which the cumulative issuance of green financial bonds reached RMB1.54 trillion, providing stable funding sources for financial institutions to issue green credit.

Ramping up credit support for major consumption areas. The PBOC convened a meeting to advance the financial work of large-scale equipment upgrading and the trade-in of consumer goods to support the unveiling of the *Action Plan to Promote the Trade-in of Consumer Goods*. Financial institutions were guided to enhance support for the trade-in of automobiles, home appliances, and home furnishings and to deepen financial services for major consumption areas. At end-June, outstanding household consumer loans (excluding personal housing loans) reached RMB20.0 trillion, up 6.6

percent year on year.

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

Deepening the market-based interest rate reform. The PBOC continued to unleash the benefits of the LPR reform and to promote a steady decline in loan interest rates. After guiding a decrease of 0.25 percentage points in the LPR for loans over five years in February, the PBOC guided a further decline of 0.1 percentage points for both one-year and over-five-year LPRs in July, contributing to the reduction of actual lending rates. In June, the weighted average interest rate on corporate loans registered 3.63 percent, down 0.32 percentage points year on year, which remained at a historical low. The PBOC gave play to the role of the market-oriented adjustment mechanism for deposit interest rates, regulated competition in the deposit market, and guided the decline of deposit interest rates. Since the Self-regulatory Pricing Mechanism for Market Interest Rates, under the guidance of the PBOC, started to launch a rectification campaign against luring depositors with manual interest compensation in early April, a total of 21 banks with a nationwide reach had met over 90 percent of the rectification requirements as of end-June. It is estimated that after the completion of the rectification work, the interest expenses saved by banks will be as much as that resulting from a cut in the deposit interest rates. Regulating illegal manual compensation of deposit interest is conducive to reinforcing the adjustments of deposit interest rates, enhancing the pricing capabilities of banks, safeguarding reasonable competition in the market, alleviating the pressure of narrowed interest margins on banks, and helping banks provide better services to bolster the development of the real economy. In July, the major banks voluntarily lowered deposit interest rates based on their own business needs and market conditions. This was the fifth round of voluntary adjustments of the deposit interest rates by commercial banks since September 2022, marking a step forward in terms of both the marketization of deposit interest rates and the efficiency of the interest rate transmission.

Adjusting and improving real estate policies. On May 17, the PBOC unveiled a mix of macro prudential policies to revitalize the real estate market, including removing the lower limits for interest rates on personal housing loans, reducing the minimum down payment ratio for personal housing loans, and lowering interest rates on loans from the housing provident fund. As of end-June, the policy floor for interest rates on mortgage loans for first-time and second-time home buyers had all been lifted across the country except in the three first-tier cities of Beijing, Shanghai and Shenzhen. Mortgage rates were further brought down, contributing to the stable and sound development of the real estate market. In June, the interest rate on newly issued individual mortgage loans nationwide registered 3.45 percent, a year-on-year decrease of 0.66 percentage points.

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

The PBOC has continued to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The PBOC has been committed to the principle that the market plays a decisive role in the formation of the exchange rate and the exchange rate plays the role as both an auto stabilizer and a shock absorber for macroeconomic management as well as the balance of payments. The PBOC has taken comprehensive measures and strengthened expectation guidance to balance supply and demand in the foreign exchange market and to guard against the risk of an exchange rate overshooting. As a result, the RMB exchange rate has remained basically stable at an adaptive and equilibrium level. In H1 2024, the highest and lowest RMB central parities against the US dollar were 7.0770 and 7.1270, respectively. During the 118 trading days, the RMB appreciated on 55 days and depreciated on 63 days. The biggest intraday appreciation and depreciation was 0.1 percent (69 bps) and 0.3 percent (232 bps), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. At end-June, the central parity of the RMB against the US dollar and the pound sterling depreciated 0.6 percent and 0.02 percent from end-2023, respectively, while the central parity of the RMB against the euro and the Japanese yen appreciated 2.6 percent and 12.2 percent from end-2023, respectively. From the beginning of the reform of the RMB exchange rate formation regime in 2005 to end-June 2024, the RMB appreciated by a cumulative 16.1 percent, 30.7 percent, 59.4 percent, and 63.3 percent, respectively, against the US dollar, the euro, the pound sterling, and the Japanese yen. Direct trading is buoyant in the interbank foreign exchange market and liquidity remains stable, reducing the exchange costs for enterprises and promoting bilateral trade and investment.

Table 8 The Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in H1 2024

RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	284223.46	4223.45	2007.51	893.92	191.01	432.51
Currency	NZD	SGD	CHF	CAD	MOP	MYR
Trading volume	187.74	697.15	100.80	341.70	31.98	17.83
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading	67.47	9.71	25.17	44.89	12.60	0.92

volume						
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	3.65	9.24	33.30	4.53	1.37	8.15
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	134.97	8.29	0	0.001	0	0

Source: China Foreign Exchange Trade System.

IX. Forestalling and defusing financial risks

Strengthening the monitoring and assessment of systemic risks. The PBOC continued to strengthen its framework for monitoring and assessing systemic financial risks. It improved the monitoring and evaluation indicator system for financial stability and established an analytical framework for determining whether the risks of financial institutions have systemic impacts. The risk monitoring and early warning system for banks was upgraded with a hierarchical and segmented management framework. For institutions at levels 1-7 within the safe boundary, risk monitoring and early warning will continue to be carried out. For high-risk banks at levels 8-10, the PBOC will distinguish previously identified institutions from newly identified institutions. For the former, multiple measures will be taken to reduce their number through coordinated efforts by all parties. For the latter, an early correction mechanism with hard constraints will be established to prevent the accumulation of risks. Continuous efforts will be made to improve the effectiveness of risk monitoring of non-bank financial institutions and cross-sector financial businesses, as well as to carry out research into the risk monitoring and assessment of shadow banking.

Reinforcing the system safeguarding financial stability. The PBOC reinforced the guarantee for risk resolution resources, made solid efforts to carry out appraisals and authorizations of deposit insurance premium rates as well as premium pooling, and continued advancing efforts to raise financial stability guarantee funds. The deposit insurance mechanism functioned smoothly, with its core roles—preventing bank runs, enabling an early correction, and facilitating risk resolution—effectively fulfilled. Additionally, the PBOC will promote adherence by global SIBs to the requirements for the total loss-absorbing capacity (TLAC).

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

Facilitating foreign exchange settlement in cross-border trade. The SAFE released the *Notice on Further Optimizing Management of Foreign Exchange Operations*

Related to Trade, aiming to enhance the quality and efficiency for serving the real economy and to support the stabilization and improvements in foreign trade. Key measures include optimizing the registration management of enterprises involved in trade-related foreign exchange receipts and payments, simplifying procedures for enterprises' trade transactions, and expanding banks' authority to handle special foreign exchange refunds related to trade in goods.

Deepening international monetary and financial cooperation. The PBOC continued to steadily advance its progress in bilateral currency swap arrangements, improved the currency swap framework, and gave play to the role of currency swaps in supporting the development of offshore RMB markets and facilitating trade and investment. With a focus on neighboring countries and those along the Belt and Road, the PBOC strengthened currency settlement cooperation with its counterparts and fostered a better environment for overseas use of the RMB. As of end-June, under bilateral currency swap agreements between the PBOC and overseas monetary authorities, overseas monetary authorities had drawn RMB104.5 billion and the PBOC had drawn foreign currencies equivalent to USD481 million. These operations have played an active role in promoting bilateral trade and investment.

Part 3 Financial Market Conditions

In H1 2024, the financial market operated smoothly. Money market interest rates were generally stable, and market transactions developed in an orderly manner. The issuance rates of government bonds and enterprise bonds decreased with an increase in bond issuances. The trading volume and fund-raising on the stock market decreased year on year. The transactions in foreign exchange market were active. Gold market witnessed growth in both volume and price.

I. Financial market overview

1. Money market interest rates were generally stable, and market transactions operated in an orderly manner

Money market interest rates were generally stable. In June, the monthly weighted average interest rate for interbank lending was 1.87 percent, and the monthly weighted average interest rate for pledged repos posted 1.89 percent, 1 basis point and 2 basis points lower than those in March 2024, respectively. The average monthly weighted interest rate for government-backed bond pledged repos among depository institutions posted 1.8 percent, 9 basis points lower than the monthly weighted average interest rate for pledged repos. At end-June, the overnight Shibor posted 1.89 percent, and the 7-day Shibor stood at 2.1 percent, up 14 basis points and 23 basis points from end-2023, respectively.

Repos business operated steadily. In H1 2024, the cumulative volume of bond repos trading on the interbank market registered RMB795.3 trillion, representing an average daily turnover of RMB6.5 trillion and a decrease of 0.1 percent year on year. The cumulative volume of trading for interbank lending registered RMB51.3 trillion, representing an average daily turnover of RMB416.8 billion and a decrease of 30.8 percent year on year. In terms of the maturity structure, overnight repos accounted for 84.6 percent of the total turnover in bond repos, down 2.2 percentage points year on year, and overnight lending constituted 84.4 percent of the total turnover in interbank lending, down 5.9 percentage points year on year. The volume of bond repos trading on the exchange markets increased 4.1 percent year on year to RMB234.3 trillion.

Table 9 Fund Flows Among Financial Institutions in H1 2024

Unit: RMB100 million

	Repos		Interbank lending	
	H1 2024	H1 2023	H1 2024	H1 2023
Chinese-funded large banks①	-3,515,461	-3,447,118	-209,002	-261,347
Chinese-funded medium-sized banks②	-510,217	-613,901	21,621	-46,373
Chinese-funded small-sized banks③	370,643	261,586	25,186	53,756
Securities institutions④	1,189,255	1,033,712	149,058	213,447
Insurance institutions⑤	139,555	103,462	1,054	571
Foreign-funded banks	11,852	30,671	-12,502	-8,916
Other financial institutions and vehicles⑥	2,314,374	2,631,587	24,585	48,863

Notes： ①Chinese-funded large banks include the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, China Development Bank, Bank of Communications, and Postal Savings Bank of China. ②Chinese-funded medium-sized banks refer to policy banks, China Merchants Bank, and eight other joint-equity commercial banks, Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu. ③Chinese-funded small-sized banks refer to the Hengfeng Bank, China Zheshang Bank, China Bohai Bank, other city commercial banks, rural commercial banks, rural cooperative banks, private banks, and village and township banks. ④Securities institutions include securities firms, fund management companies, and futures companies. ⑤Insurance institutions include insurance firms and corporate annuities. ⑥Other financial institutions and vehicles include urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies, asset management companies, social security funds, mutual funds, wealth management products, trust plans, and other investment vehicles. Some of these financial institutions and vehicles do not participate in the interbank lending market. ⑦A negative sign indicates net lending and a positive sign indicates net borrowing.

Source: China Foreign Exchange Trade System.

Interbank Certificates of Deposits (CDs) and negotiable CD businesses operated in an orderly manner. In H1 2024, about 14,000 interbank CDs were issued on the interbank market, raising RMB16.3 trillion. The total volume of trading on the secondary market registered RMB115.2 trillion. At end-June, outstanding interbank CDs reached RMB17.5 trillion. The weighted average interest rate of 3-month interbank CDs was 2.1 percent, 5 basis points lower than that of the 3-month Shibor. In H1, about 46,000 negotiable CDs were issued by financial institutions throughout the year, raising RMB10.8 trillion, an increase of RMB2.2 trillion year on year.

Interest rate swap transactions remained stable. In H1 2024, the RMB interest rate swap market witnessed about 155,000 transactions, decreasing by 7.1 percent year on year, with the volume of the notional principal totaling RMB15.5 trillion, an increase of 2.4 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 RMB10.8 trillion, accounting for 69.6 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 95.2 percent and 4.1 percent, respectively, of the total notional principal of the interest rate swaps. In H1, interest rate swaps anchored to the loan prime rate (LPR) witnessed 468 transactions, with RMB86.33 billion of the notional principal.

Table 10 Interest Rate Swap Transactions in H1 2024

	Transactions	Notional principal (RMB100 million)
H1 2024	155,257	154,642.2
H1 2023	167,162	151,031.9

Source: China Foreign Exchange Trade System.

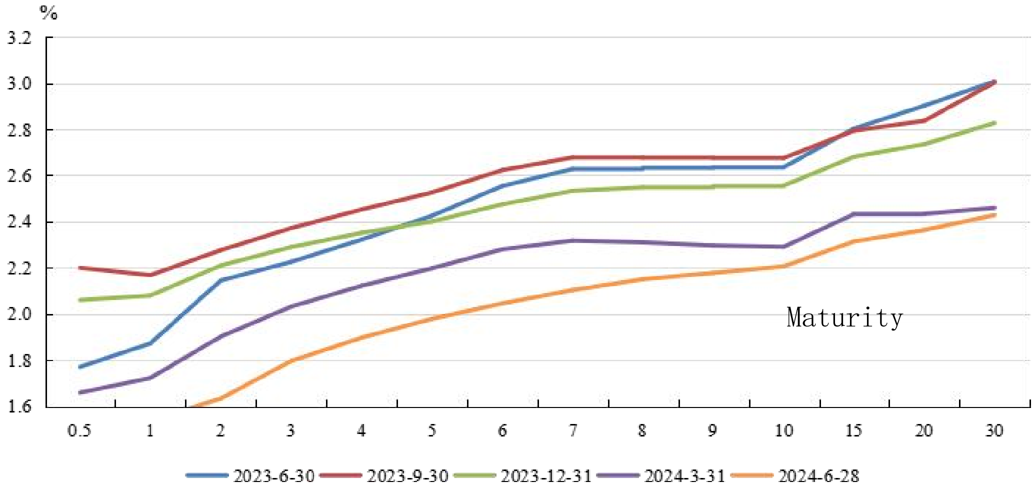
The interest rate options business developed at a steady pace. In H1 2024, a total of 216 interest rate options transactions were concluded, totaling RMB42.78 billion. Specifically, 4 were interest rate swap transactions, amounting to RMB1.8 billion and 212 were interest rate cap/floor transactions, amounting to RMB40.98 billion.

2. The bond issuance rates fell, while the issuance volume and trading volume increased year on year

Bond issuance rates fell. In June 2024, the yield on 10-year government bonds issued by the Ministry of Finance was 2.24 percent, 35 basis points lower than the rate in December 2023; the average rate of 1-year short-term financing bills issued by AAA-rated enterprises was 2.34 percent, down 75 basis points from December 2023.

The yields on government bonds marked a downward trend with slightly widened term spreads. At end-June, the yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds decreased by 18 basis points, 24 basis points, 22 basis points, 21 basis points, and 8 basis points, to 1.54 percent, 1.80 percent, 1.98 percent, 2.10 percent, and 2.21 percent from end-March, respectively; and the term spread on 1-year and 10-year government bonds was 67 basis points, which widened by 10 basis points from end-March.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Box 4 The Impacts of the Net Value-Based Management Mechanism of Asset Management Products on Public Investors

Since the beginning of 2024, various asset management products such as bank wealth management products have experienced a rapid growth in scale. Against the backdrop of a booming bond market, asset management products investing in the bond market are particularly favored by investors. Under the net value-based management mechanism, the net value volatility of asset management products has also impacted investor behavior.

The net value-based management mechanism can help to clarify the attribution of risks and returns of asset management products, and promote a healthy development of the market. According to the contracts, the risks and returns of asset management products should rightfully belong to the investors. Before the implementation of the *Guidelines on Standardizing the Asset Management Business of Financial Institutions* (hereinafter referred to as the "*Guiding Opinions on Regulating Asset Management Business"*), many asset management products had "expected returns," generally in line with the actual realized returns at maturity, which contained implicit repayment guarantees. To achieve stable expected returns, the managers of asset management products usually took aggressive investment strategies and bore greater risks, or took the “surplus”’ from products with better returns to cover the “deficit” from products with losses. However, the investors neither knew nor cared about the concrete operations of the products, and the managers actually carried all the remaining risks without accounting these risks into their own balance sheets, which accumulated systemic financial risks. In April 2018, the *Guiding Opinions on Regulating the Asset Management Business* was launched, clearly requiring financial institutions to implement net value-based management of asset management products. Under the net value-based mechanism, product managers are required to disclose net value per unit share regularly or irregularly according to the actual conditions of investment operations, making information on the fluctuations in product returns more transparent. Meanwhile, investors purchase and redeem asset management products based on their net values, and the ultimate investment returns are determined by the net values of the products on the corresponding dates of purchase and redemption. Therefore, the product managers are isolated from the investment risks of the products, while the risks are borne by the investors themselves, which leads to a more equitable sharing of returns and risks and truly reflects the essence of asset management that “sellers fulfill their responsibilities, while buyers bear their own risks.” From 2019 to 2023, the outstanding value of net value-based bank wealth management products in China grew from around RMB10 trillion to RMB26 trillion, and the proportion of net value-based products increased from 43 percent to 97 percent, which clearly indicates that the transition to net value-based management has become a dominant trend.

The net value-based management sets higher standards for both the managers and the investors of asset management products. Under the net value-based mechanism, the return rates for investors will fluctuate with the variations in the actual values of underlying assets, and there will be no implicit repayment guarantee. For the product managers, they should adjust for the changes of asset prices in the financial market, scientifically design investment strategies, and provide appropriate products and quality services to all types of investors, including timely information disclosure and necessary consultancy. For the investors, they need to gradually change their traditional views which are overly dependent on stable expected returns, to better understand the essential differences and the corresponding risks between the expected return rate and the ultimate actual return rate, and to establish more scientific and rational investment principles. However, during the initial period of the transition to net value-based management, the investors would pay more attention and be more sensitive to the net value fluctuations of the products, which could easily lead to short-term irrational transactions and “herd effects” in the market. In 2022, when the transitional period of the *Guiding Opinions on Regulating Asset Management Business* ended and the net value-based management was formally implemented, the investors were not fully adapted to the net value-based mechanism and were not psychologically prepared for the risks of potential losses from the wealth management products. At that time, the assets from bank wealth management products had been mainly invested in the bond market. As the market interest rates rose and the bond prices plunged, some products experienced drawdown in net value, even trading below net asset value, and the panic sentiment spread across the market, with a large-scale redemption. The fluctuations in the prices of underlying financial assets and the net values of asset management products moved together with each other, further amplifying the market's downward spiral. Since the redemption wave in 2022, tolerance for the net value volatility of asset management products has decreased in the market. Some asset management products have adopted strategies to smooth out net values, with more complex underlying assets, resulting in a superficial decrease in net value volatility over the past two years. However, as the current market and underlying assets remain complex and volatile, and the market's spiral effects still exist, the net value volatility of asset management products still needs to be prudently observed.

Investors should prudently assess the investment risks and returns of asset management products. Since the beginning of this year, China's long-term bond yields have decreased, and some asset management products have allocated more into long-term bonds, and the net values of these products have also increased as bond prices rose in the short run. As of end-July, the average annualized return of bank wealth management products exceeded 3 percent, while the current listed interest rates for 3-year fixed-term bank deposits were less than 2 percent, driving some investors to move their deposits into such products. Investors should comprehensively weigh the risks and returns of investment products. The first is about how to view the risks and returns. High returns correspond with high risks. Under an environment with no implicit repayment guarantee, asset management products cannot simultaneously achieve both "low risks" and "high returns" in the long run. While pursuing high returns, one has to bear high risks. The second is on how to view the returns on underlying assets and the returns on asset management products. Ultimately, the returns on asset management products depend on the underlying assets. Since the beginning of this year, the annualized returns on some asset management products, especially bond-based wealth management products, have been significantly higher than the returns on their underlying assets, which are mainly achieved through leverages that actually exposed these products to relatively high interest rate risks. When market interest rates rise in the future, the net value drawbacks on relevant products will be very large. The third is about how to view the relationship between the past returns and investors' future realized returns. The annualized return dynamically released by a wealth management product is an expected return at the current point of time, which is a future one-year return linearly extrapolated from the historical returns in a past period. When the investors redeem the product in the future, the actual realized return is uncertain. A higher current net value means investing at a higher price, which may lead to greater risks of future losses. The last is about how to compare and choose among different products. Investors should choose investment products based on their own risk-bearing capacities. For example, it seems that the returns on deposits are lower than current average returns on wealth management products, however, the deposit rate is the return rate that the depositor is guaranteed to earn. While the return rates of asset management products are ever changing, and the investment risks of these products are higher than deposits, which means that the relatively high return rates of such products are achieved through bearing the risks of price fluctuations.

In summary, as the asset management industry continues the transition to net value-based management, investors will gradually bear more net value volatility risks. While selling asset management products, it is necessary for financial institutions to provide quality services, offer relevant consultancy, thoroughly disclose risks, and guide investors to form rational views on the net value fluctuations, which will promote steady and healthy operations in the market.

Bond issuances increased year on year. The cumulative value of bonds issued in H1 grew by 11.1 percent year on year to RMB38.1 trillion, RMB3.8 trillion more than that in the same period of last year mainly due to the large increase in government bonds and interbank certificates of deposits. At end-June, outstanding bonds amounted to RMB165.0 trillion, representing an increase of 9.8 percent year on year.

The trading volume of spot bonds witnessed growth. In H1, the value of spot bonds traded on the bond market reached RMB218.7 trillion, registering an increase of 34.2 percent year on year. Specifically, the value of spot bonds traded on the interbank market was RMB198.2 trillion, representing an increase of 37.9 percent year on year. The value of spot bond transactions on the stock exchanges totaled RMB20.5 trillion, an increase of 6.4 percent year on year.

Table 11 Bond Issuances in H1 2024

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	58168	13321
Local government bonds	33832	-8201
Central bank bills	0	0
Financial bonds①	216127	31909
Of which: Financial bonds issued by the CDB and policy financial bonds	29228	-6391
Interbank certificates of deposits	163375	35268
Corporate credit bonds②	72303	832
Of which: Debt-financing instruments of	49790	4341

non-financial enterprises		
Enterprise bonds	391	-1955
Corporate bonds	17385	-672
Bonds issued by international institutions	1053	344
Total	381483	38206

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

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

3. The bill market operated in an orderly manner, and bill financing remained stable

The bill market developed in an orderly manner. In H1, commercial drafts issued by enterprises totaled RMB10.2 trillion, increasing by 55 percent year on year. At end-June, outstanding commercial drafts stood at RMB16.5 trillion, increasing by 1.3 percent year on year. The balance of bill acceptance declined. At end-June, outstanding commercial draft acceptances decreased by RMB652.1 billion compared to end-2023. Of the outstanding bankers' acceptances, 72.4 percent were issued by micro, small, and medium-sized enterprises (MSMEs).

The bill financing business was generally steady. In H1, total discounts by financial institutions amounted to RMB32.4 trillion, increasing by 27 percent year on year. At end-June, the balance of bill financing was RMB12.8 trillion, up 7.5 percent year on year. The balance accounted for 5.1 percent of the total outstanding loans, down 0.1 percentage points year on year. In H1, the interest rates for bill financing were basically stable.

4. The total turnover and the amount of raised funds in the stock market decreased

The Shanghai Stock Exchange Composite Index and the Shenzhen Stock Exchange Component Index both declined. At end-June, the Shanghai Stock Exchange Composite Index closed at 2,967 points, down 0.3 percent from end-2023. The Shenzhen Stock Exchange Component Index closed at 8,849 points, down 7.1 percent from end-2023. The total turnover and the amount of raised funds in the stock market decreased year on year. In H1, the combined turnover on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached RMB100.3 trillion, and the average daily turnover was RMB857.7 billion, down 9.2 percent year on year. In H1, cumulative funds amounting to RMB130.4 billion were raised through the Shanghai Stock Exchange and the Shenzhen Stock Exchange, a decrease of 74.5 percent year on year.

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

In H1 2024, total premium income in the insurance sector amounted to RMB3.5 trillion, up 10.6 percent year on year and an acceleration of 1.5 percentage points compared to that recorded in 2023. Claim and benefit payments totaled RMB1.2 trillion, representing a year-on-year increase of 34.4 percent. Specifically, total property insurance claims and benefit payments increased by 9.7 percent year on year and total life insurance claims and benefit payments increased by 54.6 percent year on year.

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

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-June 2024	End-June 2023	End-June 2024	End-June 2023
Total assets	337964	291998	100.0	100.0
of which: Bank deposits	29915	28967	8.9	9.9
Investments	278752	239255	82.5	81.9

Source: National Financial Regulatory Administration.

The growth of assets in the insurance sector accelerated. At end-June 2024, total assets in the insurance sector increased by 15.7 percent year on year to RMB33.8 trillion, an acceleration of 5.3 percentage points from end-2023. Specifically, bank deposits increased by 3.3 percent and investment-linked assets increased by 16.5 percent year on year.

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

In H1, the cumulative turnover of spot RMB/foreign exchange transactions registered USD4.1 trillion, a decrease of 16.4 percent year on year. The cumulative turnover of swap RMB/foreign exchange transactions totaled USD11.5 trillion, an increase of 17.9 percent year on year. Specifically, cumulative overnight RMB/USD swap transactions posted USD7.7 trillion, accounting for 66.5 percent of the total swap turnover. The turnover of RMB/foreign exchange forward transactions totaled USD96.0 billion, increasing by 97.9 percent year on year. The turnover of foreign currency pair transactions totaled USD1.2 trillion, increasing by 47.9 percent year on year. In particular, the USD/JPY pair registered the largest trading volume, accounting for 40.9 percent of the total market share.

7. Gold prices went up and the trading volume increased

At end-June, international gold prices closed at USD2,330.90 per ounce, representing an increase of 12.2 percent from end-2023. The Au99.99 on the Shanghai Gold Exchange closed at RMB549.88 per gram, increasing by 14.7 percent from end-2023. In Q2, the volume of gold traded on the Shanghai Gold Exchange was 14,000 tons, an increase of 48.6 percent year on year. The turnover reached RMB8.0 trillion, up 83.8 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional arrangements in the bond market

We are promoting onshore RMB bonds to be recognized as widely-accepted offshore qualified collaterals. In January 2024, RMB-denominated bonds under the Northbound Bond Connect were included in the list of eligible collateral for the HKMA's Renminbi Liquidity Facility. This marked the first recognition of domestic bonds as eligible collateral in the offshore market. The move was conducive to promoting the willingness of overseas institutions to hold such bonds and serving as a cornerstone for domestic bonds to become globally accepted eligible collateral. It also helped promoting RMB internationalization in a stable and prudent manner, and consolidating Hong Kong's position as an international financial center.

The over-the-counter (OTC) business in the interbank bond market was regulated towards normative development. In February, the PBOC released the *Notice on Matters Concerning OTC Business in the Interbank Bond Market*, further clarifying the requirements for the business types, trade methods, and opening of investors' accounts. The Notice facilitated the participation of individuals and other institutional investors in bond investment, expanded channels for people to increase property income, improved financing structure, and enabled a more efficient bond market. By the end of June, outstanding bonds traded over the counter of commercial banks held in custody totaled RMB79.35 billion.

2. Reforms and institutional arrangements in the securities market

Improving institutional arrangements in the capital market. In April, the State Council released the *Guideline on Strengthening Regulation, Forestalling Risks, and Promoting the High-Quality Development of the Capital Marke*t, which set forth regulations governing securities issuance, listed companies, delisting, securities and fund management institutions, trading practices, and the entry of medium and long-term capital into the market. In May, the China Securities Regulatory Commission (CSRC) promulgated the *Administration of Program Trading in the Securities Market (Trial)*, which laid down comprehensive and systematic regulations for the oversight of program trading in the securities market, aiming to foster the standardized and orderly development of such trading practices.

Refining the regulatory system for securities firms and listed companies. In April, the CSRC released *the Guideline on Strict Implementation of Delisting Regulation*, severely cracking down on various forms of delisting evasion, providing greater protection for the legitimate rights and interests of investors, and improving the quality of listed companies. In May, the CSRC successively issued the *Strengthening the Regulation of Listed Securities Companies* and the *Guidance on the Application of Regulatory Rules - Issuance No. 10*, to enhance the supervision of listed companies and strengthen the law enforcement and accountability system; it also issued the *Interim Measures for Administration of Shareholding Reduction by Shareholders of Listed Companies* and the *Rules for Administration of the Shares Held by Directors, Supervisors, and Senior Managers of Listed Companies They serve and Changes Thereto*, strictly regulating the reduction in shares by major shareholders, especially controlling shareholders and actual controllers, and severely cracking down on and strictly punishing illegal share reduction activities. In June, the CSRC publicly solicited opinions on the *Basic Rules for Administrative Discretion of the China Securities Regulatory Commission (Draft for Comments)*, further standardizing the exercise of administrative penalty discretion by the CSRC and its dispatched institutions, ensuring uniformity in law enforcement, and enhancing transparency in exercising discretion.

Improving the institutional framework for capital markets serving sci-tech innovation. In April, the CSRC issued the *Sixteen Measures for Capital Market to Serve the High-Level Development of Science and Technology Enterprises*, proposing supportive measures in all aspects such as initial public offerings (IPOs), mergers and acquisitions, bond issuance, and private equity investment; it also revised the *Guidance on the Evaluation of Scientific and Technological Attributes (Trial)*, raising the requirements for the research and development (R&D) investments, the number of invention patents, and the compound growth rate of revenues for enterprises seeking listing on the STAR market. The revision aims to guide sci-tech innovation enterprises to attach more importance to scientific research investments and the industrialization of scientific research achievements. In June, the CSRC issued the *Eight Measures for Deepening the Reform of the Science and Technology Innovation Board to Serve Sci-Tech Innovation and the Development of New Quality Productive Forces*, enhancing the inclusiveness for new industries, new business forms, and new technologies.

Promoting two-way opening up of the capital market. In April, the CSRC issued five measures to boost cooperation between the capital markets of the Chinese mainland and Hong Kong. The measures include expanding the eligible product scope of equity exchange-traded funds (ETFs) under the Stock Connect, incorporating real estate investment trusts (REITs) under the Stock Connect, supporting the inclusion of the

RMB stock trading counter under the Southbound trading of the Stock Connect, enhancing the arrangements for mutual recognition of funds, and encouraging leading enterprises of industries in the Mainland to list in Hong Kong. The move further enhances the Stock Connect, reinforces Hong Kong's status as an international financial center, and promotes coordinated development of the capital markets.

3. Institutional arrangements in the insurance market

Promoting the high-quality development of green insurance. In April, the National Financial Regulatory Administration (NFRA) issued the *Guiding Opinions on Promoting the High-Quality Development of Green Insurance*, setting forth clear requirements for broadening the coverage of green insurance across key areas, raising support for green investment from insurance funds, and enhancing management capabilities among green insurance businesses.

Regulating commercial banks' insurance agency services. In May, the NFRA released the *Notice on Matters Related to Commercial Banks' Insurance Agency Services*. The Notice removed restrictions on the number of insurance companies with which banking outlets can collaborate, clarified the levels of cooperation between the two parties, and stipulated that the commission rate agreed upon in the entrustment agency agreement shall not exceed the commission level filed with the insurance company's legal entity institution for its products.

Advancing the high-quality development of inclusive insurance. In June, the NFRA issued the *Guiding Opinions on Advancing the High-Quality Development of Inclusive Insurance*, specifying that the high-quality development of inclusive insurance must adhere to the principle of extensive coverage, public benefit, fairness and integrity, and stable operation. It proposed the establishment of a high-quality inclusive insurance system within the next five years and offered specific suggestions on inclusive insurance, such as enriching product and service offerings, improving service quality and efficiency, optimizing environment for its development, and strengthening regulatory oversight.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

The global economy remained anemic, and growth continued to diverge across regions. Inflationary pressures eased in the advanced economies, but inflation fell at a slower pace and may rise again. Therefore, monetary policy down the road remains uncertain. Rising geopolitical risks may weigh on global trade and investment. Potential risks still merit attention.

1. Economic performance and financial markets in the major economies

The path of economic growth diverged. The U.S. real GDP increased at a 2.8 percent annualized pace in the second quarter, up by 1.4 percentage points after a brief slowdown in the first quarter. This rebound pointed to resilient domestic demand. Affected by elevated borrowing costs, manufacturing activities continued to weaken. In June, the Manufacturing Purchasing Managers' Index (PMI) of the Institute for Supply Management (ISM) came in at 48.5, falling for three consecutive months after returning to the expansion territory in March. Sluggish consumption pushed the Japanese economy into contraction in the first quarter, during which the GDP shrank at a 2.9 percent annualized pace. The GDP in the euro area grew by 0.6 percent year on year and by 0.3 percent quarter on quarter in the second quarter. However, the manufacturing sector remained weak. In July, the manufacturing PMI in the euro area was 45.6, staying below 50 for 25 consecutive months. The 0.3 percent growth in the first quarter lifted the U.K. out of the technical recession it slipped into at the end of last year.

Inflationary pressures eased slightly. In the U.S., the consumer price index (CPI) was up by 3 percent year on year in June, down by 0.3 percentage points compared with May. It fell for three consecutive months. The Harmonized Index of Consumer Prices (HICP) in the euro area rose by 2.5 percent year on year, falling by 0.1 percentage points from May. In the U.K., the CPI was up by 2.0 percent year on year, the same as it was in May and slightly lower compared with 2.3 percent in April. It continued the downward trend since the beginning of this year and remained at a three-year low.

Labor market cooled down. From March to June, the U.S. unemployment rate continued to rise, and hit 4.1 percent in June, the highest reading since November 2021. The labor force participation rate edged up by 0.1 percentage points from May to 62.6 percent, but was still 0.7 percentage points lower than the pre-COVID level. Nonfarm payrolls increased by 206,000, a notable drop compared with 218,000 in May. The year-on-year growth of average hourly earnings for nonfarm payrolls dipped by 0.2 percentage points to 3.9 percent. The number of job openings decreased slightly from 8.23 million in May to 8.18 million in June.

Global financial markets stayed at high levels in general. Global stock markets have increased since the start of 2024, buoyed by expectations of a soft landing in the U.S. economy and enthusiasm about artificial intelligence. As of end-June, the S&P 500, the EURO STOXX 50, and the Nikkei 225 have jumped by 14.5 percent, 8.2 percent, and 18.3 percent, respectively. The U.S. stock market has fell from highs since the third quarter amid fears of an economic slowdown. As inflation in the U.S. fell at a slower-than-expected pace in the first half of 2024, the market has been pushing back its forecast of the first rate cut by the U.S. Federal Reserve (Fed). This pushed up the yields on government bonds. As of end-June, the yield on the 10-year U.S. Treasury closed up by 48 basis points (bps) from end-2023 at 4.36 percent, while the yield on the 10-year U.K., French, and German government bonds closed at 4.2 percent, 3.29 percent, and 2.49 percent, respectively, up by 58 bps, 73 bps, and 43 bps compared with end-2023. The U.S. dollar index fluctuated in the range of 100 to 107 in the first half of the year. It hit 106.5 in April, and closed at 105.8 at end-June, rising by 4.4 percent compared with end-2023.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q2 2023			Q3 2023			Q4 2023			Q1 2024			Q2 2024		
		Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	Real GDP Growth (annualized quarterly rate, %)	2.1			4.9			3.4			1.4			2.8		
	Unemployment Rate (%)	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.1
	CPI (year-on-year, %)	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0
	DJ Industrial Average (end of the period)	34098	32908	34408	35560	34722	33508	33053	35951	37690	38150	38996	39807	37582	38686	39119
Euro Area	Real GDP Growth (year-on-year, %)	0.5			0.1			0.2			0.5			0.6		
	Unemployment Rate (%)	6.5	6.5	6.5	6.6	6.5	6.6	6.6	6.5	6.5	6.5	6.5	6.5	6.4	6.4	
	HICP (year-on-year, %)	7.0	6.1	5.5	5.3	5.2	4.3	2.9	2.4	2.9	2.8	2.6	2.4	2.4	2.6	2.5
	EURO STOXX 50 (end of the period)	4359	4218	4399	4471	4297	4175	4061	4382	4522	4648	4878	5083	4921	4984	4894
United Kingdom	Real GDP Growth (year-on year, %)	0.2			0.2			-0.3			0.3					
	Unemployment Rate (%)	3.9	4.0	4.2	4.3	4.2	4.1	4.0	3.9	3.8	4.0	4.2	4.3	4.4	4.4	4.4
	CPI (year-on-year, %)	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4.0	4.0	3.4	3.2	2.3	2.0	2.0

	FTSE 100 (end of the period)	7871	7446	7532	7699	7439	7608	7322	7454	7733	7631	7630	7953	8144	8275	8164
Japan	Real GDP Growth (annualized quarterly rate, %)	3.7			-4.0			0.1			-2.9					
	Unemployment Rate (%)	2.6	2.6	2.5	2.6	2.6	2.6	2.5	2.5	2.5	2.4	2.6	2.6	2.6	2.6	2.5
	CPI (year-on-year, %)	3.5	3.2	3.3	3.3	3.2	3.0	3.3	2.8	2.6	2.2	2.8	2.7	2.5	2.8	2.8
	Nikkei 225 (end of the period)	28856	30888	33189	33172	32619	31858	30859	33487	33464	36287	39166	40369	38406	38488	39583

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

2. Monetary policies of the major economies

The Fed held rates steady, while central banks in some advanced economies started to cut rates. The Fed kept the target range for the federal funds rate unchanged at 5.25-5.5 percent on seven consecutive occasions. Beginning on June 1, 2024, the Federal Open Market Committee (FOMC) reduced the monthly redemption cap on Treasury securities from US$60 billion to US$25 billion, while maintaining the monthly redemption cap on agency debt and agency mortgage-backed securities (MBS) at US$35 billion. The European Central Bank (ECB) acted before the Fed by cutting interest rates on its main refinancing operations, marginal lending facility, and deposit facility all by 25 bps to 4.25 percent, 4.5 percent, and 3.75 percent, respectively, in June, the first rate cut since 2019. In the meantime, the ECB planned to reduce the pandemic emergency purchase programme (PEPP) portfolio by EUR7.5 billion per month on average over the second half of 2024 and discontinue reinvestments under the PEPP at the end of 2024. The Bank of England (BOE) kept interest rates on hold at 5.25 percent. The Bank of Japan (BOJ) kept the short-term interest rate at 0-0.1 percent in the second quarter and decided to reduce its purchases of Japanese government bonds. In July, the BOJ raised the short-term interest rate to around 0.25 percent. In the second quarter, the Bank of Canada, the Swiss National Bank, and the Riksbank all cut rates by 25 bps, while the Bank of Korea, the Reserve Bank of Australia, and the Reserve Bank of New Zealand kept rates unchanged at high levels.

Monetary policies in the emerging economies diverged. In the second quarter, central banks in Asia largely held rates steady, while major central banks in South America continued to cut rates. The central banks of Chile and Brazil lowered rates by 150 bps and 25 bps, respectively. A few African central banks even raised rates. The central banks of Angola and Nigeria hiked rates by 50 bps and 150 bps, respectively.

Box 5 Monitoring Closely the Monetary Policy Stances of Major Overseas Central Banks

Since the beginning of this year, the U.S. inflation readings have fallen significantly, and the U.S. economic outlook and labor market conditions have also changed, indicating a potential shift in the monetary policy stance of the U.S. Federal Reserve (hereinafter referred to as the Fed). Recently, the U.S. employment data missed expectations, and the Fed gradually released moderate monetary policy signals, raising market expectations for a rate cut by the Fed.

The marginal changes in price and employment data create conditions for the Fed to cut interest rates. In June, the U.S. CPI rose 3 percent year on year, the lowest level in nearly 12 months, while the price index of personal consumption expenditures (PCE), a more preferred inflation measure by the Fed, rose by 2.5 percent year on year, the lowest since March 2021. According to the data from the U.S. Department of Labor, 114,000 new non-farm payrolls were added in July, which fell short of market expectations and resulted in an unexpected increase in the unemployment rate. Falling inflationary pressure and weak employment data have heightened concerns among investors about a slowdown in economic growth momentum of the U.S., further strengthened the expectations for a rate cut by the Fed, and brought about financial market volatility. Recently, gold futures hit new highs, while U.S. Treasury yields fell sharply, leading to a global stock market correction. The Federal Open Market Committee (FOMC) meeting in July decided to keep the target range of the federal funds rate unchanged. However, the press conference after the meeting emphasized the difficult trade-off between economic growth and inflation. As a result, there is speculation among traders about the likelihood of an imminent rate cut by the Fed.

The exact timing of the Fed's rate cut will depend on future data changes. On the one hand, the resilience of the U.S. economy gives the Fed more time to wait and see. In Q2, the U.S. GDP grew at a seasonally-adjusted annual rate of 2.8 percent, up from 1.4 percent in the first quarter. Wage growth has remained at a historically high and outpaced consumer price increases. On the other hand, geopolitical risks persist. If problems such as international supply chain disruptions and rising transportation costs reoccur in the future, it is likely that rising commodity prices will trigger a rebound in U.S. inflation.

The spillover effects of the monetary policy shifts in the major advanced economies on emerging market economies merit attention. Recently, the European Central Bank and the Bank of England have cut interest rates successively, and the expectations are building that a Fed rate cut is ahead. In the future, the policy interest rates of major advanced economies may gradually fall from high levels, which may also impact emerging market economies.

For one thing, improved global liquidity conditions are conducive to alleviating the external pressure on emerging market economies on the whole. From the macro perspective, narrowing interest rate spreads between advanced economies and emerging market economies ease the pressure of capital outflows and currency depreciation in emerging market economies. From the micro perspective, as central banks of advanced economies started to cut rates, the interest expenses for foreign currency financing of emerging market economies are expected to decline gradually, and their debt-servicing costs will also fell.

For another, the international financial markets are likely to be on an adjustment path. Historically, when global liquidity is facing a turning point, volatility will be triggered to some extent in the international financial markets, and changes in investor sentiment will also have an impact on the pricing of financial assets. Recently, major international financial markets have shown varying degrees of volatility.

Since the beginning of this year, China has continued to consolidate the upward trend of its economic recovery. The monetary policy of the PBOC has focused on domestic issues while properly balancing internal and external equilibria. The RMB exchange rate has remained basically stable at an adaptive and equilibrium level, cross-border capital flows have tended to be balanced, and the domestic financial market has maintained resilience. Going forward, the PBOC will pay close attention to the monetary policy stances of major advanced economies, pursue a sound monetary policy, and respond to external challenges in an appropriate and effective manner so as to create a favorable monetary and financial environment for the high-quality development of the real economy.

3. Issues and trends that merit attention

Global economic growth remains weak. The 2024 global growth forecasts by the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD) are 3.2 percent, 2.6 percent, and 3.1 percent, respectively, still far below the historical average of 3.8 percent between 2000 and 2019. The economic growth remains sluggish in the euro area and the U.K., but is stronger in the U.S. and emerging Asia. However, the positive spillovers from the U.S. trade deficit on the global economy have faded. Emerging Asian economies are growing robustly amid global value chain reconfiguration. This may have a substitution effect on China’s exports.

Inflation fell at a slower-than-expected pace. Inflation in the major advanced economies has fallen at a marginally slower pace since the beginning of this year. First, geopolitical tensions have kept pressures on commodity prices. As of end-June, the price of Brent crude oil futures rose to $86.47 per barrel, up by 10.6 percent compared with end-2023. Commodity prices may push up inflation again. Second, wage growth remains high in the U.S. and Europe, services inflation is still sticky, and further declines in prices also face some internal constraints. A slower fall in inflation has also increased monetary policy uncertainties down the road.

Geopolitical uncertainties are heightened. The year of 2024 is a big election year, as more than 70 countries and regions will hold general elections this year, including the U.S. and the EU. Potential large shifts in domestic and foreign policies may pose certain risks to global trade and investment growth. International political and economic developments have increased risk aversion, driving massive inflows into gold and other safe-haven assets. Financial markets volatility may increase amid sharp fluctuations in the stock prices of some sectors.

Risks to the financial system merit attention. Central banks in the major economies still keep their policy rates at high levels. The outlook on the economy and inflation is unclear, and the timing and path of rate cuts are still highly uncertain. Higher rates may further expose the vulnerability of commercial real estate as well as small and medium-sized banks. In addition, the tightening cycle this time around is short, and the impact of higher rates has not been fully felt yet, as most of the financing contracts originated in the low interest rate environment have not expired. When these contracts need to be extended or market entities need to refinance, funding cost pressures resulting from higher rates and rising defaults will become more pronounced. Persistently large spread will continue to affect the RMB exchange rate and China’s cross-border capital flows.

II. Macroeconomic developments in China

In H1, faced with the complex and severe external environment, all regions and departments earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, promoting high-quality development and increasing the intensity of macro adjustments. The overall operation of the national economy was generally stable with production steadily growing, demand continuously recovering, employment and prices generally stable, residents' income continuing to increase, and new driving forces accelerating growth. New progress has been made in high-quality development. According to preliminary statistics, GDP in H1 2024 grew by 5.0 percent year on year to RMB61.6836 trillion on a comparable basis, down 0.3 percentage points quarter on quarter.

1. Consumption continued to recover, investments expanded, and trade structure continuously improved.

Residents’ income continued to increase and consumption witnessed a sound growth.

In H1, China's per capita disposable income posted RMB20733, increasing by 5.4 percent year on year in nominal terms, or 5.3 percent in real terms, down 0.8 and 0.9 percentage points quarter on quarter, respectively, due to the fading low base effect. The structure of income distribution has been continuously improved. The nominal and real growth rates of rural residents' per capita disposable income were 2.2 percentage points and 2.1 percentage points, higher than those of urban residents, respectively. In H1, total retail sales of consumer goods grew by 3.7 percent year on year. Consumption of services maintained rapid growth, with retail sales of services increasing 7.5 percent year on year, 4.3 percentage points higher than the commodity retail sales over the same period. According to the Urban Depositors' Survey conducted by the PBOC in Q2, 25.1 percent of residents were inclined to "consume more," up 1.8 percentage points from Q1.

Fixed-asset investments expanded, and investments in the high-tech sector grew rapidly. Total fixed-asset investments throughout China (those by rural households excluded) increased by 3.9 percent year on year to RMB24.5391 trillion. In terms of sectors, investments in the manufacturing sector increased by 9.5 percent, 5.6 percentage points higher than the total investment growth. Investments in infrastructure increased by 5.4 percent, 1.5 percentage points higher than the total investment growth. Investments in real estate development decreased by 10.1 percent year on year. Investments in the high-tech sector grew by 10.6 percent year on year. Specifically, investments in the high-tech manufacturing sector and the high-tech services sector grew by 10.1 percent and 11.7 percent year on year, respectively. In the high-tech manufacturing sector, investments in the aviation/spacecraft/instrument manufacturing industry and computer/office equipment manufacturing industry increased by 38.3 percent and 12.1 percent year on year, respectively. In the high-tech services sector, investments in the e-commerce service sector and the service sector of the commercialization of sci-tech achievements increased by 24.1 percent and 17.4 percent year on year, respectively.

Imports and exports increased steadily, with the trade structure continuously optimized. In H1, imports and exports of goods increased by 6.1 percent year on year to RMB21.17 trillion. Specifically, exports grew by 6.9 percent year on year and imports grew by 5.2 percent year on year, with the trade surplus in goods posting RMB3.0909 trillion. The trade structure continuously improved. The imports and exports under general trade increased by 5.2 percent and accounted for 65.0 percent of total imports and exports. Imports and exports of private enterprises increased by 11.2 percent, accounting for 55.0 percent of total imports and exports, an acceleration of 2.5 percentage points from H1 2023. Exports of mechanical and electrical products increased by 8.2 percent, accounting for 58.9 percent of total exports.

Foreign direct investment (FDI) was basically stable and the quality of investments continued to improve. In H1, actually utilized FDI decreased by 29.1 percent year on year to RMB498.9 billion. The quality of investments continued to improve. Actually-utilized FDI in the high-tech manufacturing sector grew by 2.4 percent year on year to RMB63.75 billion, accounting for 12.8 percent of total actually utilized FDI. Actually utilized FDI in the medical equipment/instrument manufacturing sector and the technical service sector grew by 87.5 percent and 43.4 percent year on year, respectively.

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

In H1, the value-added of the primary industry totaled RMB3.0660 trillion, up 3.5 percent year on year. The value-added of the secondary industry totaled RMB23.6530 trillion, up 5.8 percent year on year. The value-added of the tertiary industry totaled RMB34.9646 trillion, up 4.6 percent year on year.

Agricultural production was generally stable and animal husbandry grew steadily. In H1, the value-added of agriculture (farming) increased by 4.0 percent year on year. The output of summer grains saw another bumper harvest and totaled 149.78 million tons, increasing by 2.5 percent year on year. In H1, the output of pork, beef, lamb, and poultry grew by 0.6 percent year on year. Specifically, the output of pork fell by 1.7 percent year on year. In H1, the number of hogs in stock decreased by 3.1 percent year on year and the number of hogs for slaughter decreased by 4.6 percent year on year.

Industrial production grew rapidly with the strong support of the equipment manufacturing sector. In H1, the value-added of Industrial Enterprises Above a Designated Size (IEDS) increased by 6.0 percent year on year. In terms of sectors, the value-added of the mining sector and that of the manufacturing sector increased by 2.4 percent and 6.5 percent year on year, respectively. The value-added of electricity, heat, gas, and the water production and supply sector increased by 6.0 percent year on year. The value-added of the equipment manufacturing sector and the high-tech manufacturing sector increased by 7.8 percent and 8.7 percent, respectively, 1.8 and 2.7 percentage points higher respectively than the growth of the value-added of IEDS.

The service industry continued to recover, with the modern service industry growing soundly. In H1, the value-added of the service industry grew by 4.6 percent year on year. Specifically, the value-added of electronic information transmission/software/information technology services, the leasing/business service sector, and the transportation/storage/postal service sector grew by 11.9 percent, 9.8 percent, and 6.9 percent year on year, respectively. In June, the Index of Service Production (ISP) grew by 4.7 percent year on year, and a sub-index for business activity in the services industry was 50.2 percent. Specifically, the ISP of electronic information transmission/software/information technology services, the leasing/business service sector, and the transportation/storage/postal services sector grew by 13.5 percent, 9.7 percent and 5.4 percent year on year, respectively. From January to May, the revenue of enterprises above a designated size in the services industry registered a year-on-year increase of 8.5 percent.

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

Consumer prices remained generally stable. In H1, the Consumer Price Index (CPI) increased by 0.1 percent year on year, an acceleration of 0.1 percentage points compared with Q1. The CPI growth rates in April, May, and June were 0.3 percent, 0.3 percent, and 0.2 percent, respectively. The abundant supply and relatively weak demand led to a decrease in most food prices. However, the optimization of pork production proved significantly effective, causing pork prices to rebound quickly. Food prices decreased by 2.7 percent year on year, an improvement of 0.5 percentage points from Q1. The increase in international oil prices caused the rise in energy prices, while the prices of industrial goods, excluding energy, rose moderately. Demand for tourism and travel fluctuated downward. In H1, non-food prices increased by 0.8 percent due to multiple factors, an acceleration of 0.1 percentage points from Q1. In H1, the core CPI excluding food and energy increased by 0.7 percent year on year, remaining on par with the increase in Q1.

The decline in production prices narrowed. Seasonal demand and market expectations caused the prices of coal and steel to fluctuate within a low price range, while relatively tight supply and import factors drove up the prices in oil and nonferrous metals-related industries. Combined with the rapid diminishing of the carryover effect, the Producer Price Index (PPI) decreased by 2.1 percent year on year, an improvement of 0.6 percentage points from Q1. The decreases in April, May, and June were 2.5 percent, 1.4 percent, and 0.8 percent, respectively. The Purchasing Price Index for Industrial Products (PPIRM) decreased by 2.6 percent, narrowing by 0.8 percentage points from Q1. The Corporate Goods Price Index (CGPI), monitored by the PBOC, decreased by 1.5 percent year on year, an improvement of 0.7 percentage points from both Q1 2024 and H1 in 2023.

4.Fiscal revenue decreased slightly and fiscal expenditures grew steadily

In H1, revenue in the general public budget posted RMB11.6 trillion, decreasing by 2.8 percent year on year. Specifically, revenue at the central government level decreased by 7.2 percent year on year, and revenue at the local government level increased by 0.9 percent year on year. National tax revenue amounted to RMB9.4 trillion, decreasing 5.6 percent year on year. Specifically, the domestic value-added tax, corporate income tax, and personal income tax decreased by 5.6 percent, 5.5 percent, and 5.7 percent, respectively. Non-tax revenue posted RMB2.2 trillion, increasing by 11.7 percent year on year.

In H1, expenditures in the general public budget posted RMB13.7 trillion, increasing by 2.0 percent year on year. Specifically, expenditures in the central level general public budget and in the local level general public budget increased by 9.6 percent and 0.9 percent year on year, respectively. In terms of expenditure structure, expenditures related to urban and rural community, agriculture, forestry and water conservancy, social security, and employment increased by 8.0 percent, 6.8 percent, and 4.2 percent, respectively.

5.The employment situation remained generally stable

The surveyed urban unemployment rate continued to decrease. In H1, the surveyed urban unemployment rate averaged 5.1 percent, decreasing by 0.1 percentage points from Q1 and 0.2 percentage points from H1 in 2023. Specifically, the surveyed urban unemployment rate in 31 major cities averaged 5.0 percent, a decrease of 0.6 percentage points compared with H1 in 2023, and lower than the national average. Employment of migrant workers continued to improve. In Q2, the unemployment rate for rural registered labor force in urban areas averaged 4.6 percent, decreasing by 0.4 percentage points year on year. As of end-June, the number of migrant workers from rural areas reached 190 million, increasing by 1.6 percent year on year.

6.The balance of payments and external debt

In Q1 2024, China's current account surplus stood at USD39.2 billion, equivalent to 0.9 percent of GDP over the same period, and remained within a reasonable range. Specifically, trade in goods posted a surplus of USD121.3 billion, maintaining a relatively high level compared with the same period in history. Trade in services recorded a deficit of USD61.2 billion. Residents' cross-border tourism payments generally recovered to the levels seen in the same period of 2019. Cross border two-way investments remained orderly. In Q1, China's outward investments grew steadily, with the net increase in financial account assets reaching USD138.9 billion. Specifically, reserve assets increased by USD43.4 billion due to transactions. All types of foreign investments in China maintained a net inflow, with the net increase in financial account liabilities posting USD64.5 billion. Specifically, the net inflow into China's securities posted USD32.2 billion, marking the highest level in the past three years. The trend of foreign investors allocating RMB assets continued to improve. As of end-March, the position of China's full-caliber external debt (denominated in both domestic and foreign currencies) posted USD2.5 trillion. Specifically, the position of short-term external debt posted USD1.4 trillion, accounting for 56 percent of the total external debt position.

7. Analysis by sector

7.1 The Shipbuilding Sector

The shipbuilding sector is the foundation and provides vital supports for China's implementation of the national strategies of becoming a powerhouse in terms of the marine, manufacturing, and transportation sectors. In recent years, with the gradual recovery of the global economy and the sustained growth of shipping market demand, China's shipbuilding sector has shown robust development momentum. **First, the three major shipbuilding indicators have grown rapidly.** In the first half of 2024, China completed 25.02 million deadweight tons (DWT) of shipbuilding, received new orders for 54.22 million DWT, and had 172 million DWT of orders in hand at end-June, all achieving a double-digit growth. **Second, the order structure has been optimized, and the competitiveness of enterprises has been continuously strengthened.** New orders for 14 types of ships rank first in the world, and the global market share of in-hand orders of high-value-added ships such as bulk carriers, oil tankers, and ultra-large container ships has steadily increased. **Third, breakthroughs in high-end and sophisticated technologies have been made, with the sector continuously seeking high-end development.** In 2023, the delivery of the first domestically-manufactured large cruise ship marked China's achievement of capacity for full-spectrum assembly and construction of maritime products, showcasing continuous breakthroughs in the field of high-end equipment, and advancing from a major shipbuilding country to a shipbuilding powerhouse.

In recent years, finance has strongly supported the high-quality development of the shipbuilding sector. **On the one hand, the sector's financing needs have been well fulfilled.** The shipbuilding sector requires long-term capital on a large scale, and most projects are international, posing higher transaction risks. Financial institutions have continuously explored new models and provided various forms of financing support, such as issuing letters of credit and guarantees for shipbuilding enterprises, which has both mitigated transaction risks and met financing needs. **On the other hand, financing costs have continuously decreased.** In recent years, China's overall social financing costs have steadily declined. The reduction in capital costs has effectively enhanced the profitability of the shipbuilding sector as a capital-intensive sector. In 2023, total profits of China's shipbuilding enterprises above a designated size increased by 131.7 percent year on year.

Currently, China's shipbuilding sector still faces challenges in terms of high-end ship design, supporting industrial layout, automation and intelligentization. However, the global shipping market demand remains resilient, and the State Council's *Action Plan for Promoting the Large-scale Replacement of Old Equipment and Consumer Goods with New Ones* is also expected to promote demands for a new round of ship replacement. China's shipbuilding sector will continue to move towards high-quality development. **First,** it will continue to solidify its competitive advantages in the market. In 2024, China's shipbuilding completion volume is expected to continue the growth trend, with the three major indicators likely to maintain their global leading positions. **Second,** high-end, intelligent, and digital development will further progress, with continuous strengthening of technology research and development in the field of high-end ship equipment, which will continuously enhance the level of technological and industrial competitiveness of the shipbuilding sector. **Third,** the green transition will be accelerated, further enhancing the supply capability of the green ship product system, and continuously improving the construction of the green supply chain system.

7.2 The Transportation Sector

The transportation sector is a fundamental, leading, and strategic sector in the national economy. In recent years, China's comprehensive transportation capabilities have been significantly improved. **First, the transportation economy has grown steadily.** In the first half of the year, the value-added of transportation, warehousing, and postal services increased by 6.9 percent year on year, contributing 6.36 percent to GDP growth and driving GDP growth by 0.32 percentage points. **Second, the construction of transportation infrastructure has been continuously improved.** China's comprehensive three-dimensional transportation network exceeds 6 million kilometers, and the main framework with 6 axes, 7 corridors, and 8 channels has basically been formed. In the first half of 2024, the national transportation sector completed RMB1.7 trillion of fixed-asset investments in transportation, including RMB1.2 trillion and RMB337.3 billion for highway and railway investment, respectively. **Third, international cargo transportation capabilities have been comprehensively enhanced.** Major global ports can be reached through international shipping routes, and China's shipping connectivity has ranked first in the world for consecutive years. International air cargo transportation reaches more than 60 countries and regions, with Hong Kong and Shanghai becoming the world's first and third largest international air cargo hubs, respectively. Since the beginning of 2024, the transportation sector has continued to recover, with active performance in the cargo market and a rapid rebound in passenger transport. In the first half of 2024, the national business freight volume reached 26.99 billion tons, with a year-on-year increase of 4.1 percent, and 32.41 billion people were transported across regions, up 7.4 percent year on year.

Financial support has been focused on the goal of building a powerhouse in transportation, providing a good guarantee for the development of the transportation sector. **First, the financing environment has continued to improve.** Estimations based on the financial data of major transportation infrastructure bond-issuing enterprises indicate that, enterprises received a total of RMB929 billion of incremental financing supports in 2023, up 8.3 percent year on year, and the comprehensive financing cost stood at about 3.2 percent, down 0.16 percentage points year on year. **Second, the loan term is reasonably matched with actual demands.** Loans in the transportation sector generally have a term of more than 10 years, which better matches the construction and operation cycle of transportation infrastructure. As of end-2023, the balance of medium and long-term loans in transportation, warehousing and postal services was RMB18 trillion, up 12.1 percent year on year, and the financing structure of related enterprises continued to improve. **Third, green credit has maintained rapid growth.** As of end-March, the balance of green loans in transportation, warehousing, and postal services was RMB5.62 trillion, up 16 percent year on year.

The transportation sector is expected to usher in new development opportunities in the future, and continuously advance from getting bigger to getting stronger. **First,** large-scale equipment renewal is conducive to expanding fixed-asset investment in the transportation sector, improving infrastructure construction, accelerating industrial upgrading, and promoting the establishment of a green and low-carbon transportation system. **Second,** the continuous improvement of the modern transportation infrastructure system, the coordinated development of various types of transportation, and the positive effects achieved in transportation structural adjustments will help to reduce costs, improve quality, and increase efficiency in transportation and logistics. **Third,** technology innovation in the transportation sector has been continuously strengthened, and significant breakthroughs have been made in equipment development, the pace of smart transportation has accelerated, and new technologies, new business forms, and new models such as autonomous driving have flourished.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In the first half of the year, China's economic operations were generally stable. The structural upgrading made continuous progress; new industries, new models, and new drivers of the economy witnessed faster growth; and employment remained stable. The Chinese economy has continued to be a vital engine and stabilizer for world economic growth.

China's economic development enjoys strong resilience, tremendous potential, and vigorous support. First, innovation has been gathering momentum as a growth driver. The transformation and upgrading of traditional industries are picking up pace, while the emerging industries, such as new energy, new materials, and high-end equipment manufacturing, have seen continuous growth. As a result, the economic transition and upgrading are moving ahead steadily. Second, there is a huge potential in the recovery of demand. Internally, consumer demand in the services sector remains buoyant, and there is still ample room for investment in weak fields, weak links, as well as new areas and new arenas. According to the findings of the Urban Depositors Survey conducted by the PBOC, the share of people who prefer more consumption rose 1.8 percentage points from Q1. Externally, with some of the major economies entering a cycle of inventory replenishment, industries such as consumer electronics will likely see a continued upward trend. Third, macro policies provide strong support. The policies promoting large-scale equipment renewal and consumer goods trade-ins are having an effect. The special local government bonds and the ultra-long-term special government bonds issued earlier are turning into concrete work. Moreover, the real estate policy measures, such as the central bank lending for affordable housing, are working to reduce the inventory of commodity housing at a faster pace. As the effects of all these measures materialize further, they will add steam to the stable and sound operation of the economy.

There are still some challenges confronting stable economic operations. Globally, the complexity, severity, and uncertainties in the external environment continue to loom large, leading to more repercussions. At the same time, the driving forces for global economic growth are relatively weak; regional conflicts and turmoil are constantly arising; and global issues are becoming aggravated. Domestically, effective demand is insufficient; economic performance is showing signs of divergence; a host of potential risks are still present in key fields; and there are pains in the transition from the old growth drivers to the new. However, it should be noted that these are all problems that accompany development and transition. We should not only uphold bottom-line thinking but also strengthen confidence in achieving development. The fundamentals for the stable operation of the Chinese economy and its long-term growth have not changed. The favorable conditions outweigh the unfavorable factors. It is important to follow the general principle of seeking progress while maintaining stability and promoting stability through progress in order to advance high-quality development with solid efforts and to solve the problems in the process of development.

Prices are on track to rebound mildly. In the first half of the year, with the continued recovery of the economy and on the back of stable employment and income, the supply-demand relationship in the market was improving so that prices saw a modest uptick, as shown, in particular, by the year-on-year CPI growth of 0.1 percent for H1 and 0.3 percent for Q2. Entering the second half of the year, given that the travel boom during the summer vacation will lift consumer demand in the services sector and that Q4 is a traditional peak season for consumption, domestic supply and demand will become more balanced. Overall, the CPI is expected to maintain a mild upward trend and the decline in the PPI will become smaller. From a medium- to long-term perspective, as China is steadily advancing in its economic transformation and industrial upgrading, supply and demand will be poised to improve continually, monetary conditions will be appropriate, and people's expectations will remain stable. Therefore, there is a solid basis for prices to remain basically stable.

II. Monetary Policy for the Next Stage

Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully follow the guiding principles of the 20th National Congress of the CPC, the Third Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference, and the Central Financial Work Conference. It will adhere to the general principle of seeking progress while maintaining stability and apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will speed up efforts to build China into a financial powerhouse, promote high-quality financial development, and deepen institutional reform in the financial sector. It will also speed up efforts to improve the central banking system and promote the transition of the monetary policy framework. In pursuing a sound monetary policy, the PBOC will work to strike a balance between short-term and long-term concerns, between growth stability and risk prevention, and between internal and external equilibria. It will enhance consistency in the macroeconomic policy orientation, strengthen counter-cyclical adjustments, and cement the trend for an upward economic recovery, thereby creating a favorable monetary and financial environment for achieving this year's social and economic development goals.

Sound monetary policies will be flexible, moderate, precise, and effective. Based on a rational understanding of the relationship between the two largest financing markets, namely, the bond market and the credit market, the PBOC will guide reasonable growth and a balanced supply of credit. By doing so, it will keep liquidity adequate at a reasonable level and aggregate financing and money supply will remain in step with the projected economic growth and the CPI increase. Maintaining price stability and promoting a moderate price recovery will be important considerations for the implementation of monetary policy. The PBOC will enhance policy coordination to keep prices at a reasonable level. It will improve the market-based interest rate formation and transmission mechanism, give play to the guiding role of the central bank policy rate, and unleash the efficacy of the LPR reform and the mechanism for market-oriented deposit rate adjustments so as to help financial institutions enhance their ability to set prices independently and to promote the costs for business financing and for consumer credit to remain stable with a downward trend. Implementing policies in a targeted, appropriate, and flexible way, the PBOC will work to develop sci-tech finance, green finance, inclusive finance, old-age finance, and digital finance and it will step up efforts to provide high-quality financial services for major strategies, key areas, and weak links. It will smooth the transmission mechanism of monetary policy and diversify the monetary policy toolkit so as to enhance the efficiency of fund utilization. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate. It will take a holistic approach to policy implementation and stabilize expectations. It will firmly correct pro-cyclical activities so as to prevent market expectations from becoming unanimously one-sided and self-reinforced, and it will firmly prevent risks arising from exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. The PBOC will effectively implement measures for preventing and resolving risks associated with key fields, such as the real estate sector, local government debts, and small- and medium-sized financial institutions. It will see to it that financial risks will be prevented and resolved alongside efforts to promote high-quality economic development.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. Working to enrich the monetary policy tools and to diversify and improve the channels of base money supply, the PBOC will gradually increase the purchases and sales of government bonds in open market operations (OMOs). Keeping a close watch on the monetary policy shifts of the major central banks abroad, it will continue to strengthen monitoring and analysis of financial market movements as well as liquidity supply and demand in the banking system. By doing so, it will conduct OMOs in a flexible and effective manner, carry out ad hoc repos and reverse repos when necessary, and use a mix of monetary policy tools in order to keep liquidity in the banking system adequate at a reasonable level and to maintain the stable movement of money market rates. The PBOC will guard against funds sitting idle or circulating outside the real economy. At the same time, it will support efforts by financial institutions to further tap into effective credit demand based on market principles and the rule of law and to speed up the commercialization of the projects in reserve. It will offer guidance on the reasonable growth of loans and a balanced supply of loans to make the growth of loans more stable and sustainable. These efforts are aimed at keeping aggregate financing and money supply in step with projected economic growth and the increase in the CPI.

Second, the PBOC will give full play to the guiding role of monetary and credit policies. Carrying out the policies in a targeted, appropriate, and flexible manner, the PBOC will keep central bank lending and discount policies stable, make effective use of the inclusive lending facility for micro and small businesses, and duly implement the different types of special central bank lending facilities still in effect. Additionally, it will advance implementation of the central bank lending facilities for sci-tech innovation and technological transformation and for government-subsidized housing. The PBOC will thoroughly implement the *Work Plan on Boosting the Development of Technology Finance,* build a system of technology finance adaptable to sci-tech innovation, and beef up financial support for major national sci-tech tasks as well as for technology-based small and medium-sized enterprises. It will improve the financial support policy for private enterprises, guiding financial institutions to continue providing them with effective financial services. Moreover, the PBOC will carry out the project to enhance capacity to provide financial services for micro, small, and medium-sized enterprises (MSMEs) and the special campaigns to provide financial support for all-round rural revitalization. It will also accelerate steps to establish a long-term mechanism for the development of inclusive finance that is commercially sustainable. The PBOC will optimize the policy arrangements for the carbon emission reduction facility and continue to advance the high-quality development of the green bond market. It will improve the design of the top-level framework for old-age finance and step up financial support for the health industry, the elderly care industry, and the silver economy. Promoting the consumer goods trade-in program, it will help release consumption potential. Fully aware of the new shifts in supply and demand in the real estate market, the PBOC will live up to the new expectations of the people for high-quality housing, move ahead with implementation of the financial policy measures already introduced, and promote the stable and sound development of the real estate market. It will also guide financial institutions to step up financial support for scaling up construction and supply of government-subsidized housing to meet the rigid housing demands of average wage earners and to support the diverse needs of urban and rural residents to improve their living conditions. Meanwhile, it will increase financial support for housing rentals, work for quick establishment of a housing system that supports both housing rentals and purchases and accelerate the establishment of a new development model for the real estate sector.

Third, the PBOC will properly manage internal and external equilibria regarding the interest rate and the exchange rate. Continuing to advance the market-oriented interest rate reform, the PBOC will improve the market-oriented interest rate formation, regulation and transmission mechanisms, and gradually straighten out the relationship in the transmission of changes in short-term interest rates to long-term interest rates. It will give full play to the interest rate self-regulatory mechanism, guard against behavior of offering high interest rates to attract deposits, maintain a level playing field in the market, and put efforts into stabilizing bank liability costs. With continued reform and improvement in the loan prime rate (LPR), the PBOC will put special emphasis on raising the quality of LPR quotations so that they can better reflect loan rates in the market. Urging financial institutions to adhere to risk-based pricing and to straighten out the relationship between loan rates and market rates such as bond yields, it will stabilize and bring down overall social financing costs. At the same time, it will enhance guidance of market expectations and keep an eye on the movement of long-term bond yields in the course of the economic recovery. The PBOC will take steady steps to deepen the market-oriented exchange rate reform and to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Letting the market play a decisive role in the formation of exchange rates, it will give play to the role of the exchange rate as an automatic stabilizer for the macro economy and the balance of payments. Furthermore, it will duly conduct monitoring and analysis of cross-border capital flows. By upholding bottom-line thinking and adopting a combination of policies to stabilize expectations, it will prevent the formation and self-reinforcement of one-sided, unanimous expectations and firmly prevent the risks of exchange rate overshooting. With these efforts, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Moreover, the PBOC will strengthen management of the foreign exchange market. Guiding both enterprises and financial institutions to be risk-neutral, it will offer guidance to financial institutions on providing 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 pick up pace in advancing financial market institutional building and high-standard opening-up. It will improve the legal system for the bond market and consolidate the legal basis for corporate credit bonds. It will put in place a mechanism linking market-makers and OMO primary dealers, and it will improve management of businesses, such as bond underwriting, valuation, and market-making, in order to enhance the pricing function and robustness of the bond market. While promoting the expansion and well-regulated development of the over-the-counter bond business, it will work to improve the efficiency and convenience of services provided by financial infrastructures. Adhering to market principles and the rule of law, the PBOC will continue to adopt a zero-tolerance approach and step up efforts to crack down on illegal and irregular conduct in the bond market. It will remain firmly committed to advancing the opening-up of the bond market. Furthermore, the PBOC will take prudent and solid steps to advance the internationalization of the RMB. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary cooperation, and develop offshore RMB markets. It will further liberalize and facilitate cross-border trade and investment by carrying out pilot programs on high-standard opening-up in the field, and it will steadily move ahead with the convertibility of the RMB under the capital account.

Fifth, the PBOC will work proactively and prudently to forestall and defuse financial risks. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessment, and early warning and to enrich the macro-prudential policy tools. The PBOC will continue to improve the regulatory framework for systemically important financial institutions. It will work on revising the methodology for assessing systemically important banks (SIBs) and organize recovery plan drills. It will also consolidate additional regulation of SIBs and push for the making of rules for additional regulation of systemically important insurance companies. With macro-prudential management and micro-prudential regulation effectively joining efforts, it will cement the foundation underpinning the stability of the financial system. The PBOC will resolve prudently the risks of key regions and key institutions. It will effectively implement the measures introduced to forestall and defuse the risks associated with key fields, such as the real estate sector, local government debt, and small and medium-sized financial institutions. Additionally, it will wrap up the ongoing risk resolutions in an orderly manner. Stress tests will be conducted on the risk exposures of financial institutions' bond holdings to prevent interest rate risks. Furthermore, the PBOC will improve the mechanism that presses for early rectification with hard constraints. It will also reinforce the financial stability guarantee system to effectively prevent and control systemic risks. By strengthening prevention, control, monitoring, and pre-warning of risks from their origins, it aims to achieve early identification, early warning, early exposure, and early resolution of risks. The PBOC will improve the accountability mechanism for risk resolution that matches power with responsibility and ensures compatibility between incentives and constraints. At the same time, a scientific and reasonable mechanism will be set up for cost sharing for the resolution of financial risks. The PBOC will also expand the accumulation for the Financial Risk Resolution Fund and enhance the role of deposit insurance in resolving risks professionally.