China Monetary Policy Report

Q2 2025

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Monetary Policy Analysis Group of

the People's Bank of China

Executive Summary

Since the beginning of 2025, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as its core, stepped-up efforts have been made to implement proactive and effective macroeconomic policies. China's economy has developed steadily on a positive trajectory, and major economic indicators have performed well, demonstrating strong vitality and resilience. In H1, the Gross Domestic Product (GDP) grew 5.3 percent year on year, with a sustained uplift in social confidence as well as solid progress in high-quality development. Following the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the People's Bank of China (PBOC) earnestly implemented the decisions and arrangements of the CPC Central Committee and the State Council. The PBOC has pursued an appropriately accommodative monetary policy, strengthened counter-cyclical adjustments, and employed a mix of policy tools to support the high-quality development of the real economy, thereby creating a favorable monetary and financial environment for sustained economic recovery and development.

First, money and credit maintained reasonable growth. In May, the required reserve ratio (RRR) was lowered by 0.5 percentage points, releasing approximately RMB1 trillion in long-term liquidity into the market. The PBOC kept liquidity adequate by using a mix of tools, including the open market operations (OMOs), medium-term lending facility (MLF) operations, and central bank lending and discounts. Financial institutions were encouraged to fully satisfy the effective credit needs of the real economy and to enhance the efficiency of fund utilization so as to improve the quality and efficiency of financial services for the real economy. **Second,** overall social financing costs were guided to move downward. The PBOC continued to improve the market-oriented interest rate adjustment framework. In May, the policy interest rate was cut by 0.1 percentage points, interest rates on structural monetary policy instruments were reduced by 0.25 percentage points, and interest rates on personal housing provident fund loans were also lowered by 0.25 percentage points. In addition, the PBOC strengthened implementation of the interest rate policy to bring down both deposit and loan rates. **Third,** the credit structure was improved. In May, a central bank lending facility of RMB500 billion was established to support service consumption and elderly care, central bank lending in support of sci-tech innovation and technological upgrading was increased by RMB300 billion, and a risk-sharing instrument for sci-tech innovation bonds was introduced, all in efforts to strengthen support for key domestic demand sectors, such as consumption and sci-tech innovation. While ensuring effective use of existing structural monetary policy instruments, the PBOC continued its efforts to develop technology finance, green finance, inclusive finance, old-age finance, and digital finance. **Fourth,** the RMB exchange rate remained basically stable. Upholding the decisive role of the market in the formation of the exchange rate, the PBOC gave play to the role of the exchange rate in adjusting the macro economy and the balance of payments. It implemented a mix of policies to keep expectations stable, and the RMB exchange rate remained basically stable despite the complex circumstances. **Fifth,** risk prevention and resolution were strengthened. Risk resolution in key areas was steadily promoted, and the system of financial risk monitoring, assessments, and early warnings was continuously improved.

The counter-cyclical adjustments of monetary policy achieved significant results. Financial aggregates witnessed steady growth. At end-June, outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) recorded year-on-year growth of 8.9 percent and 8.3 percent, respectively. Outstanding RMB-denominated loans registered RMB268.6 trillion. Social financing costs were at a historic low. From January to June, interest rates on new corporate loans and on new personal housing loans dropped by about 45 basis points and 60 basis points year on year, respectively. The credit structure continued to improve. The RMB exchange rate remained basically stable at an adaptive and equilibrium level. At end-June, the central parity of the RMB against the U.S. dollar was roughly on par with that at end-2024.

As the external environment is becoming more complex and severe, with weakening global growth momentum, rising trade barriers, and diverging economic performance among the major economies, China's economic performance still faces multiple risks and challenges. At the same time, China's economy is underpinned by solid fundamentals, multiple strengths, strong resilience, and vast potentials. The underlying conditions and fundamental trend supporting its long-term growth remain unchanged. It is essential to maintain strategic resolve, focus our efforts on pursuing our goals, and drive significant breakthroughs in strategic tasks that are crucial to advancing Chinese modernization. Looking ahead, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully implement the guiding principles of the Third Plenary Session of the 20th CPC Central Committee and the Central Economic Work Conference. It will adhere to the general principle of seeking progress while maintaining stability and apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will further deepen financial reforms and a high-standard opening-up, and it will continue its efforts to promote high-quality financial development and to build China into a financial powerhouse. It will accelerate the pace of improving the central banking system and further optimize the monetary policy framework. The PBOC will work to strike a balance between short-term and long-term considerations, between growth stability and risk prevention, between internal and external equilibria, and between supporting the real economy and maintaining the soundness of the banking system. The PBOC will make macro regulation more forward-looking, targeted, and effective, maintain the continuity and stability of policies, and enhance their flexibility and predictability. It will enhance the consistency of the macro policy orientation, with a focus on stabilizing employment, businesses, markets, and expectations. The PBOC will strive to fulfill the year's targets for economic and social development and to bring the 14th Five-Year Plan to a successful conclusion.

The PBOC will implement an appropriately accommodative monetary policy. It will flexibly adjust the intensity and pace of policy implementation in light of the economic and financial situations both at home and abroad as well as the performance of the financial market in a bid to keep liquidity adequate and to keep the growth of aggregate financing and money supply in step with the expected targets for economic growth and general price levels. This will help sustain a favorable financial environment. Promoting a reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. The PBOC will further improve the interest rate adjustment framework, strengthen the guiding role of central bank policy rates, improve the market-based interest rate formation and transmission mechanism, leverage the self-regulatory mechanism for market-based interest rate pricing, and strengthen implementation and oversight of interest rate policies. The PBOC will work to reduce the banks' liability costs and to promote a decline in overall financing costs. It will also smooth the monetary policy transmission mechanism, improve the efficiency of fund utilization, prevent capital from circulating within the financial system without serving the real economy, and strike a balance between supporting the real economy through finance and maintaining the soundness of the banking system. It will give play to the role of monetary policy tools in adjusting both the aggregate and the structure, make good use of structural monetary policy instruments, and strengthen support for sci-tech innovation, consumption expansion, inclusive financing for micro and small businesses (MSBs), and foreign trade stabilization. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate to enhance the resilience of the foreign exchange market and to stabilize market expectations. It will take resolute steps to correct pro-cyclical market behavior, address any conduct that disrupts market order, and guard against the risks of exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. While exploring to expand its functions in macro-prudential regulation and financial stability, the PBOC will safeguard financial market stability and firmly defend the bottom line whereby no systemic financial risks will occur.

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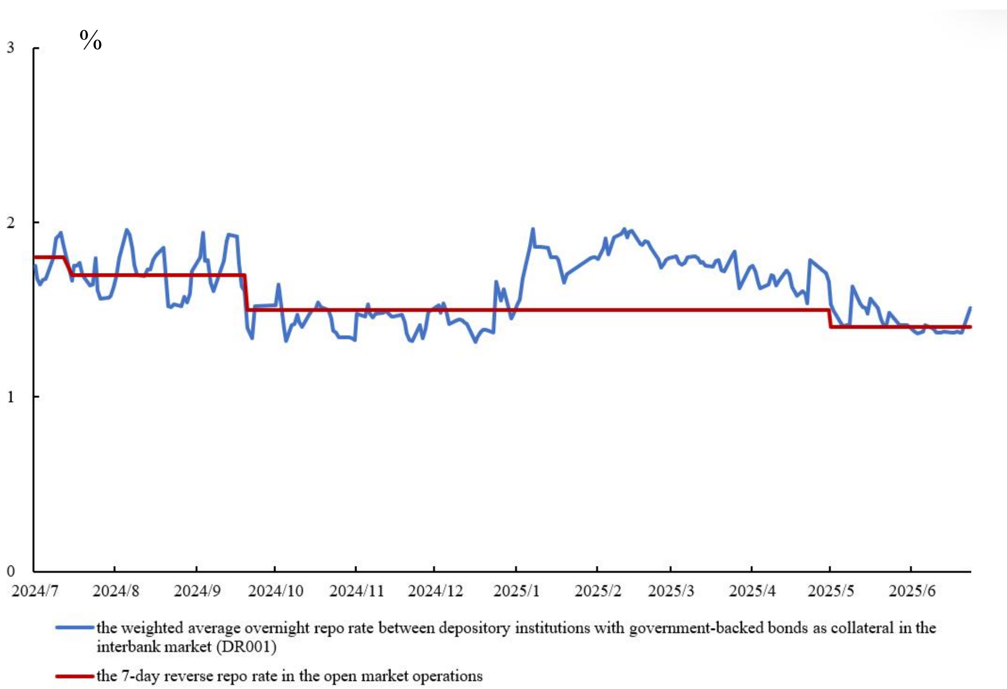
Part 1 Money and Credit Analysis

Since the beginning of 2025, the People's Bank of China (PBOC) has followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully implemented the guiding principles of the 20th CPC National Congress, the Second and Third Plenary Sessions of the 20th CPC Central Committee, and the Central Economic Work Conference. In line with the arrangements in the *Report on the Work of the Government*, the PBOC has implemented an appropriately accommodative monetary policy. This has effectively facilitated the reasonable growth of money, credit, and aggregate financing to the real economy (AFRE), driven the overall financing costs to move downward from a low level, continuously optimized the credit structure, and kept the RMB exchange rate generally stable at an adaptive and equilibrium level.

I. Liquidity in the banking system was adequate

In H1 2025, the PBOC employed a mix of monetary policy instruments to keep liquidity adequate in the banking system. The PBOC lowered the required reserve ratio (RRR) and 7-day reverse repo rate to maintain an appropriate liquidity environment. At the same time, the PBOC flexibly managed the intensity and pace of open market operations (OMOs), promptly smoothing out short-term fluctuations caused by seasonal factors such as fiscal tax payments and government bond issuances so as to maintain stable money market rates. At end-June, the excess reserve ratio for financial institutions registered 1.4 percent.

Figure 1 Movement of Money Market Interest Rates



Source: www.chinamoney.com.cn

II. The volume of deposits and loans at financial institutions remained stable, while interest rates edged downward

Credit aggregates expanded at a reasonable pace. In H1, the domestic economy was generally stable, while the external environment was becoming more complex and challenging. The domestic willingness of consumption and investment required further improvements, and credit growth continued to face pressures to maintain stable momentum. The PBOC has placed an emphasis on guiding financial institutions to stabilize the supply of credit, improve the quality and efficiency of credit growth, and strengthen financial support to the real economy. At end-June, outstanding loans issued by financial institutions in domestic and foreign currencies grew 6.8 percent year on year to RMB272.6 trillion, an increase of RMB13 trillion from the beginning of 2025. Outstanding RMB loans grew 7.1 percent year on year to RMB268.6 trillion, up RMB12.9 trillion from the beginning of 2025.

Table 1 New RMB Loans from Financial Institutions in H1 2025

Unit: RMB100 million

	Increase from the beginning of the year
Chinese-funded large-sized banks①	82921
Chinese-funded small and medium-sized banks②	51514
Small-sized rural financial institutions③	12540
Foreign-funded financial institutions	-583

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.

Deposits witnessed continued growth. At end-June, outstanding deposits in domestic and foreign currencies at all financial institutions increased 8.6 percent year on year to RMB327.5 trillion, up RMB19.1 trillion from the beginning of 2025. Outstanding RMB deposits grew 8.3 percent year on year to RMB320.2 trillion, an increase of RMB17.9 trillion from the beginning of 2025. Outstanding deposits in foreign currencies stood at USD1.0 trillion, an increase of USD165.5 billion from the beginning of 2025.

Table 2 The Structure of RMB Deposits in H1 2025

Unit: RMB100 million

	Outstanding deposits at end-June	YOY growth	Increase from the beginning of the year

	Outstanding deposits at end-June	YOY growth	Increase from the beginning of the year
RMB deposits:	3201740	8.3%	179434
Household deposits	1620255	10.8%	107747
Non-financial enterprise deposits	800191	3.6%	17704
Public entity deposits	386479	4.9%	15850
Fiscal deposits	68777	23.9%	12538
Non-banking financial institution deposits	307402	10.6%	25499
Overseas deposits	18636	-8.3%	96

Source: The People's Bank of China.

The weighted average lending rate on new loans remained at a historic low. The PBOC has continuously advanced the market-oriented reform of interest rates, improved the market-based interest rate adjustment framework, and strengthened the implementation and oversight of interest rate policies so as to promote a decline in overall financing costs. In June, the one-year loan prime rate (LPR) and the over-five-year LPR stood at 3.0 percent and 3.5 percent, respectively, both down 0.45 percentage points year on year, and the weighted average interest rate on new loans recorded approximately 3.3 percent, down about 0.4 percentage points year on year.

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

Unit: %

	June	Change from March	YOY Change
Weighted average interest rate on new loans	3.29	-0.15	-0.39
on ordinary loans	3.69	-0.06	-0.44
of which: on corporate loans	3.22	-0.04	-0.41
on bill financing	1.27	-0.28	-0.33
on mortgage loans	3.06	-0.06	-0.39

Source: The People's Bank of China.

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

Unit：%

Month Year	LPR-bps	LPR	LPR+bps

	[0, LPR-1%	[LPR-1%, LPR-0.5%)	[LPR-0.5%, LPR)	Subtotal	LPR	Subtotal	(LPR, LPR+0.5%)	[LPR+0.5%, LPR+1.5%)	[LPR+1.5%, LPR+3%)	LPR+3% and above
August 2019	3.19	1.79	10.57	15.55	0.32	84.13	20.26	26.96	16.69	20.23
January 2025	6.03	18.28	19.84	44.15	5.88	49.97	13.75	17.94	9.93	8.35
February 2025	8.53	15.22	19.87	43.61	6.09	50.30	13.36	16.38	9.83	10.74
March 2025	7.11	18.90	21.16	47.17	6.43	46.40	13.12	15.73	9.58	7.98
April 2025	8.98	20.62	18.49	48.09	5.35	46.56	11.96	14.96	9.61	10.03
May 2025	8.73	19.18	17.99	45.91	5.74	48.36	13.25	15.16	10.19	9.75
June 2025	6.73	20.41	18.91	46.06	7.28	46.67	12.94	14.98	10.12	8.64

Notes: In August 2019, the PBOC reformed and improved the LPR formation mechanism.
Source: The People's Bank of China.

Interest rates on foreign-currency deposits and foreign-currency loans generally declined. In June, the weighted average interest rate on large-value USD-denominated demand deposits registered 2.7 percent, up 0.1 percentage points year on year, while the weighted average interest rate on large-value USD-denominated deposits with maturities within three months registered 4.1 percent, down 0.9 percentage points year on year. 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 both registered 4.7 percent, a decrease of 1.2 percentage points year on year.

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

Unit: %

Month	Large-value deposits						Loans				
	Demand deposits	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year	Within 3 months	3–6 months (including 3 months)	6–12 months (including 6 months)	1 year	Over 1 year
January	2.60	3.75	4.19	4.33	4.26	4.46	4.89	4.72	4.48	4.62	5.19
February	2.66	3.89	4.22	4.43	4.17	4.42	4.88	4.71	4.44	4.35	4.70
March	2.67	3.85	4.18	3.75	4.09	4.18	5.04	4.53	4.22	4.37	5.06
April	2.78	4.02	4.23	4.26	4.08	4.19	4.69	4.62	4.02	4.35	4.68

May	2.75	4.06	4.17	4.07	4.09	4.29	4.75	4.66	4.31	4.34	4.92
June	2.70	4.06	4.14	4.19	4.24	4.00	4.72	4.67	4.33	4.07	4.93

Source: The People's Bank of China.

The financing structure has been improving. In recent years, the PBOC has been continuously optimizing and enriching structural monetary policy tools to support major strategies, key areas, and weak links, further enhancing the adaptability and precision of financial services for economic structural adjustments and high-quality development, and it has been promoting the continuous optimization of the financing structure. In terms of investment destination, at end-June, technology loans, green loans, inclusive loans, elderly care industry loans, and digital economy industry loans registered year-on-year growth of 12.5 percent, 25.5 percent, 11.5 percent, 43.0 percent, and 11.5 percent, respectively, all outpacing the overall loan growth. In terms of the maturity structure, at end-June, RMB short-term loans accounted for about 26 percent of the total, while medium and long-term (MLT) loans accounted for about 67 percent, basically unchanged from end-Q1 2025. Among them, MLT loans to enterprises and public entities grew by RMB7.2 trillion from the beginning of 2025, accounting for 64.2 percent of total corporate loans. The year-on-year growth of MLT loans to the manufacturing sector registered 8.7 percent, 1.6 percentage points higher than the growth of total loans. In terms of the entity structure, at end-June, RMB household loans of financial institutions accounted for about 31.3 percent of the total, while loans to enterprises and public entities accounted for about 67.5 percent. Compared with end-March 2025 and end-2024, the proportion of loans to enterprises and public entities increased by 0.3 and 1.1 percentage points, respectively. In terms of financing methods, at end-June, direct financing, including corporate bonds, government bonds, and domestic equity financing by non-financial enterprises, accounted for about 31.1 percent of the AFRE, with an increase of 0.5 and 0.45 percentage points, respectively, compared to end-March 2025 and end-2024.

Table 6 The Structure of RMB Loans in H1 2025

Unit: RMB100 million

	Outstanding amount at end-June	YOY growth	Increase from the beginning of the year
RMB loans to:	2685590	7.1%	129208
Households	839998	3.0%	11700
Enterprises and public entities	1812607	8.9%	115685
Non-banking financial institutions	10946	-6.0%	331
Overseas	22039	28.0%	1491

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.

Box 1 A Decade of Progress in Inclusive Financial Services for Micro and Small Businesses (MSBs) and the Path Forward

MSBs constitute a vital pillar for stabilizing employment and improving people's well-being. Therefore, supporting the development of MSBs is essential to achieving progress in advancing inclusive finance. Since 2013, when it was formally proposed at the Third Plenary Session of the 18th CPC Central Committee that we shall "develop inclusive finance", the PBOC has been firmly implementing the arrangements made by the CPC Central Committee and the State Council. Focusing on key areas of inclusive finance, namely, support for MSBs, the PBOC has gradually established and improved the systems and mechanisms for financial support, thereby providing a strong guarantee for the development of MSBs.

First, the PBOC strengthened its policy guidance and funding support to enhance the accessibility of funding for MSBs. It took the lead in issuing a series of policy documents, including the *Guiding Opinions on Further Deepening Financial Services for MSBs* and the 25 Measures on Providing Financial Support for the Private Economy. It convened multiple consultative meetings on financial support for MSBs and private enterprises, and it conducted policy effectiveness assessments on a regular basis. These efforts serve to guide financial institutions to fully embrace the principle of equal treatment and to expand funding access for MSBs and private enterprises, fostering self-motivation and a favorable environment for serving MSBs across the financial system. In the meanwhile, the PBOC put money on the table to incentivize financial institutions to increase lending to MSBs. In 2014, the PBOC introduced central bank lending for MSBs. During the decade, it cut the rate and raised the cap on the instrument on multiple occasions. To satisfy the varying funding needs of MSBs at different stages of their lifecycle, the PBOC established various monetary policy facilities supporting inclusive MSB loans, including two instruments directly supporting deferred repayments and inclusive unsecured MSB loans, one facility encouraging interest rate cuts for MSB loans, and one instrument specifically supporting inclusive MSB loans. The instruments directly linked central bank funding to the lending of commercial banks to MSBs, enabling targeted credit provision to MSBs. Since 2014, the outstanding balance of central bank lending for MSBs has surged more than thirtyfold, which has significantly bolstered the growth of MSB lending.

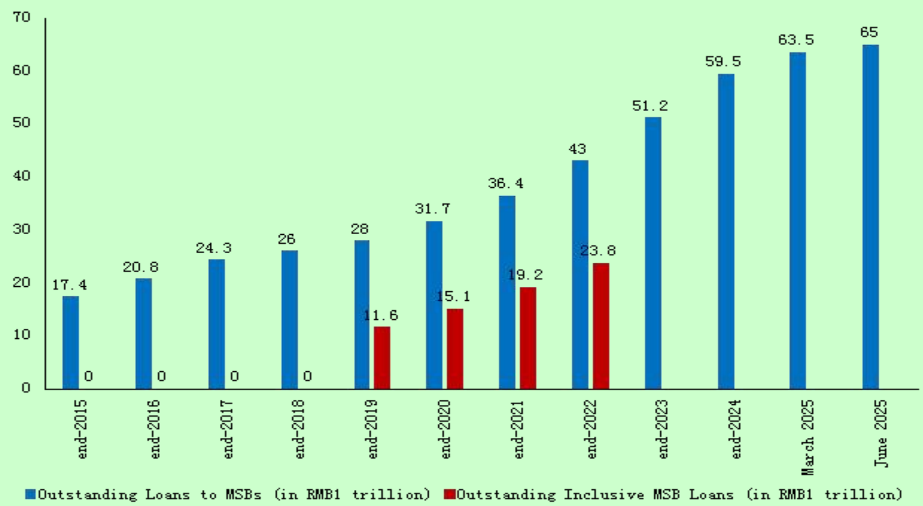
Second, the PBOC facilitated policy transmission to enhance the inclusiveness of financing to MSBs. The PBOC has been constantly pressing ahead with the interest rate liberalization reform by continuously amplifying the efficacy of the Loan Prime Rate (LPR) reform and the market-based adjustment mechanism for deposit rates, thereby driving steady reductions in overall financing costs for MSBs. In June 2025, the average interest rate on newly issued inclusive loans to MSBs registered 3.48 percent, more than 2 percentage points lower than the pre-LPR reform level. For non-interest financing costs, the PBOC launched a pilot program requiring clear disclosure of the overall financing costs of loans to enterprises, guiding banks to explicitly state the fee structure, total payment, and the actual recipient of the payment in the loan contracts, which improved the quality of financing services for MSBs.

Third, the PBOC promoted the development of financial service capabilities to facilitate the access of MSBs to financing. It encouraged commercial banks to establish dedicated inclusive finance departments and to prescribe preferential treatments for MSB loans in internal fund transfer pricing, due diligence-based liability exemption, and performance evaluations, thereby boosting the proactiveness of bank branches and credit officers in lending to MSBs. Commercial banks have been giving full play to fintech solutions, including big data and cloud computing, to enhance client acquisition efficiency and customer service accuracy. Banks are also encouraged to develop online products. Furthermore, the National Micro, Small, and Medium-sized Enterprise (MSME) Cash Flow Credit Information Interchange has been established and launched to promote cross-bank sharing of non-credit financial information, which facilitates more informed credit decisions by banks. Currently, applying for loans via mobile banking apps and other online channels has become increasingly common and convenient.

Fourth, the PBOC facilitated the broadening of financing channels to diversify funding sources for MSBs. While ensuring sufficient credit supply through commercial banks as the primary financing channel, the PBOC proactively supported MSBs to secure funding through other channels. The PBOC arranged a “fast-track” for private enterprises and MSBs to register and issue debt financing instruments, and it established a supporting instrument for bond financing of private enterprises (“the second arrow”) to provide credit enhancement for corporate bond issuances. To address the financing needs of MSBs in the supply chain, the PBOC actively promoted the unified registration and public notification system for movable properties financing, the supply chain commercial bills platform, and the receivables financing service platform. These instruments and initiatives helped enterprises leverage idle resources and assets such as accounts receivable. By the end of Q2 2025, the receivables financing service platform had facilitated financing for MSBs through a cumulative total of 509,000 transactions amounting to RMB19.5 trillion.

Overall, the financing environment for MSBs has improved significantly compared to a decade ago. After over ten years of sustained efforts, MSBs have gained notably better access to financing. In April 2025, the World Bank released its Enterprise Survey, of which China’s access-to-finance related index reached 92.5, tying with Singapore for the highest score among the first batch of economies published. More specifically, lending to MSBs has maintained rapid growth. At end-Q2 2025, outstanding loans to MSBs registered RMB65 trillion, raising their share of total corporate loans to 38.2 percent, up from 30.4 percent at the end of 2014, with an average annual growth rate of about 15 percent during the past decade. Since the end of 2018, inclusive MSB loans have achieved an average annual growth rate of over 20 percent, with the number of enterprises approved for credit more than tripling, which is clear evidence of targeted support for “genuine MSBs with real inclusive financing needs”. Although the financing environment has continued to improve, some constraints still stand in the way of further enhancing the quality and efficiency of financial services for MSBs. For example, operational pressures on some MSBs are increasing, the operational feasibility of banks’ due diligence-based liability exemption mechanism requires further enhancements, and supporting mechanisms such as financing guarantees and information sharing require further improvements.

Figure: Growth of Loans to MSBs over the Past Decade



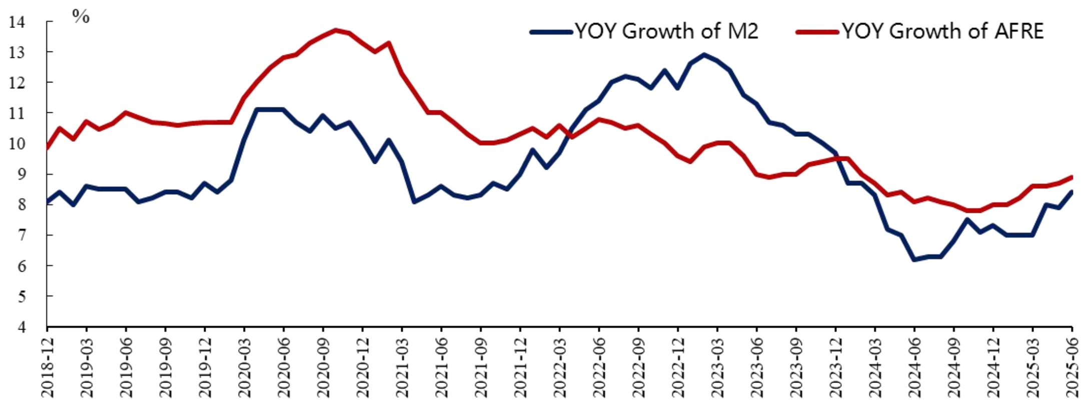
Source: The People's Bank of China.

Moving forward, the PBOC will maintain a problem-focused and objective-driven approach, ensuring effective implementation and close monitoring of existing policies. Meanwhile, it will focus on key concerns of MSBs and financial institutions, working to remove barriers and to tackle problems. It will be committed to advancing inclusive finance by constantly improving the accessibility and sustainability of inclusive financial services, thereby achieving high-quality development of inclusive finance. First, it will study and improve the credit enhancement mechanism for private small and medium-sized enterprises (SMEs). Facilities like government-backed financing guarantees, information sharing platforms, and credit derivatives should be fully leveraged to mitigate the problems of insufficient credit quality and information asymmetry that private SMEs often face, thereby enhancing their ability to secure financing. Second, it will refine implementation of the financial service capability enhancement program. The PBOC will fully leverage functions such as lead distribution and information sharing through various service platforms and the National MSME Cash Flow Credit Information Interchange to enhance financing efficiency, thereby better facilitating both business entities' financing and financial institutions' client acquisition. Third, the PBOC will further enhance the synergy among its policy tools. It will better leverage the guiding role of central bank policy tools and utilize structural monetary policy instruments, such as the central bank lending for sci-tech innovation and technological transformation, the carbon emission reduction facility, and the central bank lending for service consumption and elderly care, guiding financial institutions to step up financial support for MSBs in key sectors.

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

Monetary aggregates grew at a reasonable pace. At end-June 2025, outstanding broad money M2 registered RMB330.3 trillion, up 8.3 percent year on year; narrow money M1 stood at RMB113.9 trillion, up 4.6 percent year on year; currency in circulation M0 registered RMB13.2 trillion, up 12.0 percent year on year. In the first half of 2025, net cash injections totaled RMB363.3 billion, RMB65.9 billion less than that in 2024.

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



Source: The People's Bank of China.

The AFRE maintained reasonable growth. Preliminary statistics show that at end-June 2025, the outstanding AFRE stood at RMB430.2 trillion, representing year-on-year growth of 8.9 percent, 0.9 percentage points higher than that at end-2024. In H1 2025, the increment of the AFRE totaled RMB22.8 trillion, RMB4.7 trillion more than that during the same period of 2024. The AFRE was characterized by the following features: first, RMB loans maintained reasonable growth. In H1 2025, RMB loans issued by financial institutions to the real economy increased by RMB12.7 trillion, RMB279.6 billion more than that in H1 2024, accounting for 55.8 percent of the AFRE increment during the same period. Second, entrusted loans and undiscounted bankers' acceptances registered smaller decreases year on year, while trust loans registered a smaller increase. In H1 2025, entrusted loans decreased by RMB51.3 billion, a reduction that was RMB40.4 billion less than the decline in H1 2024; trust loans increased by RMB144.3 billion, which was RMB165.5 billion less than the increase in H1 2024; undiscounted bankers' acceptances decreased by RMB55.7 billion, RMB180.8 billion less than the decrease during the same period of the previous year. Third, domestic equity financing by non-financial enterprises registered a higher year-on-year increase, while corporate bond financing registered a smaller increase. In H1 2025, equity financing on the domestic stock market by non-financial enterprises reached RMB170.7 billion, RMB49.3 billion more than that in H1 2024, while net financing of corporate bonds amounted to RMB1.2 trillion, RMB256.2 billion less than that in H1 2024. Fourth, government bond financing saw a higher year-on-year increase. In H1 2025, net financing of government bonds totaled RMB7.7 trillion, RMB4.3 trillion more than that in 2024. Fifth, asset-backed securities of depository institutions saw a narrower year-on-year decline, while loan write-offs increased at a faster pace. In H1 2025, financing through asset-backed securities of depository institutions decreased by RMB110.1 billion, RMB298.9 billion less than that during the same period of the previous year, while loan write-offs increased by RMB684.4 billion, RMB94.9 billion more than the increase during the same period of last year.

Table 7 Aggregate Financing to the Real Economy in H1 2025

	End-June 2025		H1 2025
	Stock (RMB trillion)	YOY growth (%)	Flow (RMB100 million)
The AFRE	430.22	8.9	228329
Of which: RMB loans	265.22	7.0	127363
Foreign currency loans (RMB equivalent)	1.22	-26.6	-638
Entrusted loans	11.8	0.0	-513
Trust loans	4.45	5.5	1443
Undiscounted bankers' acceptances	2.08	-7.4	-557
Corporate bonds	33.13	3.5	11509
Government bonds	88.74	21.3	76560
Equity financing on the domestic stock market by non-financial enterprises	11.89	2.9	1707
Other financing	12.04	10.4	5556
Of which: Asset-backed securities of depository institutions	0.68	-27.9	-1101
Loan write-offs	10.62	15.5	6844

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, in the scope of its financial statistics. Accordingly, adjustments have been made to the data on "RMB loans issued by the real economy" and "loan write-offs" in the scale of social financing. ③YOY statistics in the table are on a comparable basis.

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

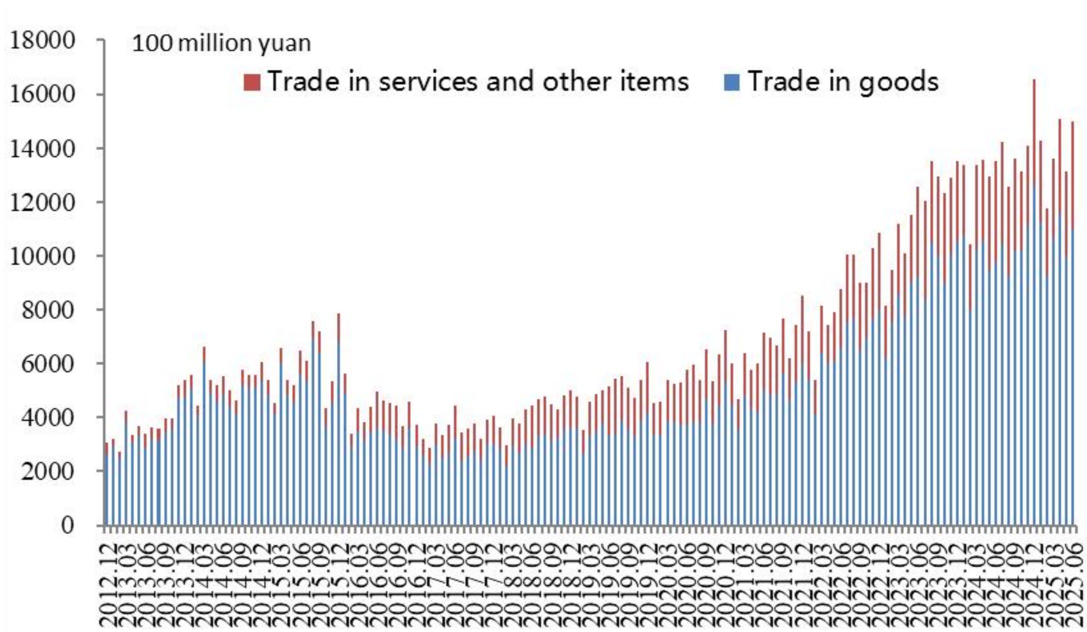
Financial Market Institutional Investors, etc.

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

Since the beginning of 2025, cross-border capital flows have remained stable and orderly, supply and demand in the foreign exchange market have been basically in equilibrium, and expectations for the RMB exchange rate have remained generally stable. The external environment has become increasingly complex and challenging, with uncertainties surrounding economic growth, inflation trends, and monetary policy adjustments in the major economies. The U.S. Dollar Index showed a general downward trend with volatility, while the RMB exchange rate moved in both directions and remained basically stable at an adaptive and equilibrium level. Driven by market supply and demand, the RMB exchange rate depreciated against a basket of currencies in H1 2025. At end-June 2025, the China Foreign Exchange Trade System (CFETS) RMB Exchange Rate Index closed at 95.35, depreciating by 6.0 percent from end-2024. According to calculations by the Bank for International Settlements (BIS), the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) of the RMB appreciated by 40.1 percent and 28.8 percent, respectively, from the beginning of the RMB exchange-rate formation regime reform in 2005 to end-June 2025. At end-June 2025, the central parity of the RMB against the U.S. dollar stood at 7.1586, appreciating by 0.4 percent from end-2024 and appreciating by a total of 15.6 percent since the beginning of the reform in 2005.

Cross-border RMB businesses have maintained growth. In H1 2025, cross-border RMB receipts and payments totaled RMB34.9 trillion, up 14.1 percent year on year. Specifically, receipts and payments registered RMB17.1 trillion and RMB17.8 trillion, respectively. Cross-border RMB receipts and payments under the current account totaled RMB8.3 trillion, a year-on-year increase of 7.6 percent, of which RMB6.4 trillion was related to trade in goods and RMB1.9 trillion was related to trade in services and other current account items. Under the capital account, cross-border RMB receipts and payments reached RMB26.6 trillion, up 16.3 percent year on year, including RMB4.1 trillion in direct investments, a year-on-year decrease of 0.4 percent.

Figure 3 Monthly RMB Settlements under the Current Account



Source: The People’s Bank of China.

Part 2 Monetary Policy Operations

In H1 2025, the PBOC resolutely implemented the decisions and arrangements of the CPC Central Committee and the State Council. It adopted an appropriately accommodative monetary policy and further intensified counter-cyclical adjustments. In May, a monetary policy package consisting of ten measures across three categories was announced and fully enacted within a month. These measures effectively boosted confidence, stabilized expectations, and created a favorable monetary and financial environment for a sustained economic recovery.

I. Conducting open market operations (OMOs) with a combination of short- and long-term tools

Lowering the policy interest rate by 0.1 percentage points. In May, the policy interest rate was lowered by 0.1 percentage points. Specifically, the 7-day reverse repo rate for OMOs was cut from 1.5 percent to 1.4 percent, driving down overall social financing costs. From the rate cut through the end of June, the weighted average overnight repo rate for depository institutions in the interbank market (DR001) averaged 1.43 percent, and the 7-day repo rate (DR007) averaged 1.58 percent, remaining stable near the central bank’s policy rate.

Continuously conducting outright reverse repo operations to address the medium- and long-term liquidity gaps. The PBOC conducted monthly outright reverse repo operations in the amount of RMB1.2 trillion, RMB700 billion, and RMB1.4 trillion in April, May, and June, respectively. Specifically, the cumulative amounts of three-month and six-month operations registered RMB2.1 trillion and RMB1.2 trillion, respectively. As of the end of June, outstanding outright reverse repos totaled RMB4.6 trillion, up

RMB1.9 trillion from the end of 2024. The timeliness of information disclosures for outright reverse repo operations was further improved. Starting in June, tender announcements were released before operations, clearly indicating the operation date and the amount so as to stabilize market expectations.

Conducting 7-day reverse repo operations in the open market as needed to maintain stability in the money market around the half-year end. As the mid-year approached, precautionary funding demand from financial institutions increased due to concentrated liquidity needs, regulatory metric evaluations, and other factors. Consequently, liquidity pressures for some institutions became apparent. The 7-day open market reverse repo operations fully met the demand of primary dealers. From June 24 to June 30, the PBOC cumulatively provided RMB2.1 trillion to the market through 7-day reverse repo operations, ensuring an adequate liquidity supply at the end of the mid-year and smoothing quarter-end operations for all types of institutions in the money market.

Adding an information section titled "Overview of Monetary Policy Instrument Operations." In early June, the PBOC added a sub-section titled "Overview of Monetary Policy Instrument Operations" under the monetary policy section of its official website. This sub-section consolidates the disclosures of the liquidity provision from the previous month, covering monetary policy tools such as reserve requirements, central bank lending, and OMOs. The information is now published at the beginning of each month in a clearer and more concise manner, thereby enhancing the transparency of central bank policies.

Continuing the issuance of RMB central bank bills in Hong Kong. In H1 2025, global trade frictions intensified, and the safe-haven attribute of U.S. dollar assets weakened. To meet the demand for RMB assets in the offshore market, the volume of central bank bill issuances in Hong Kong was relatively large in January and February. As the market stabilized, the issuance volume decreased. The outstanding balance at the end of June was approximately RMB140 billion, unchanged from the end of the previous year. The regular issuance of central bank bills in Hong Kong helps improve the RMB yield curve in Hong Kong, thereby encouraging other market entities to issue RMB bonds offshore and promoting the healthy development of the offshore RMB market.

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

Conducting MLF operations as appropriate. To ensure medium and long-term liquidity supply, in H1 2025, the PBOC provided a cumulative total of RMB2.4 trillion through 1-year MLF operations. The outstanding MLF totaled RMB5.2 trillion at end-June, up RMB61 billion from the beginning of the year. Starting in March, the MLF operations were conducted through variable-rate tenders with a fixed quantity in the form of multiple price auctions, in order to better meet the diverse funding needs of participating institutions.

Conducting SLF operations in a timely manner. SLF operations provide locally incorporated financial institutions with sufficient short-term liquidity support as needed, thus helping to stabilize the money market. In H1 2025, the PBOC conducted SLF operations in the amount of RMB26 billion. At end-June, the outstanding SLF balance registered RMB1.7 billion, while the overnight, 7-day, and 1-month SLF rates stood at 2.25 percent, 2.4 percent, and 2.75 percent, respectively, all down by 0.1 percentage points from the end of the previous quarter.

III. Lowering the RRR for financial institutions

Lowering the RRR by 0.5 percentage points. In May, the RRR for financial institutions was cut by 0.5 percentage points, injecting approximately RMB1 trillion of long-term liquidity into the market. This helped adjust the structure of market liquidity and keep liquidity adequate. Meanwhile, the reserve requirement system was further improved. The RRR for auto financing companies and financial leasing companies was reduced temporarily from 5 percent to 0, lowering the funding costs of these two types of institutions and enhancing their ability to extend credit to specific sectors, such as automobile consumption and equipment renewal investments.

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

Improving the macro-prudential governance mechanism. To implement the decisions and arrangements made at the Central Economic Work Conference on "exploring ways to enhance the central bank's function of macro-prudential management and maintaining financial stability", the PBOC established the Macro-Prudential and Financial Stability Committee in January. The Committee is responsible for strengthening the analysis and assessment of systemic financial risks, formulating macro-prudential and financial stability policies, and enhancing the analysis, research, communication, coordination, and implementation of major issues concerning macro-prudential management and financial stability.

Focusing the macro-prudential assessment (MPA) on serving the implementation and transmission of monetary policy. Since its establishment in 2016, the MPA framework has played a significant role in strengthening financial macro-regulation, optimizing credit structures, and reinforcing self-discipline in interest and exchange rates. To some extent, it has also assumed responsibility for identifying systemic financial risks. As the macro-prudential policy framework and the PBOC's rating system of financial institutions continue to improve, the MPA will increasingly align with its position of serving monetary policy implementation. It will reflect the aim of promoting greater efficiency of monetary policy transmission. By leveraging its guiding role, it will guide financial institutions to better implement monetary policy, smooth the monetary policy transmission mechanism, and increase credit support for key sectors and vulnerable areas.

Continuously consolidating additional regulation over systemically important financial institutions. The assessment of systemically important financial institutions for 2025 was launched, and the PBOC studied and promoted the steady expansion of the coverage of additional regulation to the non-banking sector. It closely monitored the marginal changes in the operations of systemically important banks (SIBs) and enhanced the monitoring and analysis of typical risks and weak links. It urged the SIBs to meet the requirements for additional capital and the leverage ratio, improving their ability to withstand and respond to risks.

Raising the macro-prudential adjustment parameter for cross-border financing. To further improve the macro-prudential management of full-caliber cross-border financing, expand funding sources for enterprises and financial institutions, and guide them to optimize their asset and liability structures, in January the PBOC and the State Administration of Foreign Exchange (SAFE) jointly decided to raise the macro-prudential adjustment parameter for cross-border financing of enterprises and financial institutions from 1.5 to 1.75.

Supporting the real estate sector to ensure its stable and sound development. The PBOC made good use of Pledged Supplementary Lending (PSL) to support policy-oriented and development-oriented financial institutions in providing credit for the construction of affordable housing, urban village redevelopment, and the development of public infrastructure for both regular and emergency use. By end-June, the outstanding PSL balance stood at around RMB1.5 trillion. In July, the scope supported by the central bank lending facility for affordable housing was expanded. The PBOC strengthened coordination with policies of relevant government departments, granted greater autonomy to local governments, and promoted the destocking of existing commercial housing.

Promoting the stable operation of the capital market. Two monetary policy tools supporting the capital market were optimized by integrating the RMB500 billion swap facility for securities companies, fund management companies, and insurance companies with the RMB300 billion of the central bank lending for supporting share buybacks and shareholding increases. The PBOC continuously implemented the central bank lending facility for supporting share buybacks and shareholding increases, guiding financial institutions in providing loans to eligible listed companies and their major shareholders, encouraging listed companies to actively use tools such as share buybacks and shareholder shareholding increases for market capitalization management, thereby further safeguarding the stable operation of the capital market. By end-June, listed companies had disclosed plans to apply for loans to support share buybacks and shareholding increases, with the maximum amount exceeding RMB320 billion. Financial institutions had signed loan contracts for share buybacks and shareholding increases amounting to around RMB310 billion, with approximately RMB90 billion already disbursed.

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

Introducing a number of incremental and optimized structural monetary policy measures. In May, the PBOC cut the central bank lending rate by 25 basis points (bps), increased the quotas of central bank lending for scientific and technological innovation and technological upgrading, and for rural development and MSBs. It also created a new central bank lending facility targeting consumer services and elderly care, and it launched a risk-sharing tool for sci-tech innovation bonds.

Giving full play to the incentive and guiding role of structural monetary policy tools. The PBOC enhanced support for inclusive finance. It raised the quota for central bank lending for rural development and MSBs by RMB300 billion. It actively used the central bank lending for rural development and MSBs and the central bank discount to guide local financial institutions to expand credit supply to agriculture-related entities, MSBs and private enterprises, thereby supporting rural revitalization and promoting coordinated regional development. The PBOC continuously advanced development of green finance. The carbon emission reduction facility remained in place, and a pilot program was launched in Shanghai to expand the scope of sectors supported by this facility, in line with the needs of transition financing. It stepped up support for technology finance. The quota for central bank lending supporting scientific and technological innovation and technological upgrading was raised by RMB300 billion to RMB800 billion, guiding financial institutions to accelerate credit disbursement in relevant sectors and facilitating the expanded and strengthened implementation of the "Two New" policies (new types of urbanization and new initiatives in rural development) with expanded coverage and greater support. A risk-sharing tool for sci-tech innovation bonds was established to support equity investment institutions in issuing long-term bonds for financing, thereby channeling more private capital into the field of scientific and technological innovation. Support for elderly care finance was enhanced. A new central bank lending facility targeting consumer services and elderly care was created with a quota of RMB500 billion to encourage financial institutions to increase financial support for key consumer service areas and the elderly care industry. As of end-June, the outstanding balance of the structural monetary policy tools supporting the five major areas in financial sector reached RMB3.8 trillion.

VI. Enhancing the quality and effectiveness of credit policies

While promoting implementation of the *Guidelines on Advancing Technology Finance, Green Finance, Inclusive Finance, Old-age Finance, and Digital Finance*, the PBOC has established a comprehensive statistical system for the five major areas, continued to refine and capitalize on various policy tools, and built communication platforms in different forms. These efforts have yielded remarkable results in the development of the five major areas.

Reinforcing support for technology finance. In collaboration with the Ministry of Science and Technology and five other authorities, the PBOC issued the *Measures on Accelerating Development of the Technology Finance System to Support High-level Sci-tech Self-reliance and Self-strengthening*. The PBOC refined the central bank lending for sci-tech innovation and technological transformation and launched the "sci-tech board" in the bond market, thereby improving the capacity, strength, and level of financial support for sci-tech innovations. At the end of June, the cumulative value of loan agreements signed for sci-tech innovation and technological transformation exceeded RMB2.2 trillion, with over RMB850 billion already disbursed. The outstanding RMB and foreign currency loans to technology-based SMEs reached RMB3.5 trillion, marking year-on-year growth of 22.9 percent, which is 16.1 percentage points higher than the growth rate of total loans in the same period. In the bond market, a total of 288 entities issued approximately RMB600 billion worth of sci-tech innovation bonds, including over RMB400 billion issued in the interbank market.

Box 2 Financial Support for Technological Innovation Continues to be Strengthened

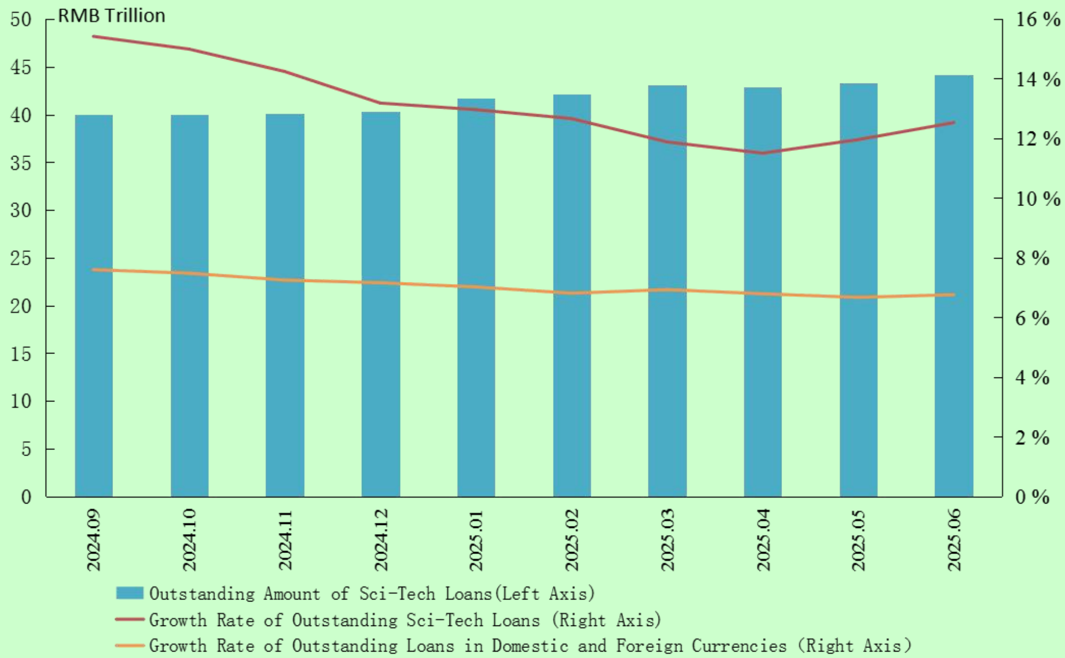
Credit support for technological innovation continues to be strengthened. China's financial system is predominantly based on indirect finance, making credit resources critical for strengthening financial support for technology. In recent years, the PBOC has encouraged banks to improve policies on resource allocation, performance evaluation, and other arrangements, so that they are capable, skilled, confident, and willing to lend. In 2024, the PBOC launched RMB500 billion of central bank lending for sci-tech innovation and technological upgrades, with an additional RMB300 billion quota added in May of this year to further incentivize banks to increase credit support for technology-based enterprises and to upgrade traditional industries. Since the beginning of 2025, sci-tech lending has maintained a trend of volume expansion, cost reductions, and coverage extensions.

First, sci-tech loans have maintained rapid growth. As of end-June, outstanding sci-tech loans amounted to RMB44.1 trillion, up 12.5 percent year on year, and 5.8 percentage points higher than overall loan growth during the same period. In particular, loans to technology-based SMEs have increased most rapidly, with a growth rate above 20 percent since the beginning of this year.

Second, interest rates on sci-tech loans have continued to decline. In June, the weighted average interest rate on newly issued sci-tech loans was 2.90 percent, 0.36 percentage points lower than the overall rate on newly issued corporate loans, and down 0.21 and 0.44 percentage points from the beginning of the year and from the same period of last year, respectively. The decline in interest rates was even more pronounced for newly issued loans to technology-based SMEs, down 0.31 and 0.67 percentage points from the beginning of the year and from the same period of last year, respectively.

Third, loan approval rates for technology-based enterprises have remained high. As of end-June, banks provided sci-tech loans to 1.085 million enterprises, with an average loan approval rate of 51.9 percent for technology-based enterprises, up 1.3 and 2.3 percentage points from the beginning of the year and from the same period of last year, respectively. Notably, the loan approval rates for national technology innovation demonstration enterprises, manufacturing champions in individual fields, and "Little Giant" enterprises in sophisticated, distinctive, and innovative areas, all exceeded 80 percent.

Figure: Trends in the Outstanding Balance and Growth Rate of Sci-Tech Loans



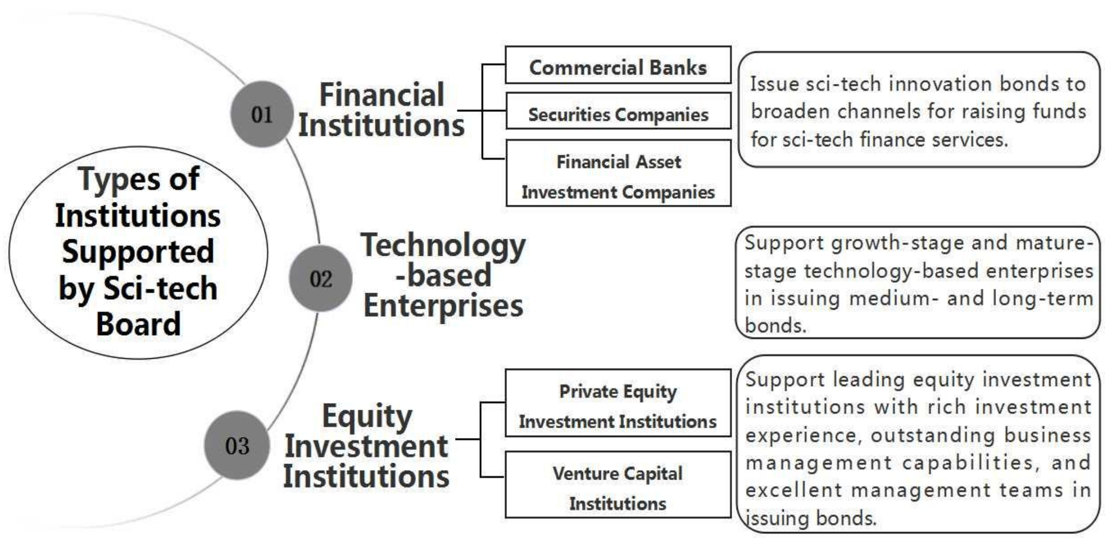
Source: The People's Bank of China.

Financing channels for sci-tech innovation have been further diversified and refined. As one of the major channels for direct financing, the bond market features large-scale financing, low costs, and long maturities, giving it unique advantages in supporting sci-tech innovation. In May 2025, the PBOC and the China Securities Regulatory Commission (CSRC) jointly launched the bond market's "sci-tech board" as an innovation to enable three categories of entities, namely, financial institutions, technology-based enterprises, and private equity investments institutions, to issue sci-tech innovation bonds. Since its inception, market participants have shown enthusiasm. As of end-June, 288 entities across the market had issued approximately RMB600 billion worth of sci-tech innovation bonds.

First, technology-based enterprises issuing bonds have become more diversified, broadly covering all sectors. As of end-June, 94 technology-based enterprises issued RMB166.37 billion worth of sci-tech innovation bonds in the interbank bond market, with a maximum maturity of 20 years. Specifically, 24 private technology-based enterprises issued RMB44.35 billion worth of bonds across 21 provinces, spanning cutting-edge and emerging sectors, such as integrated circuits, AI computing centers, and biopharmaceuticals. The supporting instrument for bond financing of private enterprises has continuously provided credit enhancements for bond issuances of private technology-based enterprises.

Second, a risk-sharing instrument for sci-tech innovation bonds was launched to support bond issuances and financing of equity investment institutions. Equity investment institutions play a pivotal role in early-stage, small-scale, long-term, and hard-tech investments, but their asset-light nature and long investment cycles drive up the costs of bond financing. The PBOC introduced a risk-sharing instrument for sci-tech innovation bonds, collaborating with local governments and market-based credit enhancement agencies to provide effective credit enhancements for equity investment institutions, especially private institutions. Furthermore, a variety of maturities are offered to facilitate equity investment institutions in issuing 5-year and 10-year bonds. This better aligns with the capital utilization characteristics and funding needs of equity investments, and significantly reduces their bond financing costs. As of end-June, 27 equity investment institutions issued RMB15.35 billion worth of bonds in the interbank market, with relatively low coupon rates ranging from 1.85 to 2.69 percent.

Third, financial institutions have responded quickly, actively engaging in the issuance, underwriting, market making, and investment of these bonds. As of end-June, 23 financial institutions issued RMB220.6 billion worth of sci-tech innovation bonds in the interbank market, with proceeds dedicated to providing loans to technology-based enterprises and investing in their equities, bonds, and funds. Meanwhile, financial institutions have actively participated in investing in sci-tech innovation bonds, providing high-quality underwriting and market-making services, thereby continuously facilitating the expansion and extension of coverage of the sci-tech innovation bond market.



Moving forward, the PBOC will deepen supply-side structural reforms in finance, implement the work plan for bolstering technology finance, and continue to refine the policy framework for financial support for sci-tech innovation. It will step up credit support for technology-based SMEs, leverage the combined efforts of central and local governments, jointly promote the development of the sci-tech innovation bond market, and cultivate a well-rounded financial ecosystem that supports sci-tech innovation, thereby providing stronger financial support for achieving high-level self-reliance in science and technology.

Giving play to the leading role of green finance. The PBOC continuously strengthened policy guidance by better leveraging the incentivizing and guiding role of structural monetary policy tools, strengthening policy efficacy, and improving the incentive and constraint mechanisms. It carried out the green finance assessment of financial institutions, aiming to enrich green financial products and propel market development, and to channel more financial resources to green development and low-carbon transition areas. In addition, the PBOC continued to promote the working mechanism for developing green finance to serve the Beautiful China Initiative. This has improved coordination and cooperation among industrial departments, the financial system, and market entities, facilitating the rapid growth of green loans. At the end of June, outstanding green loans stood at RMB42.4 trillion, increasing by 14.4 percent compared to the beginning of the year. The PBOC also inspected the use of green bond proceeds, thereby promoting high-quality development of the green bond market. The cumulative issuance of green bonds reached RMB4.6 trillion, of which green financial bonds reached RMB2.0 trillion, providing stable capital sources for financial institutions to grant green credits.

Improving the quality and efficiency of inclusive financial services. The PBOC continued to implement the *25 Measures on Providing Financial Support for the Private Economy* in a thorough and detailed manner. It launched the financial service capability enhancement program for MSMEs, conducted quarterly assessments of the effects of both the financial services for the private economy and the credit policy guidance for MSBs, thereby reinforcing the incentive and constraint mechanisms for financial institutions. Moreover, the PBOC continued to carry out five specialized campaigns for providing financial support for all-round rural revitalization, ensuring sufficient funding for food security, rural industries, rural construction, rural governance, and other key areas. Jointly with the Ministry of Agriculture and Rural Affairs, it optimized the matching system for the financing project database and promoted the integration of rural-related information and the matching of services for agricultural production and businesses, thereby enhancing financial support for agricultural and rural infrastructures. In addition, the PBOC effectively implemented the policy on guaranteed loans for startups, backing entrepreneurship and employment among key populations. It also fulfilled the requirements to raise loan caps and lower interest rates on national student loans, and it implemented interest exemptions and principal repayment deferrals on these loans in 2025. At end-June, the outstanding inclusive MSB loans had grown by 12.3 percent year-on-year to RMB35.6 trillion. Outstanding loans to the private economy and agriculture-related loans stood at RMB70.9 trillion and RMB 53.2 trillion, up 5.4 percent and 7.4 percent year on year, respectively. Outstanding guaranteed loans for startups reached RMB261.6 billion and outstanding student loans totaled RMB267.7 billion.

Steadily promoting the development of old-age finance. While comprehensively implementing the *Guidelines on Financial Support for China's Elderly Care Initiatives and High-quality Development of the Silver Economy*, the PBOC established a provincial-level working mechanism for old-age finance. Financial institutions were guided to improve their internal departmental structures, fully utilize central bank lending facilities, increase credit support for the elderly care industry, and refine financial products and services for elderly care, so as to continuously enhance the accessibility of financial services for the aging population.

Stepping up efforts to boost consumption and expand domestic demand. The PBOC guided financial institutions to leverage the central bank lending for service consumption and elderly care, and reinforced financial support for hotels and catering, culture, sports and entertainment, education, household services, tourism, and other key service consumption sectors. In June, the PBOC issued the *Guidelines on Reinforcing Financial Support for Boosting and Expanding Consumption*, guiding financial institutions to strengthen financial services on both the supply and demand sides, so as to meet the diverse financing needs of various entities, expand high-quality consumption supply, and continuously improve the quality and efficiency of financial services in the consumption sector.

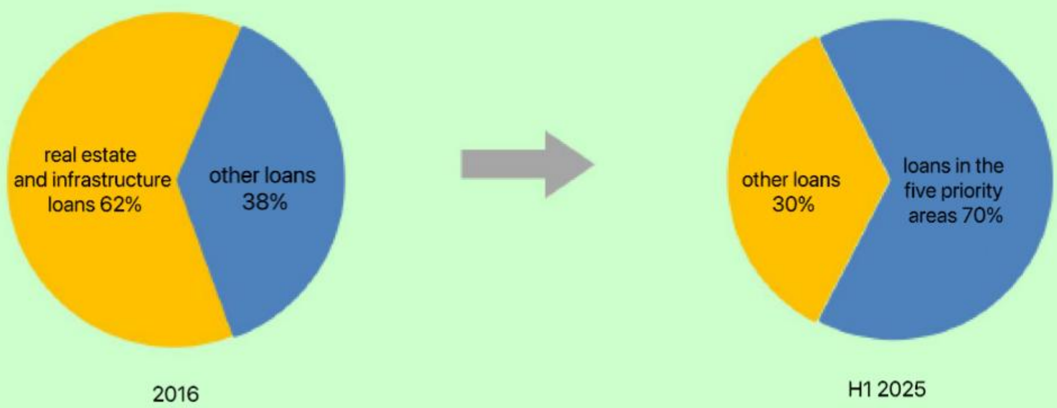
Box 3 Continuous Optimization of the Credit Structure and Enhanced Quality and Efficiency of Financial Support for the Real Economy

At present, China's outstanding aggregate financing to the real economy (AFRE) and broad money supply (M2) have exceeded RMB430 trillion and RMB330 trillion, respectively. As high-quality economic development advances steadily, it is essential to continuously optimize the credit structure while maintaining reasonable growth in financial aggregates. In recent years, the PBOC has consistently guided financial institutions to enhance the adaptability of financial services for economic restructuring, in particular by focusing on the five major areas (technology finance, green finance, inclusive finance, pension finance and digital finance), as well as by supporting the expansion of domestic demand. This effort aims to channel more credit resources toward major national strategies, key sectors, and weak links, thereby fostering a virtuous cycle between finance and the real economy. The credit structure has been continuously optimized on several fronts.

Support for the five major areas has increased, with loans related to science and technology, green development, inclusive finance, elderly care, and the digital economy accounting for approximately 70 percent of all new loans. In recent years, the PBOC has continuously explored and refined policy arrangements for the five major areas. On the one hand, it emphasizes leveraging market efficiency in resource allocations to stimulate the internal motivation of financial institutions. On the other hand, it focuses on utilizing the guiding role of structural monetary policy tools to provide policy support and incentive guidance within a reasonable and appropriate scope, enhancing the capacity and willingness of financial institutions to support key sectors. Additionally, it emphasizes the synergy of monetary and credit policies with measures such as fiscal interest subsidies and risk compensation, continuously strengthening the effectiveness of financial support for key areas. Over the past decade, the structure of credit allocations has undergone profound changes, with the main drivers shifting from heavy-asset industries to sectors aligned with high-quality development. **The structure of new loans has evolved significantly since 2016. Back then, real estate and infrastructure made up over 60 percent of new lending. Today, loans in the five**

major areas account for approximately 70 percent.

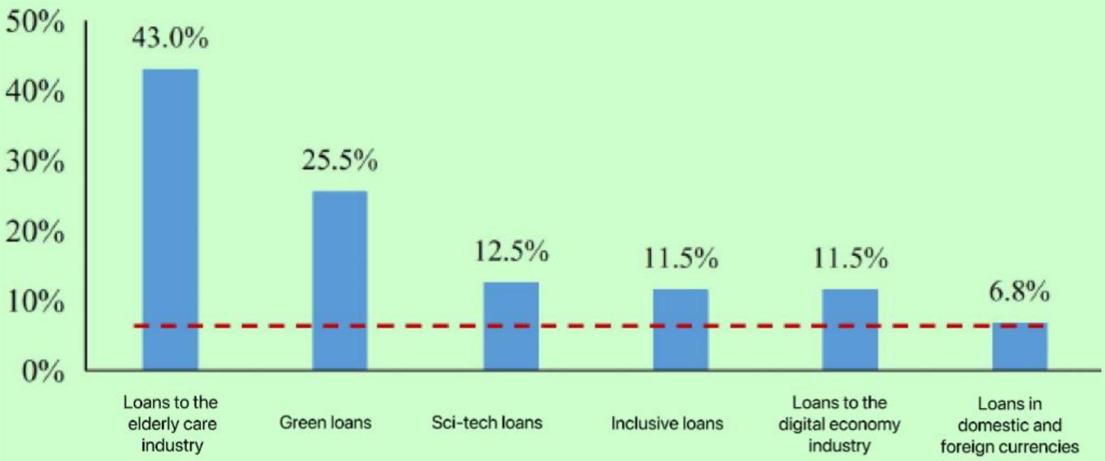
Figure: Structural Changes in Loan Increments Over the Past Decade



Source: The People's Bank of China.

In terms of the allocation of new loans, loans to new growth drivers and domestic demand sectors have maintained relatively rapid growth. Technology finance provides higher-quality credit support for technological innovation, with sci-tech loans sustaining double-digit growth for many years. In June 2025, sci-tech loans increased by 12.5 percent year on year, 5.8 percentage points higher than the growth rate of loans in domestic and foreign currencies during the same period. Green finance strongly supports sustainable economic development and the achievement of the 30/60 decarbonization goals. The outstanding balance of green loans grew from RMB9.9 trillion at the end of 2019 to RMB36.6 trillion at the end of 2024, with an average annual growth rate of over 20 percent. Inclusive finance has expanded in both volume and coverage, with inclusive MSB loans maintaining an average annual growth rate of over 20 percent since the end of 2018. By the end of 2024, the number of inclusive MSB credit recipients reached 60.99 million, approximately three times the number at the end of 2018. Loans to the elderly care and digital economy industries have also grown faster than the overall loan growth rate.

Figure: Year-on-Year Growth Rate of Loans in the Five Major Areas as of the End of June 2025



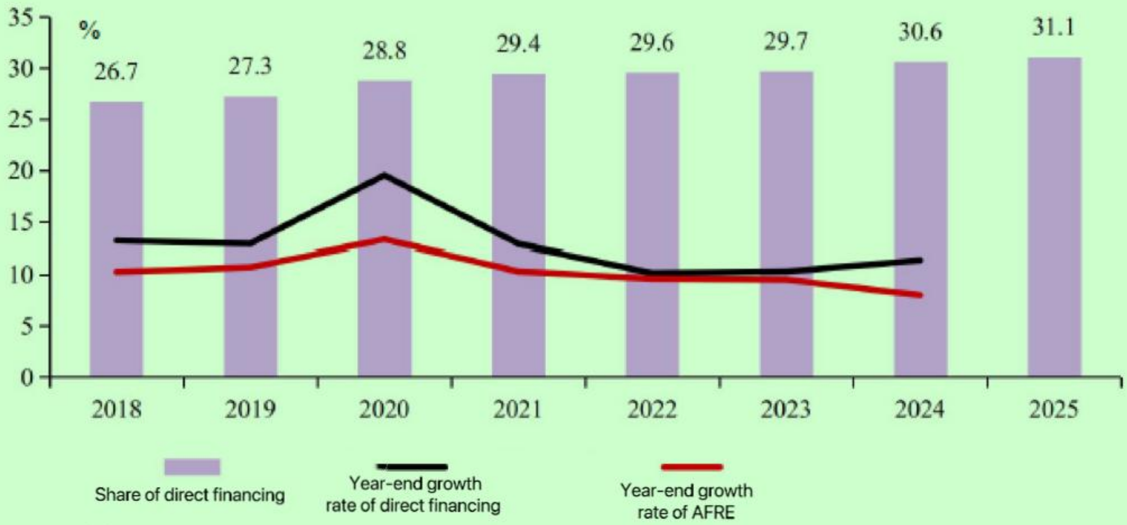
Source: The People's Bank of China.

In terms of the maturity structure of loans, the proportion of medium- and long-term loans has increased, helping to provide stable funding support for high-quality development of the real economy. Expanding production and technological research and development typically require an extended period of time, which is particularly evident in the manufacturing and high-tech industries. In recent years, the PBOC has continuously guided financial institutions to optimize the maturity structure of credit, increasing the allocation of medium- and long-term loans to support the high-quality development of the real economy. Over the past decade, the growth rate of medium- and long-term loans in the manufacturing sector has consistently outpaced the growth rate of overall loans. The proportion of medium- and long-term loans in RMB loans rose from 56 percent to 67 percent, an increase of nearly 11 percentage points.

In terms of the borrower structure of loans, the proportion of enterprise loans has increased. As China's economy has grown in size and the market-oriented reforms have deepened, the number of business entities has expanded and enterprise financing has accounted for a larger share of financing. Over the past decade, the proportion of loans to enterprises and public institutions in the annual increment of RMB loans has increased by about 16 percentage points to 79 percent.

While the credit structure is being optimized, China's overall financing structure is also improving, with the proportion of direct financing rising steadily. In recent years, the financial system has deepened reforms, improved capital market functions, accelerated the development of capital markets such as stocks and bonds, and increased the proportion of direct financing. These efforts have yielded sustained results. In terms of the composition of the outstanding AFRE, the share of direct financing, including enterprise bonds, government bonds, and domestic equity financing for non-financial enterprises, has steadily increased from 26.7 percent at the end of 2018 to 31.1 percent at the end of June 2025, a rise of 4.4 percentage points.

Figure: Share and Growth Rate of Direct Financing in the Outstanding AFRE



Source: The People's Bank of China.

In the next stage, the financial system will continue to adhere to the fundamental purpose of serving the real economy. It will focus on major national strategies, key sectors, and weak links, with an emphasis on supporting technological innovation and expanding consumption. Efforts will be made to continuously optimize the credit structure, align credit supply more closely with economic restructuring and a dynamic economic balance, further meet the effective financing needs of the real economy, and provide stronger and more efficient support for high-quality economic development.

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

Deepening the market-oriented interest rate reform to promote a reduction in overall financing costs. First, the effectiveness of the LPR reform was continuously leveraged, driving a steady decline in loan rates. In May, the PBOC lowered the 7-day open market reverse repo rate by 0.1 percentage points, guiding both the one-year and over-five-year LPRs to decline by 0.1 percentage points, respectively. The PBOC also reduced the interest rates on housing provident fund loans by 0.25 percentage points. Consequently, policy effects continued to emerge. In June, the average rates on new corporate loans and new personal housing loans stood at approximately 3.2 percent and 3.1 percent, respectively, maintaining historically low levels and representing declines of about 2.4 percentage points and 2.7 percentage points, respectively, from their highs in the second half of 2018 when the rate-cutting cycle began. Second, the linkage adjustment mechanism for deposit rates was effectively utilized to guide deposit rates downward. In May, once again major banks proactively cut deposit rates in response to changes in market interest rates, and small- and medium-sized banks followed suit with their own rate reductions. These measures helped stabilize the banks' liability costs and created favorable conditions for reducing overall financing costs.

Strengthening implementation and supervision of interest rate policies to smooth the transmission mechanism for interest rates. First, the PBOC conducted special law-enforcement inspections of interest rate policies, performing on-site inspections of the implementation of interest rate policies and the fulfillment of interest rate self-regulatory agreements by relevant financial institutions. To smooth the transmission of interest rates, the PBOC urged banks to adhere to the risk-based pricing principle, to set reasonable deposit and loan rates, and to maintain orderly market competition. Second, the interest rate self-regulatory mechanism was fully leveraged to effectively implement various initiatives, including prohibiting irregular manual interest subsidies, establishing a reporting mechanism for deposit bidding rates, and optimizing the self-regulation of interbank deposit rates for non-banking financial institutions, thereby reinforcing the effects of the deposit rate adjustments and stabilizing the banks' liability costs.

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

The PBOC has continued to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The PBOC is committed to the principle that the market plays a decisive role in the formation of the exchange rate, and the exchange rate plays the role of both an auto stabilizer and a shock absorber for macroeconomic management as well as for the balance of payments. The PBOC has taken comprehensive measures and strengthened expectation guidance to balance supply and demand in the foreign exchange market and to guard against the risks of an exchange rate overshooting. As a result, the RMB exchange rate has remained basically stable at an adaptive and equilibrium level. In H1 2025, the highest and lowest RMB central parities against the U.S. dollar were 7.1586 and 7.2133, respectively. During the 117 trading days, the RMB appreciated on 61 days and depreciated on 56 days. The biggest intraday appreciations and depreciations were 0.26 percent (183 bps) and 0.13 percent (96 bps), respectively. The RMB witnessed both appreciations and depreciations against the major international currencies, with two-way fluctuations. From the beginning of the reform of the RMB exchange rate formation regime in 2005 to end-June 2025, the RMB appreciated by a cumulative 15.6 percent, 19.2 percent, 46.6 percent, and 47.3 percent, respectively, against the U.S. dollar, the euro, the pound sterling, and the Japanese yen. Direct RMB trading is buoyant in the interbank foreign exchange market and liquidity remains stable, reducing the exchange costs for enterprises and promoting bilateral trade and investment.

Table 8 The Trading Volume of the RMB Against Other Currencies in the Interbank Foreign Exchange Spot Market in H1 2025

Unit: RMB100 million

Currency	USD	EUR	JPY	HKD	GBP	AUD
Trading volume	374529.46	3527.94	2031.31	1600.60	188.52	172.59
Currency	NZD	SGD	CHF	CAD	MOP	MYR

Trading volume	51.93	173.04	170.02	134.30	0.69	18.77
Currency	RUB	ZAR	KRW	AED	SAR	HUF
Trading volume	10.87	2.56	17.02	60.45	4.70	0.63
Currency	PLN	DKK	SEK	NOK	TRY	MXN
Trading volume	0.63	2.98	14.84	20.27	0	32.78
Currency	THB	IDR	KHR	KZT	MNT	VND
Trading volume	95.82	32.18	0	0	0	0

Source: China Foreign Exchange Trade System.

IX. Forestalling and defusing financial risks

Refining the system for monitoring and assessing financial stability risks, and improving the capacity to identify, to issue warnings, to expose, and to address risks at an early stage. Banking sector risks were monitored through tools such as the PBOC's Central Bank Rating of Financial Institutions, stress testing, major event reporting, and risk monitoring and early warnings. The PBOC applied tools like stress testing for stock pledge financing, stress testing for liquidity in public funds, and financial market stress indices to closely track abnormal fluctuations in the capital market and risks from external shocks. It enhanced risk monitoring and assessments of nonbank financial institutions, including insurance and trust companies.

Continuously advancing comprehensive reforms in the financial sector to build a stronger and more effective financial safety net. The PBOC urged policy and development financial institutions to implement business categorization and separate accounting reforms, and guided them to strengthen their functional positioning, to clarify their business boundaries, and to further optimize key support areas and product systems. It supported global systemically important banks (G-SIBs) in issuing total loss-absorbing capacity (TLAC) bonds and large state-owned banks in replenishing their core Tier 1 capital. It guaranteed the smooth operation of the deposit insurance mechanism, effectively delivering its core functions such as preventing bank runs, applying differential premium rates, conducting prompt corrective actions, and facilitating risk resolution.

X. Enhancing cross-border trade, investment, and financing services

Facilitating fund settlement for cross-border trade. Trade facilitation policies were optimized and expanded. Banks were supported to improve review approaches and to simplify procedures when handling foreign exchange receipts and payments for trade by enterprises with good credit. Settlement channels for new forms of trade were broadened, enabling more institutions to provide foreign exchange settlement services for cross-border e-commerce based on electronic transaction information.

Continuously facilitating cross-border investment and financing. In H1 2025, the pilot program for integrated RMB and foreign currency cash pooling for multinational companies was expanded to include many mega multinational companies in Tianjin, Hebei, Inner Mongolia, Heilongjiang, Anhui, Fujian, Shandong, Hubei, Hunan, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Xinjiang, and Xiamen. More than half of them completed registration and began the relevant operations, with some facilitation measures reducing business processing time by 50 percent.

Deepening international monetary and financial cooperation. Steady progress was made in advancing bilateral local currency swap arrangements and improving the local currency swap framework to support development of the offshore RMB market and to facilitate trade and investment. Focusing on neighboring countries and partner countries along the Belt and Road, the PBOC strengthened central bank cooperation for local currency settlements and improved the conditions for using offshore RMB. By the end of June, under the bilateral local currency swap agreements signed between the PBOC and overseas monetary authorities, overseas monetary authorities had drawn RMB with an outstanding balance of RMB80.7 billion, and the PBOC had drawn foreign currencies with an outstanding balance equivalent to about RMB0.4 billion, playing a positive role in promoting bilateral trade and investment.

Part 3 Financial Market Conditions

In H1 2025, the financial market functioned in an overall stable manner. Money market interest rates declined, and market trading slowed down. Corporate bond issuance rates fell, and the volume of bond issuances increased year on year. The stock market edged up, while the trading volume and equity financing expanded significantly.

I. Financial market overview

1. Money market interest rates declined, and market trading slowed down

Money market interest rates declined. In June 2025, the monthly weighted average interest rate for overnight interbank lending stood at 1.42 percent, and that for overnight pledged repos was 1.47 percent, 42 bps and 39 bps lower than that in the same period of last year, respectively. The monthly weighted average interest rate for overnight pledged repos backed by interest rate bonds among depository institutions posted 1.39 percent. At the end of June, the overnight and 7-day Shanghai Interbank Offered Rate (Shibor) stood at 1.42 percent and 1.76 percent, down 3 bps and 21 bps from end-2024, respectively.

Repo transactions slowed down. In H1 2025, cumulative bond repo transactions in the interbank market totaled RMB748.6 trillion, with a daily average of RMB6.2 trillion, down 3.5 percent year on year. Cumulative interbank lending transactions reached RMB37.6 trillion, representing a daily average of RMB313.7 billion, down 24.7 percent year on year. In terms of the maturity structure, overnight repos accounted for 83.8 percent of the total trading volume of bond repos, down 0.8 percentage points year on year, while overnight interbank lending constituted 79.4 percent of the total interbank lending, down 5.0 percentage points year on year. Cumulative exchange-traded bond repo transactions totaled RMB292.4 trillion, up 24.8 percent year on year.

Table 9 Fund Flows of Repos and Interbank Lending Among Financial Institutions in H1 2025

Unit: RMB100 million

	Repos		Interbank lending	
	H1 2025	H1 2024	H1 2025	H1 2024
Chinese-funded large banks①	-2718317	-3515461	-123688	-209002
Chinese-funded medium-sized banks②	-376662	-510217	11736	21621
Chinese-funded small-sized banks③	217527	370643	-4494	25186
Securities institutions④	1248876	1189255	114012	149058
Insurance institutions⑤	128546	139555	657	1054
Foreign-funded banks	-32113	11852	-7753	-12502
Other financial institutions and products⑥	1532143	2314374	9531	24585

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

Interbank Certificates of Deposits (CDs) and negotiable CDs developed in an orderly manner. In H1 2025, 11,000 interbank CDs were issued in the interbank market, totaling RMB17.4 trillion. The volume of secondary market trading totaled RMB108.5 trillion, and the outstanding balance stood at RMB21.1 trillion at end-June. The weighted average issuance rate of 3-month interbank CDs was 1.83 percent, 8 bps above the 3-month Shibor. Financial institutions issued 49,000 negotiable CDs during the period, with the total issuance reaching RMB16.3 trillion, up RMB5.5 trillion year on year.

The interest rate swap (IRS) market remained stable. In H1 2025, the RMB IRS market recorded 207,000 transactions (including standard swaps), with a notional principal of RMB25.3 trillion, up 60.9 percent year on year. In terms of the term structure, contracts with maturities of one year or less were most actively traded, with a notional principal of RMB19.1 trillion, accounting for 75.7 percent of the total volume. The floating leg of RMB IRS transactions is primarily benchmarked to the 7-day repo fixing rate, the Prime Negotiable Certificate of Deposit (Prime NCD) issuance rate of major nationwide banks, and the Shibor. The shares of the notional principal linked to these benchmarks were 81.4 percent, 16.7 percent, and 1.5 percent, respectively. In H1, a total of 391 IRS contracts with the LPR as the underlying asset were traded, with a combined notional principal of RMB65.64 billion.

Table 10 Interest Rate Swap Transactions (including Standard Swaps) in H1 2025

	Transactions	Notional principal (RMB100 million)
H1 2025	207146	252729
H1 2024	156495	157116

Source: China Foreign Exchange Trade System.

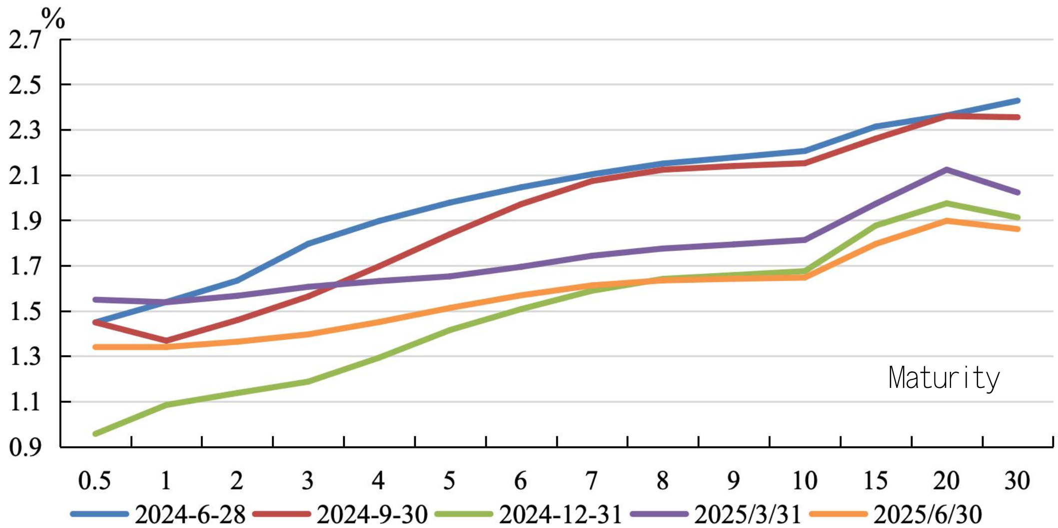
The interest rate options business developed steadily. In H1 2025, a total of 300 interest rate option transactions were concluded, totaling RMB63.23 billion, all of which were LPR-linked interest rate cap/floor options.

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

Issuance rates on government bonds remained generally stable, while those on corporate bonds declined. In June 2025, the issuance rate on 10-year government bonds issued by the Ministry of Finance stood at 1.66 percent, up 5 bps from March 2025; the average rate on 1-year short-term financing bills issued by AAA-rated enterprises was 1.82 percent, down 50 bps from March 2025.

Government bond yields marked a downward trend. At end-June 2025, yields on 1-year, 3-year, 5-year, 7-year, and 10-year government bonds declined by 20 bps, 21 bps, 14 bps, 13 bps, and 16 bps from end-March 2025, reaching 1.34 percent, 1.40 percent, 1.51 percent, 1.61 percent, and 1.65 percent, respectively. The term spread between 1-year and 10-year government bonds widened to 31 bps, up 4 bps from end-March 2025.

Figure 4 Yield Curves of Government Bonds in the Interbank Market



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

Bond issuances increased year on year, with government bond issuances growing at a faster pace. In H1 2025, the volume of cumulative bond issuances reached RMB44.5 trillion, up 16.7 percent year on year and RMB6.4 trillion more than that during the same period of last year, mainly driven by the increase in issuance of government bonds, local government bonds, and financial bonds, showing that the more proactive fiscal policies implemented early on have achieved good results. At end-June 2025, the outstanding balance of domestic bonds stood at RMB188.5 trillion, up 14.3 percent year on year.

Spot bond trading volume declined year on year. In H1 2025, the total trading volume of spot bonds reached RMB206.5 trillion, down 5.6 percent year on year. Specifically, transactions in the interbank market amounted to RMB187.8 trillion, a decrease of 5.2 percent year on year, while transactions on the stock exchanges totaled RMB18.7 trillion, a decrease of 8.7 percent year on year.

Table 11 Bond Issuances in H1 2025

Unit: RMB100 million

Type of bond	Issuance	YOY change
Government bonds	78804	20637
Local government bonds	53592	19760
Central bank bills	0	0
Financial bonds①	235549	19422
Of which: Financial bonds issued by the China Development Bank (CDB) and policy financial	34968	5741

bonds		
Interbank certificates of deposits	173853	10478
Corporate credit bonds②	76489	4185
Of which: Debt-financing instruments of non-financial enterprises	47528	-2261
Enterprise bonds	1043	652
Corporate bonds	20960	3575
Bonds issued by international institutions	894	-160
Total	445327	63844

Notes: ①Including financial bonds issued by the CDB, policy financial bonds, bonds issued by commercial banks (including ordinary bonds, subordinated bonds, and hybrid bonds), bonds issued by securities firms, and interbank certificates of deposit. ②Including debt-financing instruments issued by non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, privately offered SME bonds, and asset-backed securities on the Shanghai Stock Exchange and the Shenzhen Stock Exchange issued by non-financial enterprises.
Sources: The People's Bank of China, China Securities Regulatory Commission, and China Central Depository & Clearing Co., Ltd. Updated with the latest data from the providers.

3. The bill market operated in a stable manner, while the issuance of bills grew rapidly

The bill market operated smoothly. In H1 2025, commercial drafts issued by enterprises totaled RMB20.1 trillion. At end-June, outstanding commercial drafts stood at RMB18.6 trillion. Bankers' acceptances issued by MSMEs accounted for 72.9 percent. Total discounts by financial institutions amounted to RMB32.2 trillion. At end-June, the balance of bill financing stood at RMB14.7 trillion, up 0.4 percentage points year on year and accounting for 5.5 percent of total outstanding loans. Interest rates in the bill market showed an upward and then downward trend in H1 2025.

4. The stock market witnessed an upward trend and turnover increased significantly

Major stock indices edged up. At end-June 2025, the Shanghai Stock Exchange Composite Index closed at 3,444 points, up 2.8 percent from end-2024, while the Shenzhen Stock Exchange Component Index closed at 10,465 points, up 0.5 percent from end-2024. Both the turnover and fundraising increased. In H1 2025, total turnover on the Shanghai and Shenzhen Stock Exchanges reached RMB159.4 trillion, with an average daily turnover of RMB1.3621 trillion, up 58.8 percent year on year. A total of RMB854.4 billion was raised through equity financing.

5. Insurance premium income and assets increased year on year

In H1 2025, total premium income in the insurance sector amounted to RMB3.7 trillion, up 5.3 percent year on year, 5.9 percentage points lower than the growth rate at end-2024. Claim and benefit payments totaled RMB1.3 trillion, an increase of 9.4 percent year on year, with property insurance payouts down 1.5 percent and personal insurance payouts up 15.7 percent year on year.

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

Units: RMB100 million, %

	Balance		As a share of total assets	
	End-June 2025	End-June 2024	End-June 2025	End-June 2024
Total assets	392214	337964	100.0	100.0
of which: Bank deposits	33372	29915	8.5	8.9
Investments	328972	278752	83.9	82.5

Source: National Financial Regulatory Administration.

Insurance assets increased year on year. At end-June 2025, total assets in the insurance sector rose 16.1 percent year on year to RMB39.2 trillion, the growth rate was 3.8 percentage points lower than that at the end of last year. Specifically, bank deposits grew by 11.6 percent, while investment assets increased by 18.0 percent year on year.

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

In H1 2025, the turnover of spot RMB/foreign exchange transactions reached USD5.3 trillion, up 29.7 percent year on year. Swap RMB/foreign exchange transactions totaled USD11.6 trillion, up 0.9 percent year on year. Specifically, overnight RMB/USD swap transactions posted USD7.5 trillion, accounting for 64.5 percent of the total swap turnover. RMB/foreign exchange forward transactions totaled USD110.1 billion, up 14.7 percent year on year. Foreign-currency pair transactions totaled USD1.5 trillion, up 23.1 percent year on year, with the EUR/USD pair being the most traded, accounting for 32.6 percent of total market share.

7. Gold prices went up, and the trading volume expanded

At end-June 2025, international gold prices closed at USD3287.5 per ounce, up 5.5 percent from end-March 2025. The Au99.99 contract on the Shanghai Gold Exchange closed at RMB764.4 per gram, up 4.6 percent from end-March 2025. In Q2 2025, the volume of gold trading on the Shanghai Gold Exchange totaled 18,000 tons, an increase of 21.3 percent year on year, with total turnover reaching RMB13.5 trillion, up 69.2 percent year on year.

II. Development of institutional arrangements in the financial markets

1. Institutional Arrangements in the Bond Market

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

Announcing the establishment of a trade report repository for the interbank market. In June, the PBOC announced the establishment of a trade report repository for the interbank market to collect and systematically analyze trading data in the interbank bond, currency, derivative, gold, and commercial paper markets on a high-frequency basis, so as to serve financial institutions, macro regulation, and financial market supervision. Efforts were made to promote the acceptance of offshore Chinese government bonds as eligible collateral by the London Clearing House (LCH).

Initially launching the “sci-tech board” in the bond market. In May, the PBOC and the CSRC jointly issued the *Announcement on Matters Concerning Supporting the Issuance of Sci-tech Innovation Bonds* (Announcement No.8 [2025] of the PBOC and CSRC). The announcement introduces several measures to support three types of entities—financial institutions, technology-based enterprises, and private equity investment institutions—in issuing sci-tech innovation bonds. Additionally, a risk-sharing tool for sci-tech innovation bonds was created to support equity investment institutions with extensive investment experience, outstanding management performance, and high-caliber management teams in securing long-term, low-cost bond financing.

2. Institutional Arrangements in the Securities Market

Improving the capital market institutional system. In May, the CSRC amended the *Administrative Measures for Major Asset Restructuring of Listed Companies*. The measures aim to establish a phased payment mechanism for restructuring share consideration, to increase tolerance for changes in financial conditions, horizontal competition, and supervision of related-party transactions, to introduce a simplified restructuring review procedure, and to clarify lock-up period requirements for absorption mergers between listed companies. In June, the CSRC released the *Guidelines on Establishing a Science and Technology Innovation Growth Tier on the STAR Market to Enhance Institutional Inclusiveness and Adaptability.* By creating a dedicated market tier, the guidelines reinstate the listing of unprofitable enterprises under the fifth set of STAR Market listing criteria and roll out a package of more inclusive and adaptive institutional reforms. These efforts aim to address bottlenecks and challenges in supporting the development of high-quality technology-based enterprises and to further strengthen the protection of investors' legitimate rights and interests.

Promoting the two-way opening of the capital market. In June, the CSRC released the

Announcement on Qualified Foreign Institutional Investors(QFII) and RMB Qualified Foreign Institutional Investors (RQFII) Participating in Stock Options Trading, allowing QFIIs and RQFIIs to trade Exchange-Traded Fund (ETF) options solely for hedging purposes, to enter into effect on October 9, 2025.

3. Institutional Arrangements in the Insurance Market

Advancing the development of old-age finance. In March, the NFRA released the *Implementation Plan for High-Quality Development of Pension Finance in the Banking and Insurance Industries*, clarifying the requirements for banking and insurance institutions to better contribute to the development of a multi-layered and multi-pillar pension insurance system and to increase financial support for the silver economy. The plan also outlines systematic arrangements to enhance the capacity and efficiency of financial services in supporting the overall context of Chinese modernization and the challenges of the aging population.

Advancing the development of technology finance. In April, the NFRA, the Ministry of Science and Technology, and the National Development and Reform Commission jointly released the *Implementation Plan for High-Quality Development of Technology Finance in the Banking and Insurance Industries*, guiding financial institutions to strengthen full-life-cycle financial services for technology-based enterprises, to advance technology finance, and to contribute to high-level technological self-reliance and the construction of a technology powerhouse.

Regulating major equity investments in unlisted enterprises by insurance funds. In April, the NFRA released the *Notice on Major Equity Investments in Unlisted Enterprises by Insurance Funds*, which clarifies the definition of major equity investments, adjusts the scope of eligible investment sectors based on the five major areas in financial sector, standardizes governance constraints and internal controls, and specifies the “grandfather” rule.

Increasing insurance fund support for capital markets and the real economy. In April, the NFRA released the *Notice on Matters Concerning Adjusting the Regulatory Ratios for Equity Asset Allocations of Insurance Funds*, which raises the upper limit of the allocation ratio for equity assets, increases the concentration ratio for investments in venture capital funds, relaxes regulatory requirements for the ratio of tax-deferred pension products, and enhances insurance funds’ support for capital markets and the real economy.

Promoting the return of universal life insurance to its protection-oriented nature. In April, the NFRA released the *Notice on Strengthening the Supervision of Universal Life Insurance,* which standardizes the development of universal life insurance products, further enhances their protection levels, strengthens oversight of account management and fund utilization, further regulates order in the universal life insurance market, and promotes the sustainable and healthy development of universal life insurance.

Part 4 Macroeconomic Overview

I. Global economic and financial developments

Global economic growth is sluggish, and the pathway for a recovery remains uncertain. Since Q2, growth expectations have improved slightly. Labor market conditions in the advanced economies are still solid. It remains to be seen whether prices will fall substantially. The U.S. tariff policy has increased global recession risks. Global fiscal sustainability merits attention. Financial market volatility may increase.

1. Economic and financial market performance in the major economies

The global economy rebounded at a sluggish pace. The U.S. economy recovered with strong resilience. In Q2 2025, the U.S. GDP grew at a 3 percent annualized pace, compared with a quarter-on-quarter decline of 0.5 percent in Q1. The strong recovery was mainly driven by plunging imports and rising personal consumption expenditures. Since Q2, the manufacturing Purchasing Managers' Index (PMI) has weakened compared with Q1, but the Consumer Confidence Index and the Investor Confidence Index have strengthened marginally. The European economy has seen steady growth. In Q2, the GDP expanded by 1.4 percent in the euro area, and by 1.2 percent in the UK, both faster than that during the same period of last year. The Japanese economy continued to recover. In Q1, its GDP grew by 1.7 percent year on year. Both the Consumer Confidence Index and the Investor Confidence Index have improved marginally since Q2.

Inflation is not yet back to target. In June 2025, the U.S. Consumer Price Index (CPI) was up by 2.7 percent year on year, up 0.3 percentage points from end-Q1. The Harmonized Index of Consumer Prices (HICP) in the euro area was up by 2.0 percent, down 0.2 percentage points from end-Q1. The CPI in the UK posted 3.6 percent, up 1 percentage point from end-Q1. The Japanese CPI fell by 0.3 percentage points from end-Q1, coming in at 3.3 percent.

The labor market remained resilient. In June 2025, the U.S. unemployment rate remained at low levels, posting 4.1 percent, and the labor force participation rate was 62.3 percent, a slight decline compared with the end of Q1. Nonfarm payrolls increased by 14,000, significantly lower than the past year's average. The number of job openings was 7.44 million, close to pre-COVID levels. In June, the unemployment rate in the euro area, the UK, and Japan was 6.2 percent, 4.7 percent, and 2.5 percent, respectively, all at low levels.

Volatility in global financial markets increased. Since the beginning of 2025, uncertainty about the U.S. tariff policy has heightened volatility in global equity markets. The April tariff policy announcement by the U.S. further aggravated market panic, setting in motion a big sell-off in global equity markets, particularly in the U.S. The three major U.S. stock indices tumbled more than 10 percent in two trading sessions. But global equity markets recouped some of their losses soon after the U.S. agreed to a pause on tariffs, thus lifting market sentiment. At the end of June, the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite went up by 3.6 percent, 5.5 percent, and 5.5 percent, respectively, compared with the end of 2024. The EURO STOXX50 and the Nikkei 225 gained 8.3 percent and 1.5 percent, respectively, over the end of 2024. Volatility of government bond yields increased as market concerns grew regarding the sustainability of debt in the major economies. In particular, the 10-year U.S. Treasury yield hit a high of 4.8 percent in the wake of the tariff policy announcement. The ensuing pause on tariffs, however, removed pressures on the Treasury market. At the end of June, the 10-year U.S. Treasury yield closed at 4.24 percent, 34 bps lower than that at end-2024. The yield on 10-year UK, French, and German government bonds was down by 8 bps, up by 9 bps, and up by 19 bps, respectively, compared with end-2024. The U.S. Dollar Index dropped as market confidence in the U.S. dollar as a safe haven waned. At end-June, the U.S. Dollar Index was 96.77, down by 11 percent from end-2024.

Table 13 Macroeconomic and Financial Indicators in the Major Advanced Economies

Economy	Indicator	Q2 2024			Q3 2024			Q4 2024			Q1 2025			Q2 2025		
		Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	Real GDP Growth (annualized quarterly rate, %)	3.0			3.1			2.4			-0.5			3.0		
	Unemployment Rate (%)	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2	4.1
	CPI (year-on-year, %)	3.4	3.2	3.0	2.9	2.6	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.3	2.4	2.7
	DJ Industrial Average (end of the period)	37582	38686	39119	40843	41563	42330	41763	44911	42544	44545	43841	42002	40669	42270	44095
Euro Area	Real GDP Growth (year-on-year, %)	0.6			1.0			1.3			1.5			1.4		
	Unemployment Rate (%)	6.4	6.4	6.4	6.4	6.3	6.3	6.2	6.2	6.3	6.3	6.3	6.4	6.2	6.3	6.2
	HICP (year-on-year, %)	2.4	2.6	2.5	2.6	2.2	1.7	2.0	2.2	2.4	2.5	2.3	2.2	2.2	1.9	2.0
	EURO STOXX 50 (end of the period)	4921	4984	4894	4873	4958	5000	4828	4804	4896	5287	5464	5248	5160	5367	5303

United Kingdom	Real GDP Growth (year-on year, %)	1.1			1.2			1.5			1.3			1.2		
	Unemployment Rate (%)	4.4	4.4	4.2	4.2	4.1	4.3	4.3	4.4	4.4	4.4	4.4	4.5	4.6	4.7	4.7
	CPI (year-on-year, %)	2.3	2.0	2.0	2.2	2.2	1.7	2.3	2.6	2.5	3.0	2.8	2.6	3.5	3.4	3.6
	FTSE 100 (end of the period)	8144	8275	8164	8368	8377	8237	8110	8287	8173	8674	8810	8583	8495	8772	8761
Japan	Real GDP Growth (annualized quarterly rate, %)	3.9			0.9			2.2			-0.2			-		
	Unemployment Rate (%)	2.6	2.6	2.5	2.6	2.5	2.4	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.5	2.5
	CPI (year-on-year, %)	2.5	2.8	2.8	2.8	3.0	2.5	2.3	2.9	3.6	4.0	3.7	3.6	3.6	3.5	3.3
	Nikkei 225 (end of the period)	38406	38488	39583	39102	38648	37920	39081	38208	39895	39572	37156	35618	36045	37965	40487

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

2. Monetary policies of the major economies

The U.S. Federal Reserve (the Fed) paused its rate cuts, while most major advanced economies continued to cut rates. The Fed kept the target range for the federal funds rate unchanged at 4.25–4.5 percent. The European Central Bank (ECB) cut rates in April and June, each by 25 bps. Currently, interest rates on the deposit facility, main refinancing operations, and the marginal lending facility stand at 2.0 percent, 2.15 percent, and 2.4 percent, respectively. Christine Lagarde, president of the ECB, said the easing cycle is close to its end, and the ECB will decide meeting by meeting the future path of rates based on the data. In May, the Bank of England reduced its benchmark interest rate by 25 bps to 4.25 percent. The Bank of Japan kept the target short-term interest rate unchanged at about 0.5 percent and decided to reduce purchases of Japanese government bonds at a slower pace from Q2 2026 to about JPY2 trillion per month in early 2027. In Q2, the Reserve Bank of New Zealand, the Reserve Bank of Australia, and the Bank of Korea cut rates by 50 bps, 25 bps, and 25 bps, respectively. The Bank of Canada held its benchmark interest rate steady.

Monetary policies in the emerging market economies diverged. In Q2, both the Bank of Russia and the Banco de México slashed rates by 100 bps. The Reserve Bank of India, the Bank Indonesia, and the South African Reserve Bank cut rates by 75 bps, 25 bps, and 25 bps, respectively. The Bank Negara Malaysia kept the benchmark interest rate unchanged. The Banco Central do Brasil raised interest rates by 75 bps.

3. Issues and trends that merit attention

The trajectory of the global economic recovery remains uncertain, and the impact of the U.S. tariff policy lingers. In July, the International Monetary Fund (IMF) revised up the 2025 global economic growth forecast by 0.2 percentage points to 3 percent, but this is still lower than the average of 3.8 percent between 2000 and 2019. The magnitude of the U.S. tariffs remains uncertain, as they now hinge on how trade talks will play out. This uncertainty poses a challenge for the global economic recovery. The IMF projected that the overall increase in global tariffs will persistently weigh on economic activities.

Inflation remains sticky in some economies. Inflation has already come down from the peak of about 10 percent in 2022 to the current range of 2–4 percent in the major advanced economies. However, inflation readings picked up occasionally in some economies. Therefore, it remains to be seen whether price growth can return to the 2 percent target. The U.S. tariff policy, coupled with geopolitical tensions, may disrupt global supply chains and push up production costs, adding to inflationary pressures. Wage growth in the U.S. and Europe remains relatively strong, outpacing the increase in consumer prices. Services inflation may therefore become more entrenched.

Public debt levels are elevated. Global public debt hit a record high, as the major economies increased fiscal spending substantially in the wake of the COVID-19 pandemic. At end-2023, general government debt in the U.S., the UK, France, and Japan reached 123 percent, 101 percent, 111 percent, and 250 percent of GDP. According to IMF estimates, global public debt exceeded USD100 trillion at the end of 2024, or about 93 percent of global GDP, and it will approach 100 percent of GDP by 2030. Higher debt and higher interest rates have stoked concerns about future fiscal sustainability.

Global financial markets face heightened volatility risks. This year, the trade policies of the major economies have become key drivers of financial market volatility. Investors have reduced their oversized holdings of U.S. dollar-denominated assets, thus weakening the dollar. Ballooning fiscal deficits in the major economies have also attracted wide attention from investors. This, coupled with the impact of economic de-globalization, may trigger ongoing market turmoil.

II. Macroeconomic developments in China

In H1 2025, all regions and departments earnestly implemented the strategic arrangements of the CPC Central Committee and the State Council, adhering to the general principle of seeking progress while stepping up implementation of a more proactive and effective macro policy. As a result, the national economy has maintained stable performance while achieving progress, with the major economic indicators showing sound momentum. According to preliminary statistics, GDP in H1 2025 grew by 5.3 percent year on year to RMB66.1 trillion on a comparable basis.

1. Consumption growth rebounded, the scale of investment continued to increase,

and imports and exports maintained their growth

Residents' income grew steadily, and the growth rate of market sales picked up. In H1 2025, China's per capita disposable income posted RMB22,000, increasing by 5.3 percent year on year in nominal terms or by 5.4 percent in real terms. The structure of income distribution continuously improved. The nominal and real growth rates of rural residents' per capita disposable income were 1.2 percentage points and 1.5 percentage points higher than those of urban residents, respectively. In H1 2025, total retail sales of consumer goods grew by 5.0 percent year on year, up 0.4 percentage points from the previous quarter. The trade-in policy for consumer goods continued to take effect, driving qualitative upgrades in consumption. Sales of most product categories showed a positive growth momentum, while online consumption and services consumption maintained steady growth. In H1 2025, retail sales of enterprises (units) above a designated size in terms of home appliances and audio-visual equipment as well as stationery/office supplies increased by 30.7 percent and 25.4 percent, respectively. Meanwhile, service retail sales and online retail sales increased by 5.3 percent and 8.5 percent year on year, respectively.

Fixed-asset investments continued to expand, and investments in the high-tech sector grew rapidly. In H1 2025, total fixed-asset investments throughout China (excluding those by rural households) increased by 2.8 percent year on year to RMB24.9 trillion. In terms of sectors, investments in the manufacturing sector increased by 7.5 percent, 4.7 percentage points higher than the total investment growth. Investments in infrastructure increased by 4.6 percent, 1.8 percentage points higher than the total investment growth. Investments in real estate development decreased by 11.2 percent year on year. In the high-tech sector, investments in the information services industry, spacecraft/instrument manufacturing industry, and computer/office equipment manufacturing industry increased by 37.4 percent, 26.3 percent, and 21.5 percent year on year, respectively.

Imports and exports continued to grow, with the trade structure continuously optimized. In H1 2025, imports and exports of goods increased by 2.9 percent year on year to RMB21.8 trillion, up 1.6 percentage points from the previous quarter. Specifically, exports grew by 7.2 percent year on year and imports fell by 2.7 percent year on year. The trade structure continuously improved. Imports and exports of private enterprises increased by 7.3 percent, accounting for 57.3 percent of total imports and exports, an increase of 2.3 percentage points year on year. Opportunities for international collaboration continued to grow. Imports and exports with trading partners along the Belt and Road grew by 4.7 percent year on year, 1.8 percentage points higher than the growth of total imports and exports.

The quality of foreign direct investment (FDI) continued to improve. In H1 2025, actually utilized FDI totaled RMB423.23 billion, down 15.2 percent year on year. Actually-utilized FDI in the high-tech manufacturing industries totaled RMB127.87 billion. Specifically, actually-utilized FDI in the e-commerce services sector, biopharma manufacturing sector, spacecraft/instrument manufacturing sector, and medical equipment/instrument manufacturing sector increased by 127.1 percent, 53 percent, 36.2 percent, and 17.7 percent year on year, respectively.

2. Agricultural production was in sound condition, industrial production maintained steady growth, and the growth rate of the services industry accelerated

In H1 2025, the value-added of primary industry totaled RMB3.1 trillion, up 3.7 percent year on year. The value-added of secondary industry totaled RMB23.9 trillion, up 5.3 percent year on year. The value-added of tertiary industry totaled RMB39.0 trillion, up 5.5 percent year on year.

Agricultural production was generally stable, with summer grains achieving stable output and a bumper harvest, while animal husbandry maintained steady growth. In H1 2025, the value-added of agriculture (farming) increased by 3.7 percent year on year. The sowing area of summer grains remained basically stable, while the sowing area of winter wheat remained roughly the same with a slight increase. In H1 2025, the output of pork, beef, lamb, and poultry grew by 2.8 percent year on year to 48.43 million tons. Specifically, the output of pork grew by 1.3 percent year on year. At end-Q2, the number of hogs in stock increased by 2.2 percent year on year. In H1 2025, the number of hogs for slaughter increased by 0.6 percent.

Industrial production maintained steady growth, with the equipment manufacturing and the high-tech manufacturing industries showing sound momentum. In H1 2025, the value-added of Industrial Enterprises above a Designated Size (IEDS) increased by 6.4 percent year on year. In terms of sectors, the value-added of the mining sector and the manufacturing sector increased by 6.0 percent and 7.0 percent year on year, respectively. The value-added of the electricity, heat, gas, water production and supply sector increased by 1.9 percent year on year. In terms of manufacturing industries, the value-added of the equipment manufacturing sector and the high-tech manufacturing sector increased by 10.2 percent and 9.5 percent, respectively, maintaining rapid growth. In terms of products, 3D printing equipment, new energy vehicles, and industrial robots grew by 43.1 percent, 36.2 percent, and 35.6 percent year on year, respectively.

The growth rate of the services sector accelerated, and the development momentum of modern services remains sound. In H1 2025, the value-added of the services industry grew by 5.5 percent year on year, up 0.2 percentage points from the previous quarter. Specifically, the value-added of electronic information transmission/software/information technology services and leasing/business services grew by 11.1 percent and 9.6 percent year on year, respectively. In June, the Index of Service Production (ISP) increased by 6.0 percent year on year. Specifically, the ISP of electronic information transmission/software/information technology services, leasing/business services, financial services, and wholesale and retail sales increased by 11.6 percent, 8.4 percent, 7.3 percent, and 6.9 percent year on year, respectively. In June, the Business Activity Index and the Business Activity Expectation Index for the services sector stood at 50.1 percent and 56 percent, respectively, both above the threshold.

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

Consumer prices remained basically stable, while the core CPI picked up month by month. In H1 2025, the CPI decreased by 0.1 percent year on year, with the growth rate basically the same as that in Q1, and the monthly growth rates from April to June posted

–0.1 percent, –0.1 percent, and 0.1 percent, respectively. Specifically, affected by relatively high pig production capacity and loose supply, pork prices continued to decline month on month, and the year-on-year growth rate turned from positive to negative. However, the prices of fresh vegetables, aquatic products, and other items continued to outperform seasonal levels. In H1 2025, food prices fell by 0.9 percent year on year, with the decline narrowing by 0.6 percentage points compared with Q1. Influenced by the volatile decline in international crude oil prices, the decline in domestic energy prices expanded. Excluding energy, prices of industrial consumer goods rose continuously year on year, while prices of services such as household services, education services and medical care remained stable with a slight upward trend. In H1 2025, non-food prices rose by 0.1 percent year on year, down slightly by 0.1 percentage points from Q1. In H1 2025, the core CPI, excluding food and energy, rose by 0.4 percent year on year, an increase of 0.1 percentage points compared with Q1, and it has maintained a month-by-month recovery since Q2.

The Producer Price Index (PPI) for industrial products declined year on year. Affected by ample supply and weak demand, most industrial product prices continued to show a weak trend. The downward trend in international crude oil prices led to an expanded decline in the prices of related domestic industries; increased supply, high inventories, and reduced demand for thermal coal due to rising green energy adoption caused coal prices to drop at an accelerated pace; and falling raw material prices and weak expectations drove a significant decline in steel prices. As various macro policies stepped up implementation, the supply-demand relationship in some industries has improved, which will provide support to price levels. In H1 2025, the Producer Price Index decreased by 2.8 percent year on year, with the declines from April to June standing at 2.7 percent, 3.3 percent, and 3.6 percent, respectively. The Purchasing Price Index of Raw Materials (PPIRM) declined by 2.9 percent year on year. The Corporate Goods Price Index (CGPI), monitored by the PBOC, decreased by 1.7 percent year on year.

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

In H1, revenue in the national general public budget reached RMB11.6 trillion, a year-on-year decrease of 0.3 percent, with the decline narrowing by 0.8 percentage points from Q1. Specifically, central government revenue decreased by 2.8 percent, and local government revenue grew by 1.6 percent. National tax revenue amounted to RMB9.3 trillion, a year-on-year decrease of 1.2 percent. Among these, the domestic value-added tax, the domestic consumption tax and the personal income tax grew by 2.8 percent, 1.7 percent, and 8.0 percent year on year, respectively, while the corporate income tax decreased by 1.9 percent. Non-tax revenue reached RMB2.3 trillion, a year-on-year increase of 3.7 percent.

In H1, expenditures in the national general public budget reached RMB14.1 trillion, a year-on-year increase of 3.4 percent. Specifically, central general public budget expenditures and local general public budget expenditures grew by 9.0 percent and 2.6 percent year on year, respectively. In terms of the expenditure structure, expenditures on social security and employment, science and technology, education, and energy conservation and environmental protection grew relatively quickly, with a year-on-year increase of 9.2 percent, 9.1 percent, 5.9 percent, and 5.9 percent, respectively.

5. The employment situation remained generally stable

The urban surveyed unemployment rate saw a slight decline. In H1, the national urban surveyed unemployment rate averaged 5.2 percent, a decrease of 0.1 percentage points from Q1. The national urban surveyed unemployment rate in June was 5.0 percent, on par with the previous month. In June, the urban surveyed unemployment rate in 31 major cities was 5.0 percent. Employment among key groups such as migrant workers was stable. In June, the unemployment rate for migrant workers was 4.8 percent, a decrease of 0.1 percentage points from the previous month and on par with the same period of 2024.

6. The balance of payments remained generally balanced

In Q1 2025, China's current account recorded a surplus of USD165.4 billion, remaining basically stable quarter on quarter. Specifically, the trade surplus in goods reached USD237.5 billion, remaining at a relatively high level. The trade deficit in services stood at USD59.3 billion, which was generally stable, and the deficit in investment income narrowed somewhat. The non-reserve financial account recorded a deficit, forming an autonomous equilibrium with the current account surplus. In Q1, China's outbound investments remained active, while various types of inbound investments were overall orderly. The equity other than reinvestment of earnings under direct investment liabilities (credit) reached USD18.8 billion, and net inflows from inbound securities investments amounted to USD29.0 billion. By the end of March, China's total external debt (denominated in both domestic and foreign currencies) stood at USD2.5 trillion. Specifically, medium- and long-term external debt stood at USD1.0 trillion, accounting for 42 percent, and short-term external debt stood at USD1.4 trillion, accounting for 58 percent. External debt denominated in local currency was USD1.3 trillion, accounting for 52 percent, and external debt denominated in foreign currency (including SDR allocations) was USD1.2 trillion, accounting for 48 percent.

7. Analysis by sector

7.1. The cultural and related sectors

Developing cultural and related sectors is both an objective requirement for building a cultural powerhouse and enhancing a country's soft power, as well as a key lever for expanding domestic demand and stabilizing growth. In recent years, development of China's cultural sector has demonstrated sound momentum. First, the sector's scale continued to expand, with national revenue in the cultural sector surpassing RMB19 trillion in 2024, hitting a record high. Revenue continued to grow rapidly in H1 2025, with cultural enterprises above a designated size achieving revenue of nearly RMB7.1 trillion, an increase of 7.4 percent year on year and 1.4 percentage points higher than that in 2024. Second, new forms of cultural business experienced rapid development, with outstanding performance in sub-sectors such as manufacturing of smart entertainment drones, digital publishing, and internet advertising services. In H1 2025, the operating revenue of new forms of cultural business grew by 13.6 percent, contributing 76.8 percent to that of cultural enterprises above a designated size. Third, China's cultural exports have yielded notable results, with cultural product exports exceeding RMB450 billion in H1 2025, up 4.7 percent year on year, while cultural service exports growing by

51.6 percent. Fourth, corporate profitability of the cultural sector steadily improved. In H1 2025, cultural enterprises above a designated size achieved total profits of RMB629.8 billion, a year-on-year increase of 19.3 percent. The operating revenue profit margin was 8.8 percent, up 0.9 percentage points from the same period of 2024.

In recent years, the financial sector has continuously enhanced its support and services for the cultural sector, and it has successively issued documents such as the *Guiding Opinions on Financial Support for the Revitalization and Prosperous Development of the Cultural Industry,* the *Opinions on Deepening Cultural and Financial Cooperation,* and the *Several Economic Policies for Promoting High-Quality Cultural Development*, and it has continuously improved the financial services system in line with the sector's characteristics. Financial institutions have actively developed innovative products such as intellectual property pledge loans, and their supply of credit to the cultural sector has continued to increase. The financing channels for the cultural sector have become more diversified, with rapid growth in fundraising from domestic private equity and bond financing markets.

The cultural sector is expected to maintain rapid development in the future. First, residents' spiritual and cultural needs are growing, and the market size is expected to continuously expand. Under policy guidance, the cultural sector will better meet residents' diverse and high-quality consumption demands. Second, technologies such as artificial intelligence and virtual reality will be deeply integrated with the cultural sector, and the "Culture+" pattern will be extensively expanded to promote the development of new forms of the industry. Third, with the enhancement of China's cultural soft power and increases in cross-national exchanges, the global influence of China's culture is expected to continuously rise.

7.2. The integrated circuit sector

Integrated circuits are a core foundation of the information technology industry. Since 2024, driven by the recovery in downstream demand, the impetus from application fields such as artificial intelligence, and the acceleration of the domestic substitution process, the integrated circuit sector has shown sound development momentum. First, domestic output hit a new high. In H1 2025, China's integrated circuit output exceeded 230 billion units, reaching a new high for the period, with a year-on-year increase of 8.7 percent. Second, exports maintained strong momentum. Benefiting from rising international market demand, China's integrated circuit exports surpassed RMB650 billion in H1 2025, a year-on-year increase of 20.3 percent, demonstrating strong resilience. Third, corporate operational performance continued to recover. In Q1 2025, the operating revenue of listed integrated circuit companies grew by 21.8 percent year on year, and total profits increased by 85.3 percent year on year.

Financial support for integrated circuits and other technology-based enterprises has been continuously strengthened, and the corporate financing environment has been consistently optimized. In May 2025, the Ministry of Science and Technology, the PBOC, and five other departments jointly issued the *Policy Measures on Accelerating the Development of the Technology Finance System to Bolster High-level Sci-tech*

Self-reliance and Self-strengthening. The policy coordinates the promotion of policy tools, such as venture capital, monetary credit, the capital market, sci-tech insurance, and bond issuance, to provide end-to-end and full life-cycle financial services for sci-tech innovation. Financial institutions have stepped up efforts to innovate financial products and broaden financing channels by launching various customized credit products, capital market financing tools, and risk diversification mechanisms. They have coordinated their efforts to solve financing difficulties for technology enterprises, such as those in the integrated circuit sector, and they have guided financial capital to deeply support the field of sci-tech innovation.

The integrated circuit sector is expected to serve as an important driver for China's future industrial restructuring and upgrading. First, market demand has broad potential. New technologies such as artificial intelligence and the internet of things are evolving toward broader applications, consistently generating additional demand for integrated circuit products. Second, industrial integration empowers high-quality development. As the cornerstone of the digital economy, integrated circuits are deeply integrated into emerging fields such as intelligent manufacturing, new energy, and automotive electronics, and they will promote the intelligent transformation of the entire industrial chain through chip technology innovation, thus providing a core driving force for high-quality development. Third, domestic substitution continues to deepen. Aimed at achieving self-reliance in core technologies, China's domestic integrated circuit sector is significantly accelerating breakthroughs in key areas such as design, manufacturing, and packaging and testing. The acceleration of domestic substitution will promote reconstruction of the industrial chain and enhance its international competitiveness.

Part 5 Monetary Policy Outlook

I. China's macroeconomic and financial outlook

In H1 2025, China's economy remained stable with steady progress. GDP grew by 5.3 percent year on year, supported by steadily growing production demand, an increasingly active consumer market, and a continuously refined investment structure. Major economic indicators had sound performance, new strides were made in high-quality development, and the economy exhibited strong vitality and resilience.

Ongoing improvements in the domestic economic cycle and steady advances in high-quality development will provide solid support for stable growth in the second half of the year. First, the development of new momentum has accelerated. New industries, technologies, and business models have progressed rapidly, with a wide array of technological innovations attracting extensive attention. In H1 2025, the value-added of high-tech manufacturing above a designated size and investments in high-tech service industries increased by 9.5 percent and 8.6 percent year on year, respectively. From January to May, the operating revenue of strategic emerging service enterprises above a designated size grew by nearly 10 percent, and the number of valid invention patent applications rose by 12.8 percent. More industrial and technological innovation achievements are expected to emerge. **Second, aggregate demand has continued to**

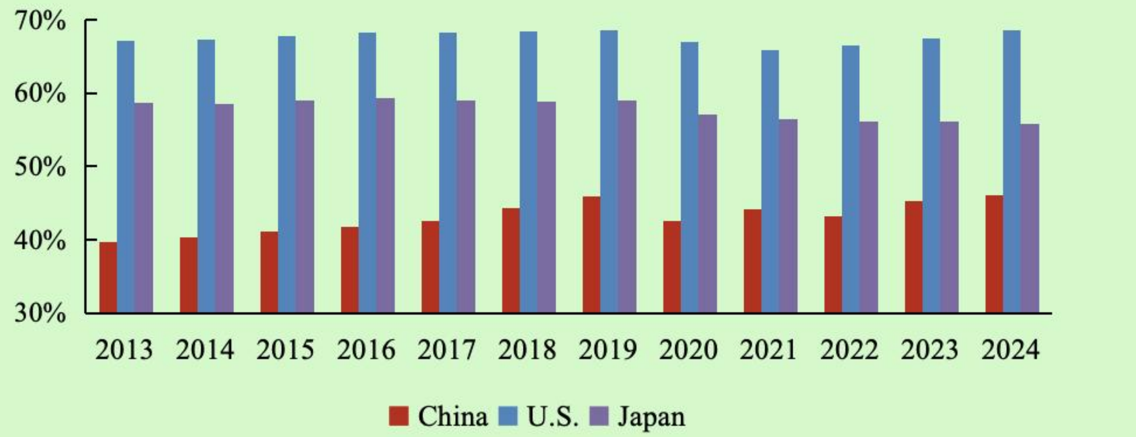
expand. The services sector has demonstrated vigorous growth momentum. Its prosperity index has consistently remained above the 50 percent expansion threshold, with an increasing contribution to economic growth. The consumer market exhibited robust vitality. "China Travel" and "China Shopping" continued to heat up. Total retail sales of consumer goods maintained steady growth, with retail sales of household appliances, cultural and office supplies, communications equipment, and furniture rising by 30.7 percent, 25.4 percent, 24.1 percent, and 22.9 percent, respectively. As the policies to boost consumption gradually take effect, the consumer market will have enormous potential. **Third, macro policies have been more proactive.** Beginning this year, macro policies have been strengthened in a coordinated manner, effectively underpinning the stable operation of the domestic economy. This has helped China's economy to withstand pressures and maintain steady growth, further enhancing its resilience and capacity to cope with challenges.

Box 4 Financial Support for Boosting Consumption Should Focus on Improving the Supply of High-Quality Services

The *Report on the Work of the Government 2025* has proposed that the government "will place a stronger economic policy focus on improving living standards and boosting consumer spending, stimulating economic circulation with stronger consumption and guiding industrial upgrading through consumption upgrading." Household consumption includes both goods and services consumption. Compared to goods consumption, China has a greater potential for growth in services consumption. In recent years, services consumption has maintained vigorous growth momentum and it has become a key driver for boosting consumption and promoting economic growth in the current and future periods.

Developing services consumption is both an inherent requirement for improving people's well-being and a critical lever for boosting consumption. Services consumption encompasses a wide range of sectors, including catering and accommodations, housekeeping services, elderly care and childcare, culture, entertainment and tourism, education and sports, housing services, and healthcare services. Since services consumption is deeply intertwined with daily life, it directly impacts people's sense of fulfillment and happiness. International experience indicates that as per capita income rises, household consumption patterns will gradually shift from being goods-dominated to services-dominated. The major advanced economies have followed this trajectory. In the U.S. and Japan, services consumption surpassed goods consumption in the 1970s and 1990s, respectively. In recent years, China's services consumption has entered a phase of rapid development, with a surge in relevant demands. For example, elderly care and childcare services have become essential needs for many households, and outsourcing housework has become an emerging trend. Meanwhile, concert tickets are highly sought after, and tourist attractions are flooded with visitors. In the first half of 2025, services retail sales grew by 5.3 percent year on year, consistently outpacing the growth of goods retail sales. In 2024, services consumption accounted for about 46.1 percent of per capita household consumption expenditures, indicating significant potential for growth. Further developing services consumption will not only facilitate the fulfillment of people’s higher-level and more diversified demands for a better life but will also help unlock consumption potential and boost domestic demand.

Figure: Share of Services Consumption in Household Consumption Expenditures in China, the U.S., and Japan



A key challenge in developing services consumption is the insufficient supply in areas with high demands. First, the aggregate supply falls short. In services sectors like elderly care and childcare, supply lags behind demand. Currently, the enrollment rate for children under the age of three in childcare facilities in China is less than 10 percent, significantly lower than the average rate of approximately 36 percent for Organization for Economic Co-operation and Development (OECD) countries. In 2023, there were only 27.7 elderly-care beds per one-thousand elderly people in China, lower than that in most OECD countries. **Second, the quality of supply needs improvement.** Structural mismatches exist in the supply of services consumption, with an oversupply of low-end homogeneous services and a shortage of specialized and individualized services. For example, while there are many housekeeping services enterprises, their services mostly focus on basic cleaning, failing to meet household demands for specialized housekeeping services such as nutrition meal planning, healthcare, and family education. **Third, services enterprises struggle with profitability.** For services consumption, profit margins are significantly influenced by consumer preferences. In some emerging consumption sectors, enterprises are still exploring profitable business models.

The PBOC and five other departments have jointly released the *Guidelines on Reinforcing Financial Support for Boosting and Expanding Consumption*, guiding financial institutions to strengthen financial services from both the supply and demand sides of consumption. Moving forward, financial policies will focus on the supply side and form a synergy with other policies to improve the supply of high-quality services consumption, thereby creating effective demand through high-quality supply and unleashing the potential for consumption growth. **First, leveraging the dual functions of monetary policy in adjusting both the aggregate and the structure.** The PBOC will maintain adequate liquidity and continue to lower overall social financing costs, fostering a favorable financial environment for expanding consumption. It will strengthen the incentives of structural monetary policy instruments, effectively implement the central bank lending for service consumption and elderly care, and fully utilize the quota for central bank lending for rural development and MSBs so as to boost financial support for key areas of services consumption. **Second, continuously broadening financing channels for consumption.** The PBOC will consolidate credit support, accelerate the development of diversified financing channels such as bonds and equities so as to increase financial resources for enterprises providing services consumption. These financial resources will support business entities in industrial upgrading and business integration, thereby constantly improving the supply capacity and quality. **Third, strengthening policy coordination.** The government will give play to synergy among fiscal, employment, and social security policies, and accelerate formulation of the medium- to long-term consumption development strategy. It will also strengthen support for low-income groups and improve the services system for elderly care, childcare, and healthcare, thereby effectively improving households' capacity and willingness to consume.

The building of a new development paradigm will be accelerated, while high-quality economic development will be resolutely promoted. The current external environment is becoming more complex and severe. With the weakening in global economic momentum, rising trade barriers, divergent performance among the major economies, growing instability and uncertainty, as well as insufficient domestic demand, risks and challenges will persist in China's economic trajectory. It is essential to be objective and level-headed in assessing the current economic situation, acknowledging difficulties while maintaining confidence. Meanwhile, in light of the solid foundation, multiple advantages, strong resilience, and vast potential of the domestic economy, the supporting conditions and fundamental trend for long-term growth remain unchanged. Many international organizations and investment banks have revised upward their projections for China's economy. In these circumstances, it is important to maintain strategic resolve and to concentrate on managing our own affairs well, accelerate the building of a new development paradigm with the domestic cycle as the mainstay and with domestic and international development reinforcing each other, and drive significant breakthroughs in the strategic tasks related to Chinese modernization.

The positive factors for a moderate recovery in price levels have increased. In June, the CPI returned to positive year-on-year growth. Except for a brief decline in February due to the shift in the timing of the Lunar New Year holiday, the core CPI, which excludes food and energy, has remained in positive territory. With a steady recovery since April, it posted 0.7 percent growth in June. Enhanced macro-policy support and a sustained economic recovery are expected to further bolster a steady price rally. Price levels are affected by a confluence of factors. Despite the continued recovery of the domestic economy in recent years, excessive low-price competition in certain industries and shrinking external demand have intensified pressures for a supply-demand balance. Lately, the CPC Central Committee has emphasized the importance of building a unified national market and curbing disorderly competition among enterprises. Macro adjustment approaches to boosting consumption are being implemented effectively, which will also positively contribute to a reasonable rebound in price levels.

II. Monetary policy for the next stage

Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the PBOC will fully implement the guiding principles of the Third Plenary Session of the 20th CPC Central Committee and the Central Economic Work Conference. It will adhere to the general principle of seeking progress while maintaining stability and it will apply the new development philosophy fully and faithfully on all fronts. Firmly following the path of financial development with Chinese characteristics, the PBOC will further deepen financial reforms and high-standard opening-up, and it will continue its efforts to promote high-quality financial development and to build China into a financial powerhouse. It will accelerate the pace of improving the central banking system and further optimize the monetary policy framework. The PBOC will work to strike a balance between short-term and long-term considerations, between growth stability and risk prevention, between internal and external equilibria, and between supporting the real economy and maintaining the soundness of the banking system. The PBOC will make macro regulation more forward-looking, targeted, and effective, and it will maintain the continuity and stability of policies and enhance their flexibility and predictability. It will enhance the consistency of the macro policy orientation, with a focus on stabilizing employment, businesses, markets, and expectations. The PBOC will strive to fulfill the year's targets for economic and social development and bring the 14th Five-Year Plan to a successful conclusion.

The PBOC will implement an appropriately accommodative monetary policy. It will flexibly adjust the intensity and pace of policy implementation in light of the economic and financial situations both at home and abroad as well as the performance of the financial market in a bid to keep liquidity adequate and to keep the growth of aggregate financing and money supply in step with the expected targets for economic growth and general price levels. This will help sustain a favorable financial environment. Promoting a reasonable price recovery will be an important consideration for the implementation of monetary policies so as to keep prices at a reasonable level. The PBOC will further improve the interest rate adjustment framework, strengthen the guiding role of central bank policy rates, improve the market-based interest rate formation and transmission mechanism, leverage the self-regulatory mechanism for market-based interest rate pricing, and strengthen implementation and oversight of interest rate policies. The PBOC will work to reduce the banks' liability costs and promote a decline in overall financing costs. It will also smooth the monetary policy transmission mechanism, improve the efficiency of fund utilization, prevent capital from circulating within the financial system without serving the real economy, and strike a balance between supporting the real economy through finance and maintaining the soundness of the banking system. It will give play to the role of monetary policy tools in adjusting both the aggregate and the structure, make good use of structural monetary policy instruments, and strengthen support for sci-tech innovation, consumption expansion, inclusive financing for MSBs, and foreign trade stabilization. Pursuing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, the PBOC will let the market play a decisive role in the formation of the exchange rate to enhance the resilience of the foreign exchange market and to stabilize market expectations. It will take resolute steps to correct pro-cyclical market behavior, address any conduct that disrupts market order, and guard against the risks of exchange rate overshooting so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. While exploring to expand its functions in macro-prudential regulation and financial stability, the PBOC will safeguard financial market stability and firmly defend the bottom line whereby no systemic financial risks will occur.

First, the PBOC will maintain reasonable growth in financing and monetary aggregates. It will take further steps to implement an appropriately accommodative monetary policy and to see that all the monetary policy measures are duly carried out. While strengthening counter-cyclical adjustments, the PBOC will effectively manage the intensity and pace of policy implementation based on the economic and financial situations at home and abroad as well as the performance of the financial markets. Keeping a close watch on monetary policy shifts in the major central banks abroad, it will continue to reinforce monitoring and analysis of financial market movements as well as liquidity supply and demand in the banking system. Moreover, the PBOC will keep liquidity adequate, using a combination of monetary policy tools. In a sustained effort to foster an appropriate financial environment, it will guide banks to consolidate credit support and maintain reasonable growth in financial aggregates to ensure that the rises in aggregate financing and money supply are in step with the projected economic growth and the increase in the CPI.

Second, the PBOC will give full play to the guiding role of monetary and credit policies. Continuing with the implementation of the *Guidelines on Promoting the Development of Technology Finance, Green Finance, Inclusive Finance, Old-age Finance, and Digital Finance*, the PBOC will place emphasis on expanding financing access for the major strategies, key sectors, and weak links and improving the supply of financial products and services to better serve their needs. It will enhance the guidance of macro credit policy and bring into play the driving effects of the central bank lending facility for sci-tech innovation and technological transformation. Meanwhile, it will advance work regarding the “sci-tech board” in the bond market and guide financial institutions to step up innovations in products and services for technology finance. The PBOC will regulate and diversify green financial products such as those secured by environmental rights, reinforce efforts to meet financing needs, improve the sharing of environmental information, and enhance the mechanism for developing green finance to support the Beautiful China Initiative. Additionally, the PBOC will continue to follow up on the practical effects of the financial support policies for private enterprises and MSBs. It will also formulate policy documents to improve the credit enhancement system for small and medium-sized private enterprises and to support financing and development of private enterprises and MSBs. The PBOC will move ahead with the special campaigns aimed at providing financial support for all-round rural revitalization. It will work on the preparation of policy documents to step up financial services for rural reforms, and it will put into use the appraisal results regarding the performance of financial institutions to serve the needs of rural revitalization. Moreover, it will effectively implement the policy on guaranteed loans for start-ups and the national student loan policy to support the priority groups in starting businesses, getting jobs, and receiving an education. Taking steady steps to develop the system of old-age finance, the PBOC will increase financing support for the elderly care industry and enrich the relevant financial products. It will also promote implementation of the financial support policies aimed at boosting consumption, help expand high-quality supplies to cater to consumer demand, actively diversify consumption scenarios, and meet the financing needs of both businesses and consumers. The PBOC will put efforts into advancing implementation of financial policy measures, such as central bank lending for government-subsidized housing, and it will continuously consolidate the stabilizing trends in the property market. It will improve the foundational system for real estate finance and help build a new development model for the property sector.

Third, the PBOC will properly manage internal and external equilibria regarding the interest rate and the exchange rate. Continuing to advance the market-oriented interest rate reform, the PBOC will smooth the transmission channels of monetary policy. It will improve the market-oriented interest rate formation, regulation, and transmission mechanisms to bring into play the guiding role of the central bank policy rates. It will also reinforce the conduct of interest rate policies and tighten oversight by carrying out on-site assessments in due course on financial institutions' implementation of interest rate policies and self-regulatory agreements, with a view to improving their interest rate pricing. It will better bring into play the role of self-regulation so that the interest rate self-regulatory initiatives will be effectively put into practice to maintain a level playing field in the banking industry. With continued reform and improvements in the LPR, special attention will be paid to raising the quality of LPR quotations so that they better reflect loan rates in the market. The PBOC will urge financial institutions to adhere to risk-based pricing and will straighten out the relationship between loan rates and market rates, such as bond yields. It will further carry out the pilot program on explicit indications of the overall financing costs for corporate loans. All these measures are expected to help bring down overall social financing costs. Moreover, the PBOC will work steadily to deepen the market-oriented exchange rate reform and to improve the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Letting the market play a decisive role in the formation of exchange rates, the exchange rate will play the role of an automatic stabilizer for the macro economy and the balance of payments. At the same time, it will duly conduct monitoring and analysis of cross-border capital flows. Upholding bottom-line thinking, it will adopt a combination of policies to enhance the resilience of the foreign exchange market, to stabilize expectations, and to prevent the risks of exchange rate overshooting. With these efforts, it will keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Guiding both enterprises and financial institutions to be risk-neutral, the PBOC will offer guidance to financial institutions on providing exchange rate risk hedging services for MSMEs with authentic needs based on a risk-neutral concept, thereby fostering a stable exchange rate environment for the development of the real economy.

Fourth, the PBOC will move faster to advance financial market institutional building and high-standard opening-up. It will vigorously develop the "sci-tech board" in the bond market, making effective use of the sci-tech innovation bond risk-sharing instrument to support bond financing of more technology-based private enterprises and private equity investment firms. In addition, it will step up measures to meet the demand of private enterprises for bond financing and will offer guidance on the use of the support instrument for bond financing of private enterprises so as to promote bond issuances by high-quality private enterprises. The PBOC will also improve the legal system for the bond market and will build the legal system for corporate bonds. Working to develop the multi-tiered bond market at a faster pace, it will further promote expansion and well-regulated development of the over-the-counter bond business. It will continue to regulate issuance, pricing, underwriting, and market-making practices while strengthening risk monitoring of key fields and industries. Moreover, it will further promote high-quality development of the panda bond market. The PBOC will take prudent and solid steps to advance the internationalization of the RMB. It will further expand use of the RMB in cross-border trade and investment, deepen international monetary cooperation, and develop offshore RMB markets. Additionally, it will further liberalize and facilitate cross-border trade and investment by carrying out pilot programs for high-standard opening-up in the field, and it will steadily move ahead with the convertibility of the RMB under the capital account.

Fifth, the PBOC will work proactively and prudently to forestall and defuse financial risks. It will make explorations to expand the roles of the central bank in conducting macro-prudential management and maintaining financial stability, and it will launch innovative financial tools to keep financial markets stable. Further steps will be taken to improve the macro-prudential policy framework as well as the capacity for systemic risk monitoring, assessments, and early warnings and to enrich the macro-prudential policy tools. The PBOC will strengthen macro-prudential management of systemically important financial institutions. With the use of regulatory tools such as additional capital and leverage ratio requirements, recovery and resolution plans, and stress tests, it will further cement additional regulations over systemically important banks. At the same time, it will enhance cooperation among global systemically important banks on cross-border crisis management and steadily expand additional regulations to cover non-bank institutions. Moreover, the PBOC will continue to improve the systems of financial risk monitoring, early warning, prevention, and control while reinforcing analysis of overall financial stability from a macro perspective. Steadily advancing risk resolution in key fields in an orderly manner, it will improve the accountability mechanism for risk resolution that matches power with responsibility and ensures compatibility between incentives and constraints. At the same time, it will work to establish a scientific and reasonable mechanism for cost sharing. The PBOC will step up efforts to build the financial stability guarantee system and enhance the role of deposit insurance in professional resolution of financial risks as well as prompt corrective actions. It will strictly observe its duties as lender of last resort and tighten the supervision and management of central bank lending for maintaining financial stability.