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[1] This English edition is an unofficial translation of the *China Financial Stability Report* 2024, which was published in March 2025. In case of any discrepancies, the Chinese version shall govern.

Executive Summary

In 2023, in the face of an exceptionally complex international environment and the challenging task of reform, development and stabilization, China effectively managed domestic affairs while taking into consideration international situations, stroke a good balance between prevention and control of pandemic and development of economy and society, as well as between development and security. The main goals of economic and social development for the year were successfully accomplished, with the economy recovering in general amid an upward trend, reform and opening-up advancing to a deeper level, and the foundation for safe development being consolidated. The GDP exceeded RMB 126 trillion, posting a year-on-year increase of 5.2 percent. Employment was generally stable. The balance of payments was basically in equilibrium. The RMB exchange rate remained basically stable at an reasonable and equilibrium level. The financial system operated in a generally sound manner.

The financial system adhered to and strengthened the centralized leadership of the CPC Central Committee over the financial work, and comprehensively implemented the spirit of the Central Economic Work Conference and the Central Financial Work Conference. In accordance with the overall arrangement of the CPC Central Committee and the State Council, the general requirement of seeking progress while maintaining stability, the fundamental objective of making the financial sector serve the real economy,and the eternal theme of financial work of preventing and mitigating financial risks, the financial management authorities steadily resolved outstanding risks in key areas, improved the financial stability guarantee system, and effectively safeguarded the overall financial stability. First, the financial system provided strong support to recovery of the real economy. Throughout the year, the reserve requirement ratio for financial institutions was cut twice by a cumulative total of 0.5 percentage point, injecting medium- and long-term funds of more than RMB 1 trillion. The policy rate was lowered twice, leading to a continuous downward trend in market interest rates. Structural monetary policy tools were actively deployed. The year-on-year growth rates of outstanding volume of inclusive loans to micro and small businesses, medium- and long-term loans to the manufacturing industry, and loans to high-tech enterprises were higher than the growth rate of all types of loans. Second, all-out efforts were made to support stable operation of the real estate market. On the supply side, the validity period of previously announced "16 Articles on Finance"[1] targeting the real estate market and other policies were extended, to meet the reasonable financing needs of real estate developers of various ownership structures. The quota for the pledged supplemental lending was increased by RMB 500 billion to support the construction of government-subsidized housing, inner-city renovation, and construction of public infrastructure for both normal and emergency use. On the demand side, the down payment ratio and interest rate floor for residential housing loan were adjusted downward. Financial management authorities worked with the relevant departments to improve the criteria for recognising the number of housing units and to reduce the interest rates on existing mortgage loans for the first unit of housing. Third, the financial management authorities played a leading role in mobilizing the financial system to support resolution of debt risks associated with financing vehicles. A working mechanism for debt resolution was established, and policy measures for mitigating debt risks of financing vehicles were implemented. Financial institutions were encouraged to contribute to the risk resolution of outstanding debt and strict control of incremental debt in a market-oriented manner and in accordance with laws and regulations. Fourth, resolution of risks of small- and medium-sized financial institutions were pushed forward. Efforts were made to determine and dispose of non-performing assets in the banking sector, and for the whole year, a total of RMB 3 trillion worth non-performing assets were disposed of. Key regions and institutions accelerated reform and risk resolution by formulating and improving risk resolution plans. A rated

① The "16 Articles on Finance" refers to the *Notice on Doing a Good Job in the Current Financial Support for the Stable and Healthy Development of the Real Estate Market* issued by the People's Bank of China (PBC) and the China Banking and Insurance Regulatory Commission (CBIRC) on November 23, 2022 .

and categorized risk monitoring, early warning and correction framework for banks was established. High-risk financial institutions were dealt with in a steady and orderly manner. Fifth, risks from external shocks were handled in an effective manner. The monitoring, early warning and response mechanism for cross-border capital flows was improved to prevent cross-border and cross-market risk contagion. The macroprudential adjustment parameter for cross-border financing was adjusted upward, and the reserve requirement ratio for foreign currency deposits was lowered, with a view to balancing foreign exchange supply and demand, mitigating the risk of exchange rate overshooting, and maintaining the basic equilibrium of the balance of payments. Sixth, efforts were made to push forward the financial stability guarantee system. The legislative process of the financial stability law was sped up. Efforts were reinforced to mobilize resources for risk resolution. The role of the deposit insurance scheme was given a full play, to promote the insured institutions to operate in a prudent manner, and provide strong support for the risk resolution in key regions and key institutions. On the whole, positive progress continued to be made in the prevention and control of financial risks with regards to disposal of eminent risks in a well-targeted manner, risk mitigation through reforms, front-loaded prevention efforts, and establishing new mechanisms to address identified shortcomings. As a result, the overall operation of the financial system was sound, and financial risks were generally under control.

While recognizing the above achievements, it is also necessary to be mindful of the difficulties and challenges that lay ahead. On the international front, the external environment has become more complex, grave and uncertain, as the global economic recovery has diverged and geopolitical risks have been on the rise. In addition, there is greater uncertainty about the future stance of monetary policy in the major advanced economies. On the domestic front, effective demand is insufficient, expectations are weak, and the foundation for a sustained economic recovery is not yet solidly based.

Looking ahead, favorable conditions for and basic trend of our long-term economic development have remained unchanged, including solid fundamentals, strong resilience and great potential. Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the financial system will fully implement the guiding principles of the 20th CPC National Congress, as well as the Second and the Third Plenary Sessions of the 20th CPC Central Committee, conscientiously carry out the overall arrangement of the Central Economic Work Conference and the Central Financial Work Conference, adhere to the general principle of seeking progress while maintaining stability, implement the new development concept in a complete, accurate and comprehensive manner, better integrate development and security, and adopt more proactive macroeconomic policies. For monetary policy, it will be appropriately accommodative, with a mix of monetary policy instruments to keep liquidity adequate at a reasonable level, and to align total social financing and money supply with the projected economic growth and the overall price level. For exchange rate policy, efforts will be made to enhance the resilience of the foreign exchange market, stabilize market expectations, and maintain the basic stability of the RMB exchange rate at a reasonable level. Support will be beefed up to the key areas and weak links for high-quality development, focusing on the five major tasks of technology finance, green finance, inclusive finance, old-age finance and digital finance. The financial stability guarantee system will be improved, and risk prevention in the origin, risk monitoring and early warning be strengthened, to realize early identification, early warning, early revelation and early disposal of risks. Efforts will be made to improve the accountability framework where power matches responsibilities and incentives and constraints coexist, and to establish a scientific and reasonable cost-allocating mechanism for the financial risk resolution. Actions will be taken to expand the accumulation of resources in the Deposit Insurance Fund, other sectoral guarantee funds and the Financial Stability Guarantee Fund, to fully tap the role of the sectoral guarantee funds in risk resolution in a market-oriented and law-based manner, and to strengthen the risk resolution function of the deposit insurance scheme. The financial system will prudently and effectively prevent and resolve financial risks in key areas, continue to support resolution of the debt risks associated with financing vehicles, improve the macroprudential management of the real estate sector, and deal with the risks of small- and medium-sized financial institutions, in order to firmly stick to the bottom line of preventing systemic financial risks.

Abbreviations and Acronyms

ABC	Agricultural Bank of China
AMAC	Asset Management Association of China
AMP	Asset Management Product
BCBS	Basel Committee on Banking Supervision
BOC	Bank of China
BOCOM	Bank of Communications
BOE	Bank of England
BTFP	Bank Term Funding Program
CAR	Capital Adequacy Ratio
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CBWMS	Cross-border Wealth Management System
CCB	China Construction Bank
CCDC	China Central Depository & Clearing Corporation
CCyB	Countercyclical capital buffer
CET-1	Common Equity Tier-1
CHF	Swiss Franc
CNY	Chinese Yuan
CPC	Communist Party of China
CPI	Consumer Price Index
CSOP	CSOP Asset Management Limited
CSRC	China Securities Regulatory Commission
DR007	7-day Pledged Repos for Depository Institutions
D-SIB	Domestic Systemically Important Bank
D-SIFI	Domestic Systemically Important Financial Institution
ECB	European Central Bank
EME	Emerging Market Economy
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union

EUR	Euro
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FPC	Financial Policy Committee
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GSC	Global Stable Coin
G-SIB	Global Systemically Important Bank
G-SIFI	Global Systemically Important Financial Institution
G-SII	Global Systemically Important Insurer
GBP	Great Britain Pound
HCPI	Harmonised Index of Consumer Prices
HKMA	Hong Kong Monetary Authority
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
ICBC	Industrial and Commercial Bank of China
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IIF	Institute of International Finance
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial Public Offering
ISSB	International Sustainability Standards Board
JPY	Japanese Yen
LCR	Liquidity Coverage Ratio
LDI	Liability-driven Investment
LEI	Legal Entity Identifier
LPR	Loan Prime Rate
MOF	Ministry of Finance
MSE	Micro - and small-sized Enterprise
MSME	Micro - , small - and medium-sized Enterprise
NBFI	Non-bank Financial Intermediation
NBS	National Bureau of Statistics
NFRA	National Financial Regulatory Administration

NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NIM	Net Interest Margin
NPA	Non-performing Asset
NPC	National People’s Congress
NPL	Non-performing Loan
NSFR	Net Stable funding Ratio
NYMEX	New York Mercantile Exchange
OCC	Office of the Comptroller of the Currency
OECD	Organisation for Economic Co-operation and Development
OTC	Over the Counter
PBC	People’s Bank of China
PCA	Prompt Corrective Action
PPI	Producer Price Index
PSL	Pledged Supplemental Lending
QDII	Qualified Domestic Institutional Investors
RAP	Resolvability Assessment Process
REIT	Real Estate Investment Trust
RMB	Renminbi
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
RRP	Recovery and Resolution Plan
RWA	Risk-weighted Asset
SAFE	State Administration of Foreign Exchange
SEC	Securities and Exchange Commission
SIFI	Systemically Important Financial Institution
SME	Small - and medium-sized enterprise
SSE	Shanghai Stock Exchange
STAR	Sci-Tech Innovation Board
TBTF	Too-Big-To-Fail
TLAC	Total Loss-absorbing Capacity
UK	United Kingdom
U.S.	United States
USD	U.S. Dollar
VAT	Value-added Tax
WMP	Wealth Management Product
WTO	World Trade Organization
y-o-y	year-on-year

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Box

Special Topic

Chapter I

Macroeconomic Performance

In 2023, external uncertainties increased, amid divergent global economic recovery, elevated geopolitical tensions, and heightened financial market volatility. Faced with the complicated international environment and the arduous task at home to pursue reform, development and stability, China effectively coordinated the domestic and international situations, as well as the development and security needs, and strengthened the macroeconomic adjustment with a focus on expanding domestic demand, optimizing economic structure, boosting confidence, and preventing and mitigating risks. Due to the above policy efforts, the national economy continued to recover, solid progress was witnessed for high-quality development, and major economic and social development goals were successfully achieved. Going forward, the financial system will follow the general principle of seeking progress while ensuring stability, fully and faithfully implement the new development philosophy on all fronts, comprehensively deepen reform and opening-up, and carry out macro policies in accordance with the CPC Central Committee's decisions and arrangements on economic work, so as to actively expand domestic demand, foster new quality productive forces based on local realities, and expedite the development of new drivers for foreign trade.

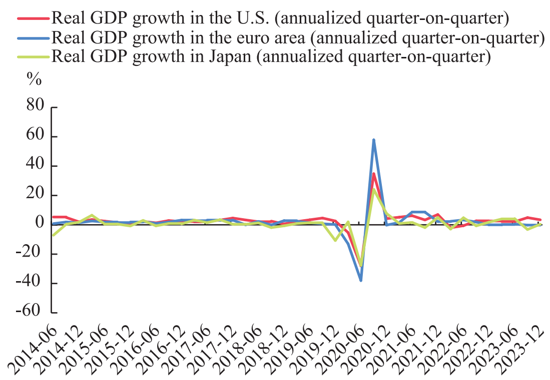
I. International Economic and Financial Developments

In 2023, due to slower global economic recovery, ongoing geopolitical conflicts, and sustained high interest rates in some advanced economies, the volatility in the international financial markets increased, global debt volume continued to climb, and trade and investment growth decelerated. The uncertainty and instability of external environment increased.

1. Economic Developments in the Major Advanced Economies

Global economic recovery diverged. The U.S. economy remained resilient, supported by proactive fiscal policy and strong household consumption. Its GDP grew by 2.5 percent in 2023, 0.7 percentage point higher than the average growth rate during the three-year COVID−19 pandemic from 2020 to 2022. The economic growth in the euro area was weak. Its GDP grew by 0.4 percent due to contracting monetary policy and high energy expenses, way below the 3.5 percent growth rate in 2022. The annualized quarter-on-quarter real GDP growth in the euro area posted −0.2 percent both in the third and fourth quarters of 2023, staying in the negative territory for two consecutive quarters. The Japanese economy performed well. Its GDP grew by 1.9 percent, a relatively high level in the recent decade, thanks to improving international trade conditions. But its annualized quarter-on-quarter real GDP growth posted −3.2 percent and 0.4 percent in the third and fourth quarters of 2023 respectively, pointing to a slowdown in recovery momentum (Figure 1.1).

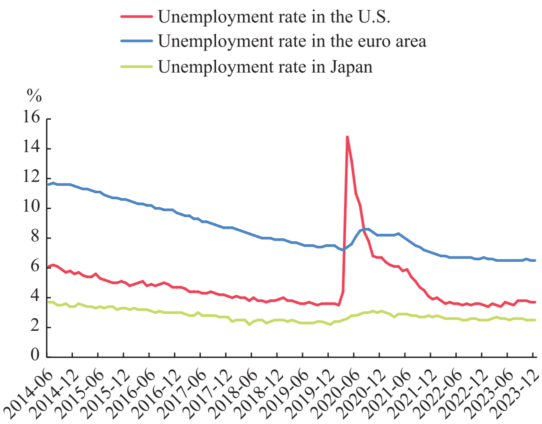
Figure 1.1 Growth Rates of the Major Advanced Economies



Source: Wind.

Unemployment rates remained low. In 2023, the unemployment rates in the U.S., the euro area, and Japan hovered around the range of 3.4–3.8 percent, 6.5–6.6 percent and 2.5–2.7 percent, respectively, all staying at historic lows (Figure 1.2). But their labor markets still had structural issues. The labor force participation rate in the U.S. was 62.5 percent in December, with an average monthly job vacancies of 8.89 million; the job vacancy rate in the euro area was 2.7 percent in the fourth quarter of 2023, and the average monthly job vacancies in Japan registered 864 thousand, all still below pre-pandemic levels.

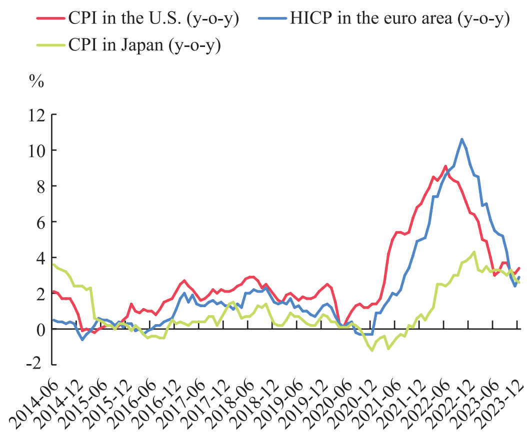
Figure 1.2 Unemployment Rates in the Major Advanced Economies



Source: Wind.

Inflationary pressures eased. The U.S. CPI rose by 3.4 percent year-on-year in December 2023, falling by 3.1 percentage points from 6.5 percent in December 2022. The HICP in the euro area increased by 2.9 percent year-on-year, down by 6.3 percentage points from the high level of 9.2 percent in December 2022. In Japan, CPI was up by 2.6 percent year-on-year, 1.4 percentage points lower compared with the 4 percent growth in December 2022 (Figure 1.3). The falling inflation in the U.S. and euro area was mainly attributable to monetary tightening effects and gradual recovery of global supply chains, but inflation in the services sector remained sticky.

Figure 1.3 Price Indices in the Major Advanced Economies

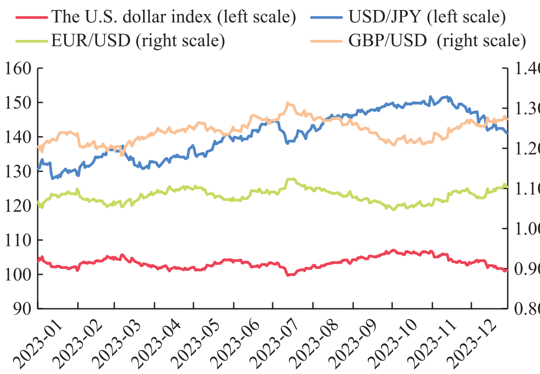


Source: Wind.

2. Volatility Increased in Global Financial Markets

The U.S. dollar index fluctuated at high levels, and the performance of other major currencies was mixed. The U.S. dollar index hovered above 100 most of the time in 2023, hitting the annual high of 107.07 in early October, and rose by 3.46 percent compared with the end of 2022. The U.S. Federal Reserve (Fed) paused interest rate hikes in the fourth quarter over weaker-than-expected non-farm payroll data. As a result, the dollar index fell, and closed at 101.38 at the end of the year, declining by 2.05 percent than the beginning of the year. The euro exchange rate against the U.S. dollar closed at 1.1 and gained by 2.8 percent in 2023, while the British pound closed at 1.27 dollar per pound, up by nearly 5 percent in 2023. The Japanese yen closed at 141.03 yen per dollar, falling by 7.56 percent in 2023 (Figure 1.4).

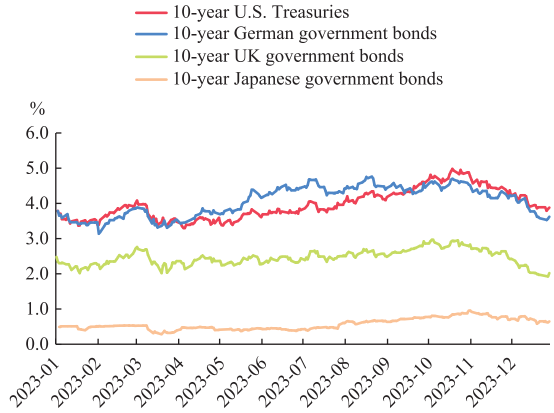
Figure 1.4 Exchange Rates of Major Currencies



Source: Wind.

The yields on government bonds of the major advanced economies fluctuated notably. The U.S. Congress approved a deal to lift the government's borrowing limit in June 2023, and new U.S. Treasuries were issued in large volume in the third quarter, which pushed up the bond yield, with the 10-year Treasuries yield hitting a historic high of 4.98 percent. The surge in the U.S. Treasuries yield also drove up the yields on government bonds in the euro area, the UK, and Japan. As global inflationary pressures had eased since November, central banks in the major advanced economies paused interest rate hikes, and the yields on government bonds fluctuated downwards. At end−2023, the yield on 10-year U.S. Treasuries closed at 3.88 percent, almost unchanged compared with end−2022, while the yields on 10-year German and UK government bonds closed at 2.1 percent and 3.62 percent, falling by 41 basis points and 18 basis points from end−2022, respectively. The 10-year Japanese government bond yield closed 20 basis points higher compared with end 2022 at 0.65 percent (Figure 1.5).

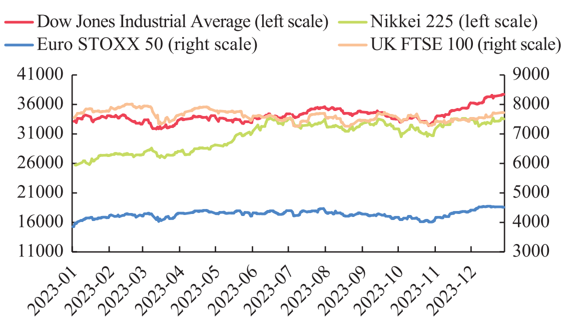
Figure 1.5 Yields on Government Bonds in the Major Advanced Economies



Source: Wind.

Stock markets in the major advanced economies rose. As central banks in the U.S. and Europe paused interest rate hikes, the U.S. Dow Jones Industrial Average and the Euro STOXX 50 jumped by 13.7 percent and 19.2 percent in 2023, respectively. The Nikkei 225 surged by 28.2 percent in 2023 amid a weaker yen and influx of foreign investors. The UK stock market was stable, with the FTSE 100 rising by 3.8 percent in 2023 (Figure 1.6).

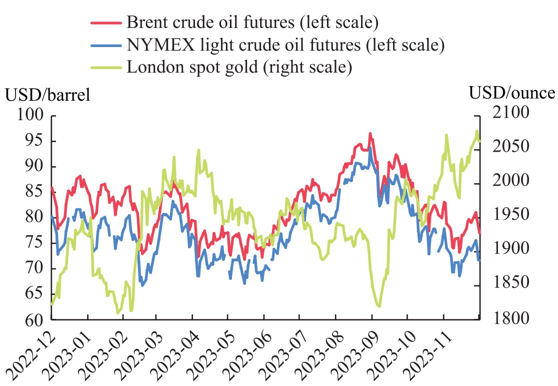
Figure 1.6 Movements of Major Stock Indices



Source: Wind.

The movements of commodity prices were mixed. Due to slowing economic growth expectations, the transition of energy structure and other factors, the price of London Brent crude oil futures and NYMEX light crude oil futures fell by 10.3 percent and 10.7 percent in 2023, respectively. The price of corn and wheat futures at the Chicago Board of Trade dropped by 30.5 percent and 20.7 percent in 2023 thanks to harvest in major grain producers and more grain exports from Ukraine easing supply strains. However, as risk aversion increased amid geopolitical conflicts, the spot gold price went up by 13.2 percent in 2023 to a new record high (Figure 1.7).

Figure 1.7 Movements of Gold and Crude Oil Prices in the International Markets



Source: Wind.

3. Risks and Challenges

Economic growth tends to stabilize, though with slower rates. Global economic recovery still faces challenges and uncertainties in the high inflation, high interest rate, and high indebtedness environment. According to the forecast by the IMF in April 2024, the global economy will grow by 3.2 percent in 2024, unchanged from 2023, but below the average of 3.8 percent from 2000 to 2019. Advanced economies are projected to grow by 1.7 percent, while emerging markets and developing economies to grow by 4.2 percent. According to the World Bank and the OECD forecast in the second quarter of 2024, the global economy would expand by 2.6 percent and 3.1 percent in 2024.

The shift of monetary policy in the major advanced economies merits attention. The Fed, the ECB, and the BOE hiked interest rates by 525 basis points, 450 basis points, and 515 basis points respectively in 2022 and the second half of 2023, bringing their policy rates to or close to peaks. The three central banks entered a rate-cutting cycle in 2024, but the timing and path of their future rate cuts remain highly uncertain due to unclear economic and inflation prospects. The global macro financial outlook is fraught with uncertainties in the face of still heightened geopolitical tensions. The overall tight financial conditions may have implications for the real economy.

Global trade and investment face higher uncertainties. The growth of global trade and investment has slowed down significantly in recent years under the combined effects of unilateralism, geopolitics and the reconfiguration of industrial chains. According to the WTO, the volume of global trade in goods dropped by 1.2 percent in 2023. The United Nations Conference on Trade and Development noted in its report that global FDI fell by 18 percent in 2023 after excluding that from a few European countries that impose little or no levies on capital transfer. Over 70 jurisdictions held general elections in 2024. The highly uncertain domestic and foreign policies may further heighten uncertainties facing global trade and investment.

Global debt keeps rising. Global debt has been on the rise in recent years. According to the IIF, global debt hit USD 313 trillion at the end of 2023, with advanced economies accounting for about two thirds of it. Global debt increased by around USD 15 trillion in 2023, and about 55 percent of it originated from advanced economies. The fiscal space of advanced economies is constrained by persistently high interest rates worldwide, and fiscal sustainability is undermined.

Commercial real estate risk has spread to the financial system. The price of commercial real estate in the U.S. and Europe has declined due to shifts in modes of consumers' behavior and work patterns and the growing trend of online shopping and working from home. The IMF data shows that global commercial real estate price dropped by 12 percent in 2023, among which the price of office buildings fell by 23 percent and 17 percent in the U.S. and Europe respectively. The volatility in commercial real estate has spilled over to related financial markets and products. The default rate of commercial real estate mortgage-backed securities has increased, making it more difficult to refinance. The redemption of REITs surged due to difficulties in paying interests. As banks in the U.S. and Europe have a large exposure to commercial real estate, rising defaults are weighing on banks' business performance, especially that of small - and medium-sized banks.

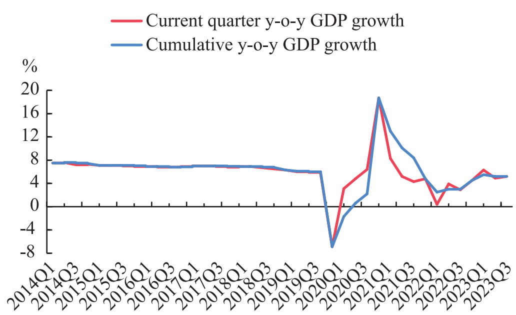
II. Domestic Macroeconomic Performance

2023 was the first year to fully implement the guidance of the 20th National Congress of the CPC, and the first year that witnessed economic recovery after the transition of the three-year-long COVID−19 pandemic prevention and control. Faced with complicated international environment and the arduous task of pursuing domestic reform, development and stability, China firmly followed the general principle of seeking progress while ensuring stability, and strengthened macroeconomic adjustment with a focus on expanding domestic demand, optimizing economic structure, boosting confidence, and preventing and mitigating risks. Thanks to these policy efforts, the national economy continued to recover, economic transformation, upgrading and high-quality development saw solid progress, and major economic and social development goals were achieved.

1. The Economy Continued to Recover, and High-Quality Development Accelerated

In 2023, China's GDP registered RMB 126.06 trillion, increasing by 5.2 percent year-on-year based on comparable prices. The year-on-year growth rates for each quarter were 4.5 percent, 6.3 percent, 4.9 percent, and 5.2 percent, respectively (Figure 1.8). By industrial breakdown, the added value of the primary industry grew by 4.1 percent over a year earlier to RMB 8.98 trillion, that of the secondary industry gained by 4.7 percent over the prior year to RMB 48.26 trillion, and that of the tertiary industry was up by 5.8 percent from 2022 to RMB 68.82 trillion. When compared with 2022, the added value of the primary industry as a share of GDP dropped by 0.2 percentage point to 7.1 percent, that of the secondary industry fell by 1.0 percentage point to 38.3 percent, and that of the tertiary industry increased by 1.2 percentage points to 54.6 percent. The contribution of the three industries to economic growth was about 5.9 percent, 33.9 percent, and 60.2 percent, respectively, with the contribution of the primary industry falling by 4.9 percentage points from the previous year and that of the tertiary industry rising by 4.9 percentage points.

Figure 1.8 China's Economic Growth



Source: The NBS.

Box 1 Analysis of the Changes in China's Macro Leverage Ratio

The macro leverage ratio, which is the ratio of outstanding debt of the non-financial sector to GDP, is a measurement of the debt financing size and structure in relation to economic development. It provides important inputs for decision-making on preventing and mitigating financial risks, and safeguarding financial stability. China's macro leverage ratio rose slightly in 2023, but its structure continued to improve. It not only reflects the fact that the Chinese economy was in the recovery after three-year COVID−19 pandemic, but also demonstrates that macroeconomic policy adjustments have been effective in driving the overall recovery of the real economy.

I. The Macro Leverage Ratio in China

China's macro leverage ratio stood at 296.5 percent at the end of 2023, up by 11.6 percentage points compared with that at the end of 2022. Breakdown by sector shows that, the leverage ratio of non-financial corporations (hereinafter referred to as the corporate sector) was 168.0 percent, up by 6.1 percentage points over the end of 2022, that of the government sector posted 56.1 percent, 5.6 percentage points higher than a year earlier, and that of the household sector registered 72.4 percent, unchanged compared with end−2022.

The rise in macro leverage ratio can be explained by stronger macroeconomic policy adjustments and prices running at low levels. In 2023, to maintain economic recovery, China increased the intensity and efficiency of proactive fiscal policy, and implemented sound monetary policy in a targeted and forceful manner, creating an enabling environment for the non-financial sector to maintain relatively fast growth of debt. At the end of 2023, non-financial sector debt grew by 8.9 percent, faster than the nominal GDP growth in the corresponding period. In the meantime, the nominal GDP growth rate was a bit lower due to lower level of prices. China's nominal GDP grew by 4.6 percent in 2023, down by 0.2 percentage point from 2022.

II. The Structure of China's Macro Leverage Ratio Continued to Improve

1. Continuously improving structure of corporate sector's leverage ratio can help promote economic recovery

In line with the decisions and deployment of the CPC Central Committee and the State Council, the financial sector maintained reasonable and steady credit growth, continued to improve credit structure, provided more high-quality financial services to support major strategies, key areas and weak links, and focused on developing technology finance, green finance, inclusive finance, old-age finance and digital finance. At the end of 2023, the leverage ratio of the corporate sector was 168.0 percent, up by 6.1 percentage points compared with end-2022 and accounting for 52 percent of the increase in the macro leverage ratio. The structure of corporate leverage continued to improve. The ratio of corporate loans to GDP went up by 8.9 percentage points from the prior year. In particular, medium- and long-term corporate loans pushed up the corporate leverage ratio by 7.6 percentage points, contributing over 100 percent to the increase in corporate leverage ratio. This is telling evidence of the financial sector's more stable credit support for the corporate sector. The ratio of off-balance sheet debt (such as entrusted loans and undiscounted banker's acceptances) to GDP was 0.7 percentage point lower than that at end-2022, indicating a decline in corporate off-balance sheet financing. Therefore, risks have abated.

2. The higher leverage ratio of the government sector effectively supported expenditure in key areas

China continued its proactive fiscal policy in 2023. At the end of the year, the leverage ratio of the government sector rose to 56.1 percent, up by 5.5 percentage points compared with end-2022. It was lower than those in jurisdictions such as the U.S. (106.4 percent), the euro area (87.2 percent), and Japan (217.8 percent)[①]. China raised the deficit ratio in 2023 and guaranteed key spending through incremental fiscal funds. The fiscal deficit stood at RMB 4.88 trillion in 2023.

3. The leverage ratio of the household sector remained stable

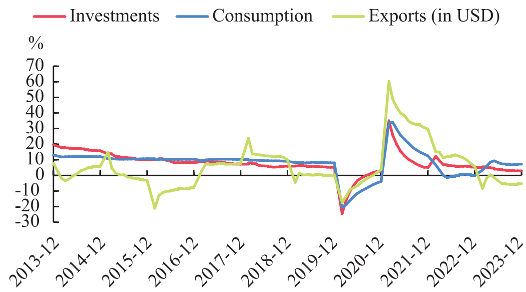
At end-2023, household debt increased by 4.6 percent year on year, 0.1 percentage point higher than the previous year. The growth of debt was largely consistent with nominal GDP growth. The leverage ratio of the household sector was 72.4 percent, the same as end-2022.

① Data source: the Bank for International Settlements.

2. Consumption Became the Main Driver of Growth, and the Balance of Payments was at a General Equilibrium Level

In 2023, China's fixed asset investment (excluding those by rural households) stood at RMB 50.30 trillion, rising by 3.0 percent year on year. Total retail sales of consumer goods reached RMB 47.15 trillion, up by 7.2 percent from 2022. Exports and imports of goods totaled RMB 41.76 trillion, rising by 0.2 percent year on year. In particular, exports went up by 0.6 percent over the previous year to RMB 23.77 trillion, while imports fell by 0.3 percent from the prior year to RMB 17.98 trillion (Figure 1.9). The whole year ran a trade surplus of RMB 5.79 trillion, increasing by RMB 193.7 billion compared with 2022. Demand structure improved, and consumption became a key force in stabilizing economic growth. In 2023, the contribution of final consumption expenditure, gross capital formation, and net exports of goods and services to economic growth was 82.5 percent, 28.9 percent, and −11.4 percent, respectively. They contributed to 4.3 percentage points, 1.5 percentage points, and −0.6 percentage point of GDP growth, respectively.

Figure 1.9 Cumulative Changes of the Three Major Demands



Sources: The NBS and the General Administration of Customs.

In 2023, China ran a current account surplus of USD 253 billion or 1.4 percent of GDP, remaining within the reasonable and equilibrium range. The capital and financial account witnessed a deficit of USD 215.1 billion. In particular, non-reserve financial account ran a deficit of USD 209.9 billion, and reserve assets increased by USD 4.8 billion. At the end of 2023, China's foreign exchange reserves posted USD 3.24 trillion, up by 3.5 percent or USD 110.3 billion over the end of 2022.

Box 2 China's Cross-border Capital Flows in 2023

In 2023, China's balance of payments was generally stable and sound, as capital flows under the current account, with a surplus in 2023, and the non-reserve financial account, with a deficit in the same year, exhibiting an autonomous equilibrium. The current account surplus stayed at USD 253 billion, accounting for 1.4 percent of the GDP, and remained within a reasonable and balanced range. The current account surplus can basically make even for the deficit in the non-reserve financial account, which registered USD 209.9 billion. Reserve assets remained stable with slight increase to a balance of over USD 3.2 trillion at the end of 2023, which continued to make China the country with the largest foreign exchange reserves.

Direct investments posted a deficit. In 2023, China had a direct investment deficit of USD 142.6 billion. Cross-border investments were carried out in an orderly manner, with outbound direct investments in equity totaling USD 110.9 billion, of which those by non-financial sectors were USD 91.7 billion, making non-financial institutions the major participants in going global. Foreign direct investments in equity registered a net inflow of USD 71.7 billion, of which the inflow of capital funds in 2023 was USD 120 billion, driven by a stable inflow of long-term investments by multinational corporations in China.

The net outflow of portfolio investments declined significantly. In 2023, the net outflow of capital under portfolio investments was narrowed by 78 percent than the previous year to USD 63.2 billion, of which investments in the fourth quarter experienced a net inflow of USD 34.8 billion. By breakdown, China's outbound portfolio investments totaled USD 77.3 billion, down by 57 percent year-on-year; the foreign portfolio investments in China recorded a net inflow of USD 14.1 billion, which was a reversal to the net outflow in 2022. While the first three quarters saw a net outflow of USD 31.8 billion in total, the fourth quarter started to see a net inflow of USD 45.8 billion, driven primarily by the increased foreign holdings of RMB-denominated bonds. Foreign portfolio investments in China showed a stabilizing and improving trend.

Other investments continued to post a slight surplus. In 2023, other investments registered a net inflow of USD 3.4 billion. Specifically, China's other outbound investments posted a net inflow of USD 44.1 billion, decreasing by 72 percent year-on-year, and foreign other investments in China registered a net outflow of USD 40.7 billion, decreasing by 55 percent year-on-year.

China continues to maintain a large scale of external financial assets and liabilities, with net assets increasing. At the end of 2023, China's external financial assets reached USD 9.6 trillion, up by 4.0 percent from end–2022; external liabilities reached USD 6.7 trillion, with a slight decrease of 1.8 percent from end–2022; and net external assets increased by 20.1 percent to USD 2.9 trillion, making China remain the third largest net creditor globally. In the past few years, as China has continued to deepen its opening up to the world, business entities have engaged in outbound investments in an orderly manner, with outbound direct investments and portfolio investments increasing steadily. At the end of 2023, China's external non-reserve assets exceeded USD 6.1 trillion, with an increase of 3.8 percent from end–2022, and accounted for 64 percent of China's total external financial assets. Among external liabilities, those accumulated by foreign direct investments in China were around USD 3.6 trillion, which continued to take up the largest share of total external liabilities at 53 percent, up by 0.6 percentage point. Liabilities from foreign portfolio investments registered around USD 1.7 trillion, accounting for 25 percent. Foreign investors' holdings in the domestic securities market had a market capitalization of around USD 953.8 billion. Among these, foreign holdings of stock shares represented 4.0 percent of the total market capitalization of A-shares, and foreign holdings of bonds represented 2.4 percent of the total volume of domestic bonds under custody.

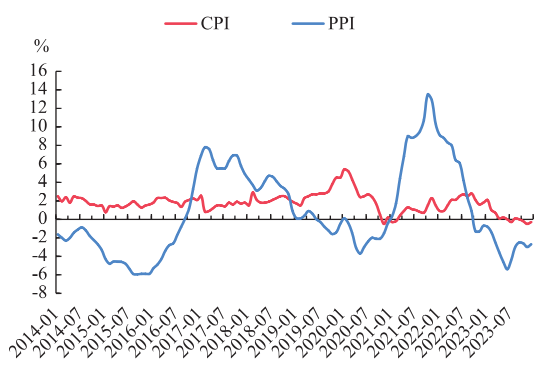
China's economy has maintained a sound performance, with steady growth in production, continued recovery in demand and steady progress in the transformation and upgrading of the industrial structure, which lays a solid foundation for the economy to recover and grow in the long run. Recently, major advanced economies have embarked on a new round of interest rate cuts, creating an easing external financial conditions for cross-border capital flows. As domestic and external environment continues to improve, China's balance of payments will be better positioned to maintain equilibrium.

3. The Increase of CPI Decelerated, While the PPI Turned from Increase to Decrease

In 2023, the CPI rose by 0.2 percent year on year, down by 1.8 percentage points compared with that of 2022. During the four quarters, it increased by 1.3 percent, 0.1 percent, −0.1 percent, and −0.3 percent respectively year on year. By breakdown, food prices fell by 0.3 percent year on year, down by 3.2 percentage points from 2022, while non-food prices rose by 0.4 percent, down 1.4 percentage points from the previous year. Consumer goods prices dropped by 0.3 percent, down by 3.0 percentage points from the prior year, whereas services prices gained by 1.0 percent, up by 0.2 percentage point from 2022. The core CPI excluding food and energy was stable in general, rising by 0.7 percent year on year, 0.2 percentage point lower than that in 2022.

In 2023, the PPI was down by 3.0 percent year on year, compared with a year-on-year increase of 4.1 percent in 2022. During the four quarters, it fell by 1.6 percent, 4.5 percent, 3.3 percent, and 2.8 percent year on year, respectively. By breakdown, producer prices for consumer goods dipped by 0.1 percent, down by 1.6 percentage points compared with 2022, while producer prices for means of production fell by 3.8 percent, 8.9 percentage points lower than 2022. The Purchasing Price Index of Raw Materials, Fuel and Power was down by 3.6 percent, 9.9 percentage points lower compared with that of 2022. It dropped by 0.7 percent, 5.2 percent, 4.8 percent, and 3.8 percent year on year during the four quarters, respectively (Figure 1.10).

Figure 1.10　Monthly Movements of Major Price Indices



Source: The NBS.

Box 3 The Changes in Prices are Characterized by Phased and Structural Features

Price is determined by supply and demand in the real economy, with CPI and PPI being the main indicators reflecting the macro price level. In 2023, affected by multiple factors both at home and abroad, China's price level saw a phased decline, while the core CPI still maintained a moderate growth. There are obvious structural changes.

I. Price Dynamics Since 2023

In 2023, China's price increased moderately. CPI increased by 1.3 percent, 0.7 percent and 0.4 percent year-on-year in the first three quarters respectively, and declined by 0.3 percent year-on-year in the fourth quarter, showing a phased decline. China's price rose moderately by 0.2 percent through 2023. Since the second half of the year, CPI has overall maintained near zero, but the core CPI, which excludes food and energy, has increased gently by 0.7 percent through 2023. In 2023, PPI declined by 3.0 percent year-on-year, and fell by 1.6 percent, 4.5 percent, 3.3 percent, and 2.8 percent in each quarter respectively, with the rate of decline gradually narrowing since the second half of the year. CPI increased by 0.1 percent and PPI declined by 2.7 percent year-on-year on average from January to April, 2024.

II. Opinions on Price Performance in 2023

The low price results from the imbalanced supply and demand, compounded by cyclical and imported factors and high baseline level. During the COVID–19 pandemic, China's macroeconomic policy focused on maintaining supply, stabilizing social productivity, and refraining from resorting to a deluge of strong stimulus policies, while the demand side was constrained by the slowdown of residents' income growth. After the COVID–19 period, the problem of insufficient domestic demand appeared, and overseas resumption of production and "big-power politics" led to contraction of foreign demand, exacerbating the contradiction between supply and demand. In addition, cyclical adjustment of food prices and energy prices, falling inflation in advanced economies and high base of some commodity prices in the same period of the previous year, have all impacted China's price level. Overall, domestic money growth rate maintained within a reasonable range. Development trend of economic recovery momentum remained positive. Residents' inflation expectations were relatively stable.

Price structure of different industries diverged, with prices in industries with a high correlation with backward production capacity falling more, which is conducive to the transformation and upgrading of the economic structure. Both CPI and PPI measure the average change. In the process of economic structural transformation and upgrading, the replacement of growth drivers, and advancement of high-quality development, the differentiation of economic indicators in different fields has increased. Against this backdrop, it is important to focus not only on average change but also on structure. For example, among the eight major categories of goods and services prices that constitute the CPI, one category was flat and six others rose, with only one category, the price of transportation and communications, dropped. The trend of sustained recovery of consumer demand remained unchanged. Among the seven industries of PPI, ferrous metal processing that has high correlation with real estate has a larger decline in prices. For areas that are more linked to outdated production capacity, the prices of related products and services become lower, promoting enterprises to control overcapacity and reduce excess inventory.

Prices are expected to rise moderately alongside with economic recovery. First, as the government continues to strengthen growth stabilization, residents' willingness to consume recovers faster. Private investment activity is rising, with gradual release of effective demand. At the same time, the effects of the macroeconomic policy measures introduced previously are gradually appearing, and recovery momentum of China's economy continues and strengthens. All these factors will support the price to rebound. Second, the overall price growth of agricultural products is expected to slow down, excessive industrial capacity of pig is cut, and tourism and holiday consumption become more active. All these factors will contribute to the rebound in prices. Third, China is in a critical period of economic transformation and industrial upgrading. The trend of economic recovery and long-term growth remain unchanged, and the favorable factors of economic development dominate the unfavorable factors. Supply and demand will gradually become balanced, the monetary conditions are reasonable and moderate, and prices are expected to rebound gently in the future.

III. Implement Comprehensive Measures to Promote the Reasonable Operation of Prices

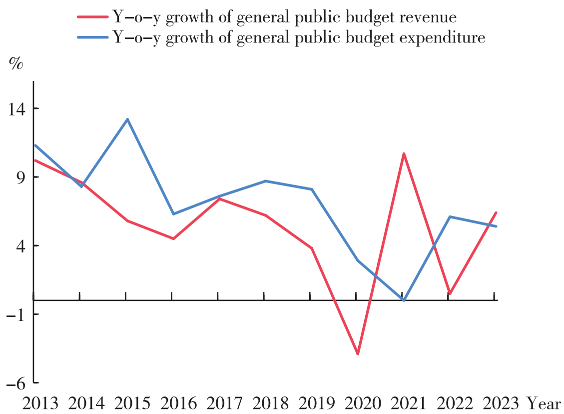
To keep price at a reasonable level, it is essential to strengthen policy coordination, focus on expanding domestic demand through measures such as increasing residents' income, expanding employment, improving the social security system, and further implementing the consumption-driven strategy, which will further promote demand-supply balance in the real economy. The PBC will also take maintaining price stability and promoting mild rebound in prices as an important consideration in its monetary policy, and promote the introduced policy to show effect. The PBC will also guide financial institutions to scientifically assess risks, constrain the credit supply to overcapacity industries, satisfy the financing needs of reasonable consumption, and create a beneficial monetary and financial environment for economic development through optimizing the structure of credit as well as improving the quality and efficiency of financial services.

4. Fiscal Revenue Grew at a Faster Pace, While the Growth of Fiscal Expenditure Moderated

The national general public budget revenue posted RMB 21.68 trillion in 2023, rising by 6.5 percent year on year, 6.0 percentage points higher than the growth in 2022. By breakdown, the central government general public budget revenue was RMB 9.96 trillion, a year-on-year increase of 4.9 percent and representing 45.9 percent of the national total. The local government general public budget revenue was RMB 11.72 trillion, up by 7.8 percent from 2022 and accounting for 54.1 percent of the national total. By revenue structure, tax revenues stood at RMB 18.11 trillion, rising by 8.7 percent compared with a year earlier and representing 83.6 percent of the national general public budget revenue, while non-tax revenues fell by 3.7 percent year on year to RMB 3.57 trillion, and contributed to 16.4 percent of the national total. In particular, domestic VAT increased by 42.3 percent, mainly due to the large VAT credit refunds and low base in the same period of 2022.

The national general public budget expenditure registered RMB 27.46 trillion in 2023, up by 5.4 percent from 2022, 0.7 percentage point lower than the growth in 2022. By breakdown, the general public budget expenditure of the central and local governments increased by 7.4 percent and 5.1 percent year on year, respectively, to RMB 3.82 trillion and RMB 23.64 trillion (Figure 1.11). By expenditure structure, spending on social security and employment, science and technology, and education grew relatively fast by 8.9 percent, 7.9 percent, and 4.5 percent, respectively (Figure 1.11).

Figure 1.11　Growth of Fiscal Revenue and Expenditure



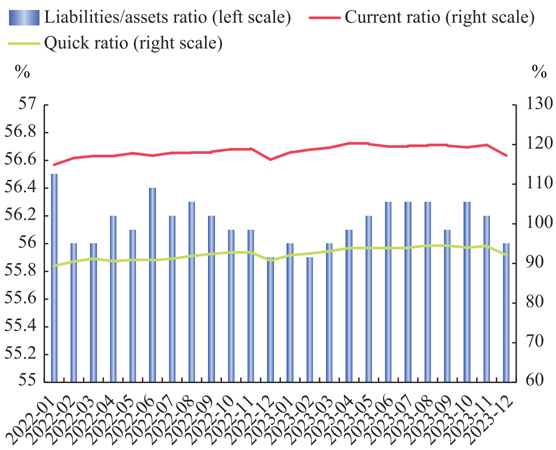
Source: The MOF.

5. Profits of Industrial Firms Fell Slightly, and Their Short-Term Debt Servicing Capacity was Improved

In 2023, the business revenues of large industrial firms grew by 1.1 percent year on year to RMB 133.4 trillion, while the business costs went up by 1.2 percent compared with 2022 to RMB 113.1 trillion. They reported a total profit of RMB 7.69 trillion, falling by 2.3 percent year on year. The profit margin was 5.76 percent, down by 0.20 percentage point from a year ago. Among the 41 industrial categories, 27 made more profits compared with the previous year, whereas 14 industries witnessed a decline in profits.

According to a survey of 5000 industrial firms conducted by the PBC, the main business revenues of sample firms kept increasing and their total profits dropped moderately in 2023. Their main business revenues went up by 0.1 percent year on year, while their total profits declined by 5.8 percent from the previous year. In terms of asset turnover, the total asset turnover ratio of sample firms was almost the same as that in 2022 at 0.7, whereas the inventory turnover ratio fell slightly by 0.1 compared with 2022 to 5.8. The operating cycle was extended by 4.1 days compared with a year earlier to 124.9 days. In terms of debt-servicing capacity, the liabilities-to-assets ratio of sample firms rose by 0.2 percentage point from end−2022 to 56.0 percent. The current ratio and quick ratio were 117.2 percent and 92.1 percent respectively, up by 1.0 percentage point and 1.4 percentage points compared with end−2022. The interest coverage multiplier was 9.4 times, up by 0.7 times compared with end−2022 (Figure 1.12).

Figure 1.12 Liabilities/Assets Ratio, Current Ratio, and Quick Ratio

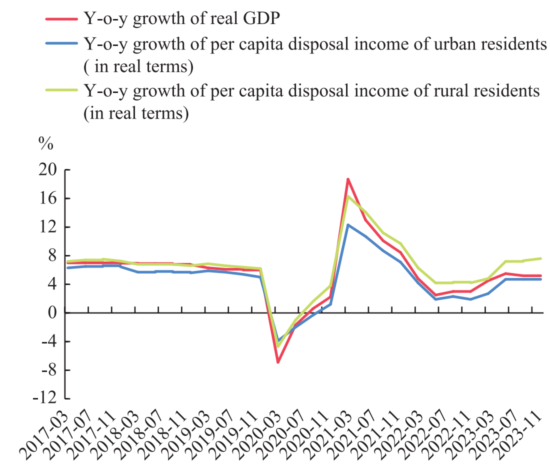


Source: The PBC.

6. Employment Remained Stable and the Income Disparity Between Urban and Rural Residents Further Narrowed

In 2023, 12.44 million new jobs were created in urban areas, 380000 more than that in 2022. The average national surveyed urban unemployment rate was 5.2 percent, down by 0.4 percentage point compared with that of 2022. At the end of 2023, the national surveyed urban unemployment rate was 5.1 percent. The per capita disposal income was RMB 39218, growing by 6.1 percent after being adjusted for inflation, 3.2 percentage points higher than that of 2022. By breakdown, the per capita disposal income of urban residents was RMB 51821, an increase of 4.8 percent in real terms, while that of rural residents was RMB 21691, a gain of 7.6 percent in real terms. The urban-to-rural per capita disposal income ratio was 2.39, narrowing by 0.06 compared with the previous year (Figure 1.13).

Figure 1.13 Growth of Per Capita Disposable Income of Urban and Rural Residents and GDP



Source: The NBS.

7. The Decline in Real Estate Sales Narrowed, and the Supply-and-Demand Saw a Major Shift

Total real estate sales posted 1.117 billion square meters in 2023, down by 8.5 percent year on year, 15.8 percentage points lower than the decline in 2022. In particular, the floor area of residential property sold fell by 8.2 percent year on year to 948 million square meters, narrowing by 18.6 percentage points compared with the fall in 2022.

Total real estate sales posted RMB 11.66 trillion in 2023, down by 6.5 percent from the prior year, narrowing by 20.2 percentage points compared with the decline in 2022. The prices of new and preoccupied residential housing in 70 large and medium-sized cities dropped by 0.9 percent and 4.1 percent in December 2023, respectively, compared with 2.3 percent and 3.8 percent a year ago.

III. Outlook

In 2024, the financial sector will continue to follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and fully implement the guiding principles of the 20th CPC National Congress, the Second and Third Plenary Sessions of the 20th CPC Central Committee, the Central Economic Work Conference, and the Central Financial Work Conference. The country will uphold the general principle of pursuing progress while ensuring stability, fully and faithfully implement the new development philosophy on all fronts, and expedite the fostering of a new development pattern. It will focus on promoting high-quality development, comprehensively deepen reform and opening up, strengthen macroeconomic policy adjustment efforts, and make sure that the implementation of the strategy to expand domestic demand is integrated with efforts to deepen supply-side structural reforms. It will take concrete measures to inject more impetus to the economy, prevent and address risks, improve social expectations, and continue to concrete and strengthen economic recovery momentum, so as to continuously support the economy to achieve effective qualitative improvement and reasonable quantitative growth.

China will implement a more proactive fiscal policy and an appropriately accommodative monetary policy. It will strengthen counter-cyclical and cross-cyclical macroeconomic policy adjustments, and step up the innovative and coordinated use of policy tools. It will increase the fiscal deficit ratio to ensure stronger and more sustained fiscal support. It will increase the issuance and use of local government special bonds and expand the scope of investment and projects where local government special bonds could be used to provide the capital. It will also optimize spending structure and improve the efficiency of public funds use. China will better leverage the aggregate and structural monetary policy tools to keep liquidity abundant, so that the growth in total social financing and money supply will match the targets for economic growth and overall price levels. China will better support the key areas and weak links in high-quality development, promote technology finance, green finance, inclusive finance, old-age finance and digital finance, and ensure a steady yet slowly decreasing level for overall social financing costs.

China will put in place proper institutional mechanisms in the financial sector to effectively support the real economy. The PBC will use a mix of monetary policies to continue to step up support for MSEs, the manufacturing sector, green development, technological innovation, and other key areas and weak links. It will continue with the campaign in the financial sector to improve its capacity in providing better financial services to micro-, small-, and medium-sized businesses, and make financing more accessible and available for private businesses and MSEs. It will guide financial institutions to beef up financial support for rural revitalization, and better meet the diverse financing needs of agriculture-related sectors and groups.

China will deepen financial sector reform and opening up. The PBC will strengthen macroprudential management of the money market and improve the monitoring mechanism for money market liquidity. It will improve the legal system for the bond market, put in place a mechanism for coordinating the roles of market makers and open market primary dealers, and forge ahead with bond market opening up. The PBC will promote the international use of RMB in a steady and prudent manner, expand the use of RMB in cross-border trade and investment, deepen currency cooperation with its peers, and develop off-shore RMB markets. In the meantime, the PBC will advance the pilot of high-standard opening up of cross-border trade and investment, promote the liberalization and facilitation of cross-border trade and investment, and steadily push forward the RMB capital account convertibility.

China will prevent and mitigate financial risks in a proactive and prudent manner. The PBC will further improve the macroprudential policy framework, enhance its capabilities to monitor and assess systemic risks, and diversify its macroprudential policy toolkit. It will better regulate systemically important financial institutions, promote the implementation of additional regulatory requirements for systemically important banks, and expedite the implementation of total loss-absorbing capacity requirement for global systemically important banks headquartered in China to increase their resilience. The PBC will actively promote risk resolution and mitigation through reforms in key regions, institutions, and fields. It will guide financial institutions to support the mitigation of local government financing vehicle debt risk through debt restructuring and swap in accordance with market principles and rule of law. It will also promote the mitigation of risks of small and medium-sized financial institutions, enhance the prompt correction mechanism with rigid constraints, put in place a scientific and proper mechanism for sharing the cost of resolving financial risks, and further tap into the core function of deposit insurance scheme.

Box 4 Advancing Development of the "Five Major Chapters" in the Financial Sector

The Central Financial Work Conference pointed out that it is necessary to provide high-quality financial services for economic and social development, and identified five specific "major chapters" or priority topics, i.e. science and technology finance, green finance, inclusive finance, old-age finance, and digital finance, with the aim of channeling more financial resources to promote scientific and technological innovation, advanced manufacturing, green development, and micro-, small- and medium-sized enterprises. To implement the decisions and policy agenda set by the CPC Central

Committee and the State Council, the PBC and relevant authorities have improved the relevant policy framework and enhanced the financial structure and financial product/service system centering around the above important strategy, priority sectors and weak links, so as to contribute to the transition to high-quality growth by focusing on enhanced quality and effectiveness of the financial sector in serving the real economy.

I. The Financial Support System for the Science and Technology Sector Has Been Enhanced to Invigorate A High-level Technological Self-reliance

Strengthening the top-level institutional design of financial support for scientific and technological innovation. The authorities have thoroughly implemented the *Action Plan on Strengthening Financing Support for Science and Technology-driven Enterprises*, and established the working mechanism to coordinate policy efforts in the science and technology finance sector, in order to put in place a comprehensive and multi-tiered financial service system. Further, the authorities have improved the financial policy system targeting two key segments, i.e. major national scientific and technological projects, and science and technology-driven SMEs. They have launched a special campaign to enhance financial service capacities for the science and technology sector, and jointly convened information-sharing and progress-monitoring sessions, to increase financial services to the science and technology sector in a more targeted and effective manner.

Using macro credit policy guidance. The authorities are leveraging the structural monetary policy tools to guide financial institutions to make good use of the science and technology-related refinancing facility and continue to channel more credit resources to the scientific innovation sector. Banks are encouraged to increase medium- and long-term credit support for high-tech enterprises and enterprises engaged in “specialized, refined, and innovative” areas by facilitating sharing of technology-related public information and matching of financing needs. By the end of 2023, loans granted to high-tech manufacturing industries (medium- and long-term in maturities), science and technology-driven SMEs, and enterprise engaged in “specialized, refined, and innovative” areas increased by 34 percent, 21.9 percent and 18.7 percent y-o-y respectively, well above the growth rate of total bank loans.

Making steady progress with the establishment of tech-innovation finance reform pilot zones. In 2023, the tech-innovation finance reform pilot zones and technology finance pilots in high-tech zones were being pushed ahead in an orderly manner. In May 2023, a tech-innovation finance reform pilot zone, located in the Zhongguancun National Innovation Demonstration Zone in Beijing, was established and targeted policies including the cross-border financing facilitation measures were introduced. In addition, the authorities have also pushed forward the construction of tech-innovation finance reform pilot zones in five cities in the Yangtze River Delta (Shanghai, Nanjing, Hangzhou, Hefei and

Jiaxing) and Jinan in Shandong Province. These pilot zones are playing a demonstration role in exploring new paths and models for technology finance.

II. The Green Finance Policy Framework Has Been Strengthened to Better Fuel the Transition to A Green and Low-carbon Economy

First, the policy framework for green finance has been gradually put in place. The PBC has been leading the efforts in issuing the *Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development*, improving the green finance taxonomy and statistical system for green credit, carrying out evaluation of financial institutions' green finance performance, and encouraging carbon accounting and environmental information disclosure. A green finance policy framework featuring "three major functions" and "five pillars" is established.

Second, structural monetary policy tools targeting green finance have been introduced. The PBC has guided financial institutions to increase green lending through the introduction of a RMB 800 billion carbon emission reduction facility and another RMB 300 billion special refinancing facility targeting the clean and efficient use of coal. Since China announced its carbon peaking and neutrality goal, green loans have been growing at a high rate of over 20 percent y-o-y. By the end of 2023, outstanding green loans reached RMB 30.1 trillion, 2.5 times larger than that of end 2020, and grew at 36.5 percent y-o-y, 26.4 percentage points higher than the growth of total bank loans.

Third, the green bond market has been growing rapidly. The release of *China Green Bond Principles* and China Green Bond Index facilitated the convergence of green bond standards in the domestic market, in terms of green project coverage, use of funds, third-party assessment and information disclosure. Innovative products were launched, such as carbon neutrality bonds, transition bonds and sustainability-linked bonds. By the end of 2023, a total of over RMB 3.4 trillion green bonds has been issued, with an outstanding amount of over RMB 1.9 trillion.

III. Financial Supply for Inclusive Purpose Has Been Further Improved to Help Realize Common Prosperity for All

First, financial institutions have increased the strength of financing support for privately-owned MSE. The PBC, together with relevant authorities, issued a policy initiative to increase financial support to the private sector consisting of 25 measures. It also launched a special campaign to improve the financial system's capacity in serving MSMEs, and extended the effective period of the support facility for inclusive MSE loans until end 2024. Inclusive MSE loans continue to show a trend of increasing amount, expanding coverage and decreasing cost. By the end of 2023, outstanding inclusive MSE loans stood at RMB 29.4 trillion, with an increase of 23.5 percent y-o-y, and the number of credit-granting inclusive MSE reached 61.66 million. The weighted average interest rate for newly issued inclusive MSE loans in December 2023 was at a historically low level of 4.68 percent.

Second, financial services for rural revitalization continue to deepen. By the end of 2023, agriculture-related loans amounted to RMB 56.6 trillion, up by 14.9 percent y-o-y, and its share as a percentage of total bank loans increased to 24.7 percent from 21.8 percent at end–2020. The total issuance of special bonds targeting agriculture, rural areas and farmers amounted to RMB 148.15 billion, and that of rural revitalization-linked bills reached RMB 198.88 billion. Agriculture-related financing channels have been expanded continuously, offering strong support for the development on agricultural powerhouse.

Third, credit supply in support of social welfare areas has been increased. The authorities have enhanced relevant lending policies and increased credit line of guaranteed loans to entrepreneurs and business start-ups to RMB 300000 and RMB 4 million respectively, in order to encourage entrepreneurship and job creation. The policy for interest exemption and deferred repayment of principal for state-subsidized student loans was extended, with increased credit line and reduced interest rate, in order to better support those students with financial difficulties. By the end of 2023, entrepreneurship loans and student loans amounted to RMB 281.7 billion and RMB 218.4 billion, up by 5.2 percent and 22.4 percent y-o-y respectively.

IV. Financial Services for the Elderly Has Been Improved to Provide Better Support to the Elderly Care

First, the financial service system around the elderly population is being established. The PBC has enhanced the old-age finance policy framework, and led the efforts in issuing the guiding opinions on financial support for the growth of the elderly care industry. The old-age finance-related products and services have been diversified, and the pilots for exclusive commercial pension insurance, pension WMPs, targeted pension savings, and commercial pension funds issued by pension insurance companies have been introduced. These efforts aim to channel financial resources to better meet the financial needs of the “gray-hair economy”.

Second, financial support for the elderly care industry has been increased. The authorities are using targeted credit policy tools, notably the refinancing facility for inclusive pension loans in April 2022, to encourage financial innovation and development of suitable credit products for the elderly care industry. By the end of 2023, taking advantage of the refinancing facility, pilot banks have issued a total of RMB 2.16 billion preferential loans, and these loans have further supported over RMB 100 billion elderly care industry loans, which generated strong support to the development of the elderly care industry.

Third, the quality of elderly-friendly financial services has been improved. Financial institutions are encouraged to upgrade services at their outlets to accommodate needs of the ageing population, bridge the "digital gap" for the elderly, and develop elderly-friendly mobile banking applications. Currently, more than 96 percent of bank outlets have been upgraded to provide elderly-friendly services, which helped to significantly improve financial accessibility for the elderly. In order to safeguard the elderly population's "money bags" and their financial rights, the authorities have launched a financial literacy campaign among the elderly population, improving their literacy and knowledge on investment and wealth management and preventing them from being involved in financial fraud.

V. Financial Services for Digital Economy Have Been Accelerated to Empower the Digital Transition

First, digital transformation of the financial sector has been advanced. The PBC is pushing for the transformation to a digital central bank through the establishment of a new data-driven mode in the information era, and enhancing the financial technology capacity needed for the modern central banking system, in order to empower central bank performance. In addition, the PBC is leading the implementation of the fintech development plan, coordinating the digitalization of financial infrastructures, and encouraging financial institutions and infrastructures to optimize their organizational structure, and engage in financial product innovation, service process optimization and risk management enhancement through the deployment of digital channels and technologies, so as to improve the quality and efficiency of financial services. A number of technical guidelines and application guidance, covering digital technology topics such as artificial intelligence algorithms, have been rolled out to guide financial institutions in their choice of technological paths and applications. The pilot program of the e-CNY is carried out in a steady manner.

Second, financial support for the digital economy has been increased. The authorities are using structural monetary policy tools, such as the science and technology innovation refinancing facility and special refinancing for equipment renewal and upgrading, to channel financial resources to support the digital economy, including the adoption of new infrastructures and digital transformation of traditional industries. Bond products such as the scientific innovation bills have been launched to open a green channel to meet the bond financing needs of qualified digital economy enterprises, and direct financing channels for science and technology enterprises have been broadened. Financial institutions are encouraged to better suit their financial services to the light-asset and heavy-intelligence characteristics of digital economy enterprises, and provide high-quality financial services through innovative products, improved loan-granting processes, and enhanced risk control.

Third, the interaction and integration of digital finance with other priority sectors has been increased. Financial institutions are encouraged to use big data, cloud computing and other technologies to improve the technology-based credit assessment model, taking into consideration the innovative capacity of enterprises, and provide targeted financial services for the technology sector. By the end of 2023, loan approval rate for tech SMEs was 46.8 percent, up by 2.1 percentage points from end 2022. In the green sector, digital technologies such as artificial intelligence, Internet of Things are also used for the measurement, accounting and disclosure of carbon emission reduction, enhancing financial institutions' ability to identify and better serve energy-saving and low-carbon-emission enterprises and projects. Fintech-enabled rural revitalization pilots are carried out, and over 270 digital finance-empowered pro-farmer business models that fit into local conditions are introduced.

Going forward, the PBC will further prioritize development in the five priority sectors through enhanced top-level design and planning, improved policy measures and stronger cross-agency coordination, and continue to contribute to the high-quality economic and financial growth.

Chapter II

Banking Sector

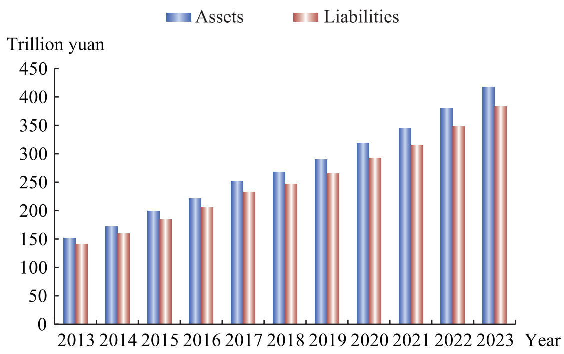
In 2023, China's banking sector provided financial support for key areas and weak links of the real economy, contributed to the continous and deeper reform and opening-up, and prevented and mitigated major risks. Banking financial institutions functioned prudently and orderly, with sustained growth in assets and liabilities, largely stable capital adequacy level, improved asset quality and adequately sufficient liquidity.

I. Banking Sector Performance

1. Assets and Liabilities Grew Steadily, and the Industrial Structure Remained Stable

Assets and liabilities grew steadily, with a slight decline in the growth rate. At end−2023, total assets of banking institutions registered RMB 417.29 trillion, up 9.93 percent year on year, a deceleration of 0.11 percentage point from the previous year; and total liabilities registered RMB 383.12 trillion, up10.09 percent year on year, a deceleration of 0.29 percentage point from the previous year (Figure 2.1). In particular, the six large state-owned commercial banks and city commercial banks accounted for 42.36 percent and 13.23 percent of the total banking sector assets respectively, up 1.17 percentage points and 0.08 percentage point from the previous year; and joint-stock commercial banks and rural financial institutions accounted for 16.99 percent and 13.09 percent of the total banking sector assets respectively, down 0.53 percentage point and 0.09 percentage point from the previous year.

Figure 2.1 Assets and Liabilities of Banking Institutions

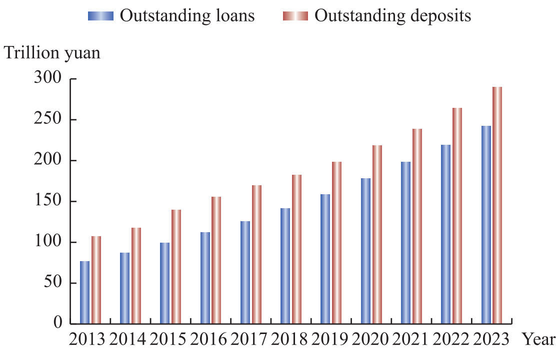


Source: The NFRA.

Loans maintained reasonable growth, while the growth of deposits slowed down. At end−2023, total deposits denominated in both domestic and foreign currencies in financial institutions① stood at RMB 289.91 trillion, an increase of 9.63 percent year on year and a deceleration of 1.20 percentage points from the previous year; and outstanding loans denominated in both domestic and foreign currencies by financial institutions stood at RMB 242.24 trillion, an increase of 10.56 percent and an acceleration of 0.19 percentage point from the previous year (Figure 2.2). By maturities, medium- and long-term loans registered RMB 159.18 trillion, up 11.50 percent year on year, of which loans to enterprises and public institutions registered RMB 99.79 trillion, up 15.72 percent year on year. By entity type, the six large state-owned commercial banks and China Development Bank saw their aggregate RMB deposits and loans increasing by 12.96 percent and 12.62 percent year on year respectively, while other banks grew by 8.04 percent and 9.49 percent year on year respectively.

① PBC, depository financial institutions in the banking sector, non-depository financial institutions in the banking sector included.

Figure 2.2 Outstanding Deposits and Loans Denominated in Both Domestic and Foreign Currencies by Financial Institutions



Source: The PBC.

The industrial structure of the banking sector remained stable. At the end of 2023, there were 4490 banking financial institutions nationwide, a decrease of 77 institutions from the previous year. Among the 4490 institutions, there were 125 city commercial banks, 19 privately-owned banks, 1607 rural commercial banks, 23 rural cooperative banks, 499 rural credit cooperatives, 1636 village and township banks, 2 direct banks and 41 foreign banks. In addition, there are 116 branches of banks from Hong Kong, Macao, Taiwan and foreign countries.

Box 5 Strengthening the Role of Deposit Insurance in Financial Risk Resolution

Since the promulgation of the *Deposit Insurance Regulations* in 2015, China has put in place a well-functioning deposit insurance system that increasingly prioritizes market- and law-based resolution, as demonstrated in the resolution of distressed banks such as Baoshang Bank. The 2023 Central Financial Work Conference emphasized guarding against financial risks as the eternal theme of financial work. Moving forward, deposit insurance's resolution function needs to be further enhanced through strengthening inter-agency collaboration, accumulating resources and diversifying resolution tools, so as to reinforce its role as a pillar of the financial safety net.

I. The Risk Resolution Mandate of Deposit Insurance

Deposit insurance is involved in the whole risk prevention, mitigation and resolution process of insured institutions. The deposit insurance system, together with prudential regulation and the central bank's role as the lender of last resort, constitutes the three pillars of the financial safety net. China's deposit insurance system was introduced with the purpose to protect the legitimate rights and interests of depositors, establish a market-oriented and law-based financial risk resolution mechanism, prevent and resolve financial risks in a timely manner, and safeguard financial stability. China's deposit insurance adopts a "risk minimizer" function. Before resolution, it can apply differentiated premium rates, issue risk warnings, or take early corrective measures to supplement regulator's actions, and advise the regulator to initiate the resolution process for risky depository institutions that meet resolution conditions. During resolution, it can use resolution tools such as pay-out and purchase and assumption (P&A) in accordance with the law.

Close collaboration with relevant authorities is essential to jointly prevent and resolve financial risks. At the risk monitoring stage, an information-sharing mechanism has been established between the deposit insurance fund management authority and the financial regulatory authorities to exchange details about the risk profile, inspection reports, and ratings of the insured institutions. At the early correction stage, the deposit insurance management authority is mandated to take corrective measures against problem institutions, including requiring capital replenishment, limiting asset growth, putting restrictions on loan issuance to big transactions, and reducing leverage. Risk conditions of the problem institutions are shared with the financial regulatory authorities and local governments in a timely manner. At the resolution stage, the deposit insurance authority coordinates with relevant authorities to develop resolution strategies for institutions whose failure entails the use of the deposit insurance fund, and provide necessary funding support in accordance with the least cost principle.

II. The Risk Resolution Practices of Deposit Insurance

Facilitating the market-based resolution of Baoshang Bank. In May 2019, Baoshang Bank was taken over by the PBC and former CBIRC due to severe credit risk. Through the concerted efforts of relevant parties, funding support was extended by the PBC and deposit insurance fund to provide full guarantees for claims below RMB 50 million, and partial guarantees for claims above RMB 50 million in accordance with relevant laws. With nearly 90 percent of all claims guaranteed, the legitimate rights and interests of depositors and other creditors were protected to the greatest extent possible. Meanwhile, to ensure the continuity of financial services during resolution, deposit insurance participated in launching the new Mengshang Bank and invested in Huishang Bank, which both acquired assets and assumed liabilities as well as businesses of the Baoshang Bank. In August 2021, Baoshang Bank completed its bankruptcy and liquidation procedures. By doing so, Baoshang Bank formally exited the market through the combination of "takeover + P&A + bankruptcy" strategies.

Facilitating the reform and risk resolution of small- and medium-sized banks in Liaoning province. Starting in 2021, local government in Liaoning province has been pushing forward with efforts to resolve risks of regional small- and medium-sized banks through reforms. Deposit insurance actively collaborated with the local government and financial regulatory authorities in this process to develop risk mitigation and resolution strategies. In the reform of city commercial banks, deposit insurance made a contribution of RMB 1 billion to the newly-established Liaoshen Bank, and supported its acquisition and merger of Yingkou Coastal Bank and Liaoyang Bank, which effectively helped stabilize market expectations and boost confidence. In the reform of rural credit institutions, deposit insurance, in accordance with the law, provided funding support to Liaoyang Rural Commercial Bank (including Taizihe Village Bank which it launched as a major shareholder) to facilitate its bankruptcy and exit, which effectively protected depositors' legitimate rights and interests.

III. Further Strengthening the Role of Deposit Insurance in Financial Risk Resolution

Effectively utilizing the role of deposit insurance in financial risk prevention and resolution. In the process of risk prevention, deposit insurance's early correction mechanism with rigid constraints needs to be strengthened and its early corrective measures diversified, so as to reduce resolution costs and obstacles at the later resolution stage. During risk resolution, the deposit insurance fund management authority should be fully involved in the development of resolution plans in accordance with the law and regulations, and conduct asset management and necessary valuation reviews.

Expanding channels for the accumulation of the deposit insurance fund. Collection of deposit insurance premiums should continue as a routine. Steadily explore investment and other fund utilization methods for the deposit insurance fund, to increase its investment returns while ensuring safety. Explore the introduction of backup financing mechanisms by taking into account considerations such as availability and costs of financing sources, and when necessary, replenish liquidity of the deposit insurance fund in a timely manner.

Diversifying risk resolution tools of deposit insurance. Resolution measures such as deposit pay-outs, P&A should be further refined, and mechanisms for facilitating P&A should be expanded to include placing deposits, investing in capital instruments and issuing special bills, in order to better support risk resolution of high-risk institutions.

Box 6 Public Awareness of Deposit Insurance Scheme in China Improves Steadily

The evaluation of public awareness of deposit insurance is an important part of deposit insurance campaigns. Public awareness evaluation aims to understand public literacy on the definition, coverage, access channels, and other aspects of deposit insurance scheme through telephone calls, e-mails, or personal interviews. It provides important inputs for targeted improvement in deposit insurance campaigns, and helps to increase the protection function of deposit insurance. According to the *Enhanced Guidance for Effective Deposit Insurance Systems: Public Awareness of*

Deposit Insurance Systems published by the International Association of Deposit Insurers (IADI), the deposit insurer should monitor and conduct regular, independent evaluations of public awareness level.

Public awareness level of deposit insurance in China has been improving steadily. Since the introduction of China's deposit insurance scheme, the authorities have carried out three nation-wide awareness evaluations, focusing on the four dimensions of "knowing, understanding, recognizing and acting". The questionnaire design and evaluation format have been improved, and the sample size and structure have been adjusted. The most recent evaluation covers a total valid sample of over 2000 county-level administrative regions in 31 provinces/autonomous regions/municipalities, with a sample pool that accounts for three ten-thousandths of the total population in China. The 2023 public awareness evaluation was scored at 69.6 points, showing a steady improvement from 2022. According to the results, 85 percent of the respondents are aware of deposit insurance, 70 percent of the respondents are aware of the compensation limit and who pays for the deposit insurance premiums, and 55 percent of the respondents are aware that both principal and interests of deposits are insured.

Public awareness of deposit insurance is characterized by the following features. The general preference of the public for deposits is for stability and safety, with safety being the primary consideration. 52 percent of the respondents are concerned about whether their deposits are insured or not. Public awareness differs greatly depending on the occupation, age and educational background of the respondents. Awareness of financial sector/corporate employees is relatively higher than that of students and housewives/househusbands. In addition, awareness of the elderly and those with a junior high school education or below is generally low.

Going forward, we will continue to improve the targetedness and effectiveness of deposit insurance campaigns by focusing on key regions and demographic groups, fully utilizing the physical outlets of deposit-taking institutions as the main front of education, adopting more diversified methods and cultivating the sense of deposit protection, so as to further enhance public confidence in deposit insurance and contribute to the banking system stability.

2. Continuously Deepening the Banking Sector Reform

Continuously deepening the reform of policy and development financial institutions. Efforts were made to promote policy and development financial institutions to fully implement reform plans, which not only strengthened their mandates and business boundaries, but also encouraged them to better support the economic structural transformation and high-quality growth on the basis of enhanced risk prevention and control.

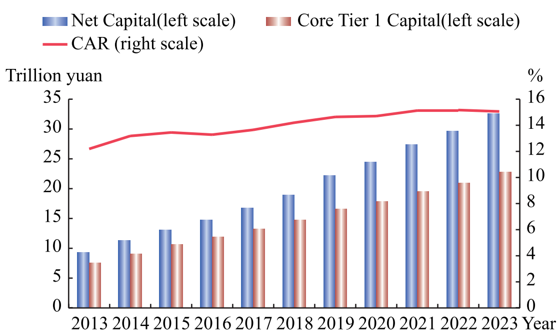
Continuously promoting the reform and risk mitigation of small- and medium-sized banks. Efforts were made to accelerate the formulation and implementation of risk mitigation plans in a few provinces with a relatively high concentration of high-risk small- and medium-sized banks, which guided small- and medium-sized banks to come back to their fundamental and core business, to develop differentiated business strategies based on local conditions, and to have a more reasonable scale, structure and regional distribution.

Further deepening the reform of rural credit cooperatives on province-by-province and category-by-category basis. Works have been done to support relevant provinces to explore reform patterns and paths in accordance with their local conditions following market-oriented and law-based principles, to promote the reformed provincial-level institutions to duly perform their roles, to guide rural credit cooperatives to adhere to their mandates of serving local communities, small and micro enterprises, "agriculture, rural areas and farmers", and urban and rural residents, and to better play their role as the main force in rural financial services by optimizing equity structure, transforming operational mechanism, improving corporate governance and enhancing development momentum. Following the approval of reform plans of Zhejiang, Liaoning, Shanxi, Henan, Guangxi, Hainan, Sichuan and Jiangxi provinces, Zhejiang Rural Commercial United Bank, Liaoning Rural Commercial Bank, Shanxi Rural Commercial United Bank, Guangxi Rural Commercial United Bank, Hainan Rural Commercial Bank, and Sichuan Rural Commercial United Bank were established.

II. Soundness Assessment

Capital adequacy level was generally stable. At the end of 2023, the CET−1 ratio of commercial banks was 10.54 percent, down 0.20 percentage point year on year; the Tier 1 capital ratio was 12.12 percent, down 0.18 percentage point year on year; and the CAR stayed at 15.06 percent, down 0.11 percentage point year on year. The capital adequacy level was above regulatory requirements and remained generally stable (Figure 2.3).

Figure 2.3 CAR and Capital Structure of Commercial Banks



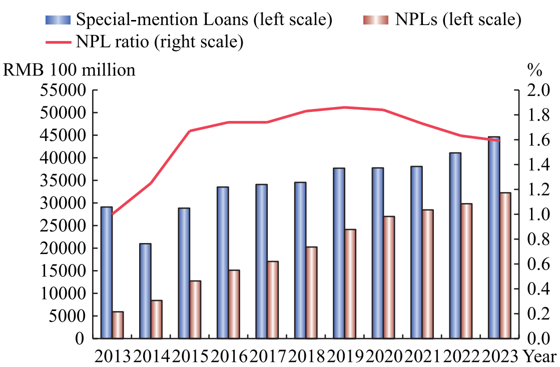
Source: The NFRA.

Asset quality maintained stable. At the end of 2023, the NPLs of commercial banks totaled RMB 3.23 trillion, an increase of RMB 242.7 billion year on year; and the NPL ratio was 1.59 percent, down by 0.04 percentage point year on year. Special-mention loans stood at RMB 4.46 trillion, an increase of RMB 355.0 billion or 8.64 percent year on year (Figure 2.4). A total of about RMB 3 trillion of NPAs of banking institutions were disposed throughout the year.

Risk coverage of the banking sector was adequate. At the end of 2023, loan loss provisions of commercial banks stood at RMB

6.62 trillion, an increase of 476.8 billion or 7.76 percent year on year; the provision coverage ratio reached 205.14 percent, down 0.71 percentage point year on year; and the provision to loan ratio registered 3.27 percent, down 0.09 percentage point year on year.

Figure 2.4 Special-mention Loans and NPLs of Commercial Banks

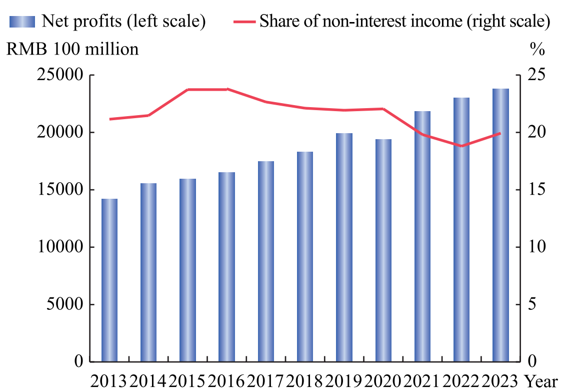


Source: The NFRA.

The overall liquidity remained in an adequate and sufficient range. At the end of 2023, the liquidity ratio of commercial banks stayed at 67.88 percent, up 5.03 percentage points year on year. The LCR of commercial banks with assets over RMB 200 billion was 151.60 percent, up 4.19 percentage points year on year; and the NSFR was 125.53 percent, up 0.89 percentage point year on year. Funding sources of banks were stable, with the ratio of deposits to total liabilities amounting to 69.2 percent.

Net interest margin (NIM) continued to narrow. In 2023, commercial banks gained net profits of RMB 2.38 trillion, up 3.24 percent year on year. The NIM of commercial banks stood at 1.69 percent, down 0.22 percentage point year on year; non-interest income accounted for 19.93 percent, which increased 1.13 percentage points year on year (Figure 2.5). At the end of 2023, the ROA of commercial banks registered 0.70 percent, down 0.06 percentage point year on year; and the ROE stood at 8.93 percent, down 0.4 percentage point year on year.

Figure 2.5 Net Profits and Share of Non-interest Income of Commercial Banks



Source: The NFRA.

Box 7 The Risk Monitoring and Early Warning Systems for Banks

Since end-2020, the PBC has developed and constantly enhanced an indicator system for risk monitoring and early warning, which targets banks that are rated level 1 to 7 by Central Bank Rating on a regular basis. The system captures abnormal indicators or signs of risk in a forward-looking manner, considering expansion risk, credit risk, liquidity risk, etc., and banks are urged to take prompt corrective measures. The system aims to shore up banks' weak links, strengthen their weak points, identify emerging risks and prevent vulnerabilities from materializing in an ex-ante manner.

From end–2020 until now, the PBC has completed 12 risk monitoring and early warning exercises for banks, with 481 warning-triggers detected cumulatively and 253 banks identified (one bank may trigger multiple warnings). By bank type, village and township banks and rural commercial banks were most frequently flagged with 324 times, accounting for 67 percent of all warnings triggered. By indicator, interbank risk and expansion risk were most frequently identified with 314 times, accounting for 63 percent of all warnings triggered (Figure 1 and 2).

Most banks on the watchlist have been removed after taking corrective measures. Regarding the banks on the watchlist, the PBC enhances efforts on risk monitoring to track the developments of relevant indicators of those banks, and adopts comprehensive

Figure 1 Distribution of Early Warnings by Bank Type

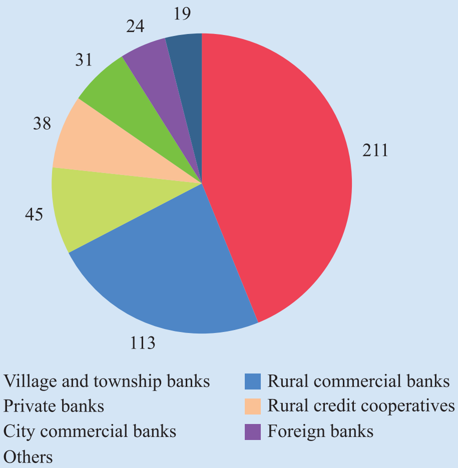
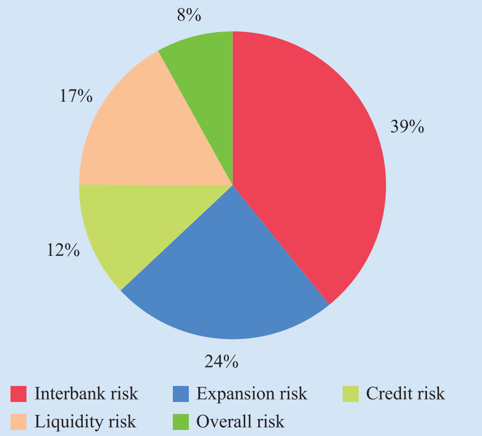


Figure 2 Distribution of Early Warnings by Risk Category



Note: When counting by risk category, one bank may trigger multiple warnings.

measures to promote them to take timely and targeted corrective actions until the worsening indicators return to the industry average. For example, the PBC may issue risk alerts to banks on the watchlist or have direct conversations with the banks' senior management, urging banks to take measures. Meanwhile, the PBC will share the results of early warning exercises with bank regulators and local governments to form regulatory synergy. By end–2023, 234 banks had been removed from the watchlist, accounting for 92 percent of the total identified banks, of which over 80 percent were removed within two quarters after designation.

Looking forward, the PBC will further improve the financial risk monitoring and early warning system, which not only covers the risk resolution of problem banks but also intervene in banks with signals of emerging risks. This includes dynamically adjusting the indicators of the system. While enhancing the traditional bank credit assets-focused risk monitoring and early warning framework, the PBC will also strengthen the tracking and monitoring of other financial risks from non-credit assets. Additionally, the PBC will further bolster technical support capabilities to enhance the digitalization and intelligence of the work. Continuous efforts will be made to improve the mandatory Prompt Corrective Actions mechanism, aiming for risks to be identified, warned, revealed and handled as early as possible.

Box 8 Amendment of the *Rules on Capital Management of Commercial Banks*

Capital regulation is a key component and means of prudential regulation of banks. In November 11, 2023, the NFRA released the amended *Rules on Capital Management of Commercial Banks* (hereinafter referred to as "the *Rules*"), which became effective on January 1, 2024. The *Rules*, which established a differentiated capital regulatory framework in line with China's national conditions and solidified the institutional framework of the three pillars of capital regulation, is an important step to fulfill the need of strengthening and improving modern financial regulation, and promoting high-quality development of the banking sector. It is of landmark significance for the banking sector development and for enhancing banking regulation.

I. An Overview of the *Rules*

Based on the actual situation of China's banking sector, the *Rules* established a differentiated capital regulatory framework by introducing the following changes: revising the calculating methods for risk weighted assets used for "minimum capital requirements" under Pillar I, adjusting and refining the "supervisory review" under Pillar II, and effectively strengthening standards and requirements for "market discipline" under Pillar III.

Establishing a differentiated capital regulatory framework. The international capital standards are a set of complicated rules mainly applicable to internationally active banks, and require higher regulatory and compliance costs. China has a large and diversified banking sector, where banks with different sizes adopt business models of different complexities, depending on their distinct features in resource endowment, market position and development strategy. Therefore, it is important to adopt differentiated regulatory rules to fully unleash the value and efficiency of capital requirements. The *Rules* followed the principle of proportionality and established a differentiated regulatory framework by categorizing banks into three groups based on their business scale and complexity, and different groups shall be subject to different capital requirements. The *Rules* strengthened capital requirements for banks with larger size and active cross-border activities to enhance the overall banking sector resilience, while reducing regulatory costs for medium- and small-sized banks to incentivize their financial intermediation activities.

Revising calculating rules for Pillar I requirements. Risk weights are the cornerstone for ensuring the prudential nature of capital requirements. The calibration of risk weights and calculation of capital requirements should objectively reflect risk characteristics of different assets and activities, so that the capital adequacy ratio can precisely reflect banks' risk level and ability to continue as a going concern, and serve as a valid input for targeted regulatory policy measures to maintain banking sector resilience. By taking into account China's economic and financial situation and banking sector performance and building on the international regulatory reform progress, the *Rules* optimized and adjusted the weights and coefficients for bank assets to fully reflect the risk characteristics of different assets, and enhanced the logical consistency between the standardized approach and advanced approach to improve the sensitivity of risk measurement.

Refining Pillar II "supervisory review". As an important complement to Pillar I, Pillar II incorporates risks that are not covered by Pillar I into the capital adequacy assessment framework, to ensure that banks have sufficient capital to deal with different risk situations. At the same time, regulatory authorities can impose higher capital requirements under Pillar II based on banks' risk profile to strengthen capital constraints for individual banks. The *Rules* expanded the risk assessment framework by incorporating country-specific, IT and climate-related risks, and comprehensively improved risk assessment standards by aligning with the existing risk management regulations. The *Rules* also required greater use of stress testing to urge banks to improve their resilience, and clarified capital surcharge requirements under Pillar II and its logical relationship with other capital requirements.

Strengthening market discipline standards and requirements under Pillar III. Based on the principle of proportionality, the *Rules* established a differentiated disclosure system covering all types of risk profiles and required commercial banks to disclose information in different granularity depending on which group they are in, how systemically important they are and whether they are listed or not. The *Rules* introduced standardized forms for commercial banks to make disclosures by the required format, content, frequency, manner and quality control. The *Rules* significantly increased data granularity requirements for information disclosure, effectively improved risk information transparency and effectiveness of market discipline, and serve as a powerful complement to Pillar I and Pillar II.

II. Significance of the Amended Rules

The *Rules* was first introduced in 2012 before its amendment. With its introduction, a capital regulatory system in line with the international regulatory standards and the situation of China's banking sector was put in place, and commercial banks began to foster the "capital constraint" philosophy and mechanism. In order to keep up with China's economic and financial developments and the changing risk characteristics of China's banking sector, as well as taking into account the latest progress of the international banking regulatory reform, it is necessary to comprehensively amend the *Rules* .

First, the amended Rules are conducive to maintaining financial system soundness. The implementation of capital requirements has provided strong guarantee for the long-term sound operation and sustainable development of China's banking sector. As of end-2023, China's commercial banks had an average capital adequacy ratio of 15.06 percent, and 17.56 percent for large banks, indicating improvements in both the quantity and quality of bank capitals. The solid capital base fundamentally enhances the ability of the banking system to withstand shocks. In the context of increasing uncertainties in the external environment, the *Rules* adhered to the risk-based approach, optimized the calculating methods for risk weighted assets, strengthened regulatory review process and stepped up disclosure standards, which all help to further enhance banking regulation in a more holistic and effective manner.

Second, the amended Rules help to improve the quality and efficiency of financial support for the real economy. The *Rules* require banks to have solid capital base and keep their average risk weights at a prudent level. In the meantime, aware of the role capital requirements can play in guiding credit resource allocation, the *Rules* set appropriate risk weights for loans to medium- and small-sized enterprises, personal loans and interbank claims, to guide banks to increase credit provision for key economic areas and weak links instead of circulating funds within the financial system.

Third, the Rules would comprehensively improve risk management practices of the banking sector. With its implementation, the *Rules* will further improve the banking sector's risk management mechanism, standards and process. Banks are expected to, for instance, use more granular exposure categorization and enhance their due diligence and basic information audit; incorporate country-specific risk and climate risk into their risk assessment, and increase use of stress testing tools; improve their data quality, develop supporting infrastructures and strengthen the digitalized risk control systems to better empower their risk management.

Since the implementation of the *Rules*, the capital adequacy level of the banking sector has improved steadily. There are several banks whose capital adequacy ratio have experienced moderate changes due to their different asset portfolios and categories, reflecting the differentiated approach of the capital regulatory requirements. Taking the implementation of the *Rules* as an opportunity, banking institutions have further improved their risk management systems, refined their risk calculation methods, strengthened application of risk calculation and improved their IT systems, all contributing to improved risk management abilities. Going forward, the financial management authorities will continue to push for the implementation of the *Rules* in a steady and orderly manner, and provide guidance as necessary, to improve the banking institutions' resilience and ability to effectively support the real economy.

Box 9 Introduction of the *Measures for the Risk Classification of Financial Assets of Commercial Banks*

To further promote the accurate identification and assessment of credit risks by commercial banks and to truthfully reflect their asset quality, the former CBIRC and the PBC jointly issued the *Measures for the Risk Classification of Financial Assets of Commercial Banks* (hereinafter referred to as the *Measures*), which officially took effect on July 1, 2023.

I. Background of the Measures

Credit risk is one of the major risks for China's banking sector. Sound risk classification rules are the prerequisite and foundation for effective credit risk prevention and control. In 1998, the PBC issued the *Guiding Principles for Loan Risk Classification*, introducing the concept of the five-category classification. In 2007, the former CBRC released the *Guidelines for Loan Risk Classification*, further clarifying the regulatory requirements for the five-category classification. In recent years, the asset structure of China's commercial banks has undergone significant changes, bringing up new challenges and issues for risk classification practices. In 2017, the Basel Committee on Banking Supervision (BCBS) issued the *Guidelines on Prudential Treatment of Problem Assets—Definitions of Non-performing Exposures and Forbearance*, clarifying the recognition criteria and classification requirements for non-performing assets and restructured assets, promoting greater consistency and comparability in asset risk classification standards across the world. The *International Financial Reporting Standard 9* (IFRS 9) and the *Accounting Standards for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments* also put forward new requirements to address problems such as the arbitrary classification of some financial instruments, and insufficient and delayed provisioning. Drawing on both international and domestic good practices, and taking into account the situation and regulatory practices of China's banking sector, the former CBIRC and the PBC developed the *Measures*.

II. Overview of the Measures

The *Measures*, consisting of six chapters and forty-eight articles, extend the scope of risk classification from loans to all financial assets bearing credit risk. The main content includes: First, proposing risk classification requirements for financial assets based on the clearly-defined five-category classification, setting classification standards for retail and non-retail assets, and specifying requirements for specific situations such as debt delinquency, asset impairment, and debt evasion, as well as issues related to upward migration, corporate mergers and acquisitions, and asset classification for asset management and securitization products. Second, proposing risk classification requirements for restructured assets, detailing the definitions, recognition criteria, and exit criteria for asset restructuring, clarifying classification requirements for restructured assets under different circumstances, and setting an observation period for restructured assets. Third, strengthening banks' risk classification management, requiring commercial banks to improve their risk classification governance structure, establish risk classification management systems, clarify classification methods, procedures and frequency, develop and improve information systems, and enhance monitoring, analysis, information disclosure and documentation management. Fourth, clarifying regulatory requirements. Regulatory authorities are mandated to conduct supervision, inspection and evaluation of commercial banks' risk classification practices, and take regulatory measures or impose administrative penalties against banks who violate the requirements. The implementation of the *Measures* fully considers the impact on institutions and the market, with a reasonable transition period.

III. Core Changes in the Measures

The *Measures* reshape the risk classification of financial assets for commercial banks in the following aspects:

First, clarifying the principles of financial asset risk classification. Commercial banks should follow the principles of authenticity, timeliness, prudence, and independence in conducting risk classification of financial assets, and adjust classification results promptly and dynamically based on changes of the debtors' ability to fulfill the contracts and the risk profiles of financial assets. For financial assets whose risk status is difficult to assess, it is suggested to follow the stricter rules, and the category should be determined conservatively.

Second, enhancing the core definitions of the five-category classification for financial assets and proposing a debtor-orientated risk classification concept. The *Measures* introduce cross-default recognition clauses, requiring commercial banks to focus on assessing the debtors' debt repayment capacity when classifying non-retail financial assets. If more than 10% of a non-retail debtor's claims in a bank are classified as non-performing, then all claims of that debtor in the bank should be classified as non-performing; if more than 20% of a debtor's debts across all banks are overdue for more than 90 days, then all banks should classify the debtor's debts as non-performing. The debtor-centered approach also considers collateral factors. For example, for non-performing assets, commercial banks can classify different debts under the same non-retail debtor as substandard, doubtful, or loss-making based on the amount of collaterals for individual assets.

Third, detailing requirements related to restructured assets. Firstly, clarifying the definition of restructured assets, with detailed provisions on the concepts of "financial difficulty" and "contract adjustment", and specifying various scenarios that qualify as restructuring. Secondly, extending the restructuring observation period from at least 6 months to at least 1 year, with relatively lenient measures taken during the observation period to facilitate restructuring. Thirdly, based on the principle of substance over form, it is no longer uniformly required that restructured assets be classified as non-performing, though they should at least be classified as special mention. For restructured assets classified as non-performing, if they meet the conditions for upward migration during the observation period, they can be upgraded to special mention. Fourthly, clearly specifying the classification of multiple restructurings, requiring that assets restructured again during the observation period without timely and full repayment as per the contract, or with full repayment but no improvement in the debtor's financial condition, should at least be classified as substandard, and the observation period should be recalculated.

The implementation of the *Measures* enhances the granularity, objectivity, and scientific nature of the risk classification of financial assets for commercial banks, promotes the accurate reflection of asset quality, as well as accurate judgment of provisioning and capital adequacy levels by banks, and helps to strengthen banks' resilience. For the next step, financial management authorities will further promote the orderly implementation of the *Measures*. Following the principle of prudent, orderly implementation with controllable risks, they will guide commercial banks in conducting financial asset risk classification, having a full picture of credit risks, strengthening credit risk management, and effectively preventing and resolving financial risks, so as to improve the banking sector's ability to serve the real economy.

III. Outlook

Currently, the uncertainty and complexity of the global economy are still on the rise. The lagged impact of high interest rates will continue to be felt, although current round of interest rate hikes in major advanced economies may have come to an end. China's economy is rebounding and advancing towards high-quality development in a steady manner, yet attention still needs be paid to issues such as blockages in domestic economic circulation and weak social expectations. In 2024, the banking sector should provide comprehensive financial services to key areas and weak links of the real economy in a more precise, high-quality and efficient manner, make efforts in the "Five Major Financial Chapters", strengthen the governance system, support high-quality development of the financial sector while preventing and resolving financial risks, and improve the quality of economic development while maintaining a reasonable growth rate.

Adhering to an appropriately accommodative monetary policy stance. The PBC will accurately grasp the rules and new characteristics of monetary credit supply and demand, guide banks to fully meet the effective financing needs of the real economy, maintain liquidity at an ample level, and keep the growth of social financing and money supply in line with the projected economic growth and overall price levels. And the PBC will fully leverage the guiding role of monetary and credit policies, and comprehensively utilize multiple monetary policy tools, prioritizing support for scientific and technological innovation, green development, consumption lifting and foreign trade stabilization, while promoting the stable development of the real estate and capital markets. By continuously giving play to the role of the LPR reform and the market-based mechanism for deposit rate adjustments, the PBC will guide the overall financing costs to remain stable with a downward trend, on the basis of maintaining a basically stable net interest margin for commercial banks.

Continuously and effectively preventing and resolving risks in key areas. Reforms on small- and medium-sized banks to mitigate their risks will be accelerated, including promoting risk alleviation for city commercial banks and rural credit cooperatives, and steadily pressing ahead with reform and restructuring of village and township banks. Macroprudential management of real estate finance will be enhanced, to promote the stable and healthy development of the real estate market, and to accelerate the establishment of a new real estate development model. Financial institutions will be guided to alleviate debt risks of financing vehicles through market-based approaches such as debt extensions, roll-over and swaps, on the basis of safeguarding the legitimate rights and interests of financial institutions according to the law. A risk monitoring system for local government financing vehicles has been established. Efforts have been made to promote the market-oriented transformation of these financing vehicles and to improve the long-term mechanism for preventing and resolving local government debt risks.

Replenishing bank capital through multiple channels to enhance the risk absorption capacity. Efforts will be made to encourage banking financial institutions to strengthen asset and liability management, improve risk control, and operate in a sound and prudent manner. Banks should not only provide comprehensive financial services to enhance customer contribution and core profitability, but also need to optimize their business structures and reduce inefficient or ineffective use of capital. Channels for both internal and external capital replenishment will be used, mainly through retained earnings and the introduction of market funds. The issuance of Total Loss Absorbing Capacity (TLAC) bonds by China's G-SIB will be steadily promoted.

Reinforcing the financial stability guarantee mechanism. Adhering to the principles of strengthening supervision, preventing risks, and promoting high-quality development, the risk control for financial institutions will be bolstered from risk sources. Efforts will be made to promote the in-depth integration of Party leadership with corporate governance in banking institutions, to strengthen the management of key people, key positions and key links, to strengthen mechanisms for anti-corruption, discipline enforcement and accountability. Works on enhancing the risk monitoring and early warning systems for banking institutions will be continued, such as strengthening risk alerts and warning at early stage, and the prompt correction framework with mandatory actions will be further refined. The professional risk resolution function of deposit insurance will be enhanced, with diversified risk resolution toolkit and improved financial stability guarantee fund institutional framework.

Box 10 Progress is Under Way to Ensure Chinese G-SIB Meet Total Loss-absorbing Capacity Requirements

The TLAC requirements of G-SIB are an important institutional arrangement aimed at enhancing the banking sector resilience and the overall soundness of the financial system. Among the existing five Chinese G-SIB, the Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), Bank of China (BOC) and China Construction Bank (CCB) will be subject to the stage 1 TLAC requirements by start 2025, while the Bank of Communications (BOCOM) will be subject to the stage 1 TLAC requirements by start 2027. Positive progress has been made so far by Chinese G-SIB in meeting the TLAC requirements .

I. Overview of the TLAC Framework

The TLAC framework is an important arrangement introduced as part of the post-crisis international financial regulatory reform. In response to the "Too-Big-To-Fail" (TBTF) problem, the G20 Summit in 2015 endorsed the development of TLAC requirements for G-SIB. In the same year, the Financial Stability Board (FSB) issued the *TLAC Principles and Term Sheet*, setting out TLAC requirements for G-SIB. For G-SIB headquartered in advanced economies, they are expected to meet the minimum TLAC requirement of at least 16 percent of the risk weighted assets (RWA) as from 1 January 2019 (stage 1) and at least 18 percent of the RWA as from 1 January 2022 (stage 2). G-SIB headquartered in emerging market economies, given that they have a six-year extension to the above conformance date, will be required to meet the 16 percent of RWA and 18 percent of RWA requirements no later than the beginning of 2025 and 2028 respectively. Newly-designated G-SIB have at least three years to comply with the TLAC requirements since their designation.

TLAC instruments are the sum of capital and debt instruments that can absorb losses through write-down or conversion to equity when a G-SIB enters a resolution

process. TLAC instruments are comprised of, first of all, bank capital, including core Tier 1 capital (such as common equity), other Tier 1 capital (such as perpetual bond, preferred stock) and Tier 2 capital debt. Second, eligible debt instruments with loss-absorbing capacity, mainly TLAC bonds, are also included. TLAC bonds must meet conditions such as having a minimum remaining maturity of at least one year and the ability to be written down or converted into common stock, and rank junior to general claims, such as deposits, and senior to Tier 2 capital instruments in the insolvency creditor hierarchy. In addition, resolution funds (such as deposit insurance fund) that meet certain requirements can also be included in TLAC. Such resolution funds should be pre-funded by bank contributions and have credible ex-ante commitment to be used in bank resolution. The resolution funds may account for an amount equivalent to 2.5 percent of RWA when the minimum TLAC is 16 percent and for an amount equivalent to 3.5 percent of RWA when the minimum TLAC is 18 percent.

According to the FSB, total TLAC issuance by foreign G-SIB in 2018, one year before the conformance date in 2019, was about USD 360 billion, of which USD 60 billion was capital instruments and the remaining USD 300 billion was TLAC bonds. As of end 2023, 24 foreign G-SIB had an average CET1 ratio of 13.4 percent, average capital adequacy ratio of 16.9 percent, and average TLAC risk-weighted ratio of 30.1 percent. By geographical distribution, the average TLAC risk-weighted ratio of G-SIB in the U.S., Canada and the UK all exceeded 30 percent, while that of G-SIB in Japan rank the lowest with a TLAC risk-weighted ratio of 25.8 percent.

II. China Has Established A TLAC Framework for G-SIB

China's TLAC framework, aligning with international standards and based on domestic practices, is composed of a series of rules and regulations. In 2021, the PBC, former CBIRC and MOF issued the *Regulation on Total Loss-Absorbing Capacity of Global Systemically Important Banks*, which established the TLAC regulatory framework for Chinese G-SIB. In 2022, the PBC and former CBIRC issued the *Notice on the Issuance of Total Loss-Absorbing Capacity Eligible Non-Capital Bonds by Global Systemically Important Banks*, which introduced non-capital bond as an innovative TLAC-eligible instrument. China's TLAC rules are consistent with the FSB regulatory standards in terms of indicator settings, compliance requirements and eligible instruments. At the same time, it has drawn on the experience of international peers in provisions such as the inclusion of deposit insurance funds and capital deductions for TLAC instrument investments, to better adapt to the current situation of China's banking sector.

Chinese G-SIB's efforts to issue TLAC bonds have yielded good results. The five domestic G-SIB are steadily making progress on TLAC bond issuance to meet TLAC requirements on schedule. In May 2024, the ICBC and BOC issued TLAC-eligible non-capital bonds of RMB 40 billion respectively. In August 2024, the CCB and ABC issued TLAC-eligible non-capital bonds of RMB 50 billion respectively. The BOCOM's issuance of TLAC bonds is also in the pipeline. This round of issuance attracted active subscription from various types of domestic and foreign investors including banks, fund managers, insurance AMPs, as well as securities companies, reflecting investors' recognition of this innovative type of bond. The Shanghai Clearing House has included TLAC-eligible non-capital bonds into the general repurchase pledge pool, which enhanced the secondary market liquidity of this bond type and further increased its attractiveness to investors.

For the next step, the PBC and relevant authorities, drawing on experiences from international peers, will continue to ensure that the five Chinese G-SIB meet TLAC requirements on schedule and with the minimum cost, by building on the existing debt instruments and institutional arrangements, and exploring innovative measures. At the same time, taking the TLAC conformance as an opportunity, the regulatory authorities will further guide banks to strengthen their internal capabilities, enhance their capital strength, loss-absorbing capacity, business performance and risk control ability, in order to achieve high-quality development while better serving the real economy.

Chapter III

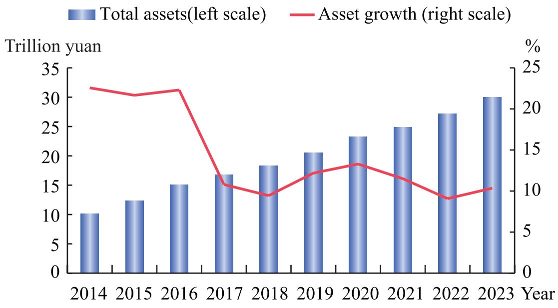
Non-bank Institutions and Other Issues

I. Insurance Sector

1. Recent Developments

The insurance sector as a whole maintained a sound operation and their combined assets kept growing. As of end-2023, there were 249 insurance companies nationwide, up by 5 from the previous year. Among them, 13 were insurance group (holding) companies, 1 was policy insurance company, 89 were property insurers, 94 were life insurers, 14 were reinsurance companies (including 7 foreign branches), 3 were agricultural insurance mutual societies, and 35 were insurance asset management companies. The total assets in the insurance sector reached RMB 29.96 trillion[①], increasing by 10.35 percent year-on-year, 1.27 percentage points higher from the previous year (Figure 3.1). Among these, the assets of life insurers registered RMB 25.93 trillion, up by 10.93 percent year-on-year; that of property insurers registered RMB 2.76 trillion, up by 3.31 percent year-on-year; and that of reinsurance companies registered RMB 747.1 billion, up by 11.19 percent year-on-year.

Figure 3.1 Total Assets and Growth of the Insurance Sector, 2014–2023



Source: The NFRA.

Insurance density and insurance penetration increased. In 2023, insurance density and penetration stayed at RMB 3635 and 4.07 percent, or a year-on-year increase of RMB 309 and 0.19 percentage point respectively.

The premium growth of life insurers increased amid slightly lower surrender rate. In 2023, premium of life insurers registered RMB 3.54 trillion, up by 10.25 percent year-on-year, 7.47 percentage points higher than that in the previous year. Among them, the premium income of ordinary life insurance, participating life insurance, universal insurance and investment-linked insurance registered RMB 2.03 trillion, 724.029 billion, 9.827 billion and 369 million respectively, with a year-on-year growth of 28.43 percent, −15.91 percent, 2.37 percent and 1.61 percent respectively. The surrender rate of life insurance was 2.38 percent, down by 0.33 percentage point from the previous year.

Premium income of property insurers grew, with a higher share of premium coming from non-auto insurance[②]. In 2023, the premium income of property insurers registered RMB 1.59 trillion, up by 6.73 percent year-on-year or 1.98 percentage points lower from the previous year. The premium income of auto insurance accounted for 54.68 percent, down by 0.55 percentage point from the previous year. The share of non-auto insurance premium kept rising for 7 consecutive years, among which premium of agricultural

① The aggregate data does not cover insurers in resolution. The same below.

② Non-auto insurance includes corporate property insurance, household property insurance, engineering insurance, liability insurance, guarantee insurance, agricultural insurance, health insurance, accident insurance, etc.

insurance accounted for 9.01 percent, up 0.81 percentage point from the previous year.

Market concentration level kept stable overall. In 2023, the market share of the top five property insurers[1] in terms of premium income was 74.22 percent, up 0.52 percentage point year-on-year; the market share of the top five life insurers[2] in terms of premium income was 48.25 percent, down by 1.79 percentage points year-on-year.

2. Soundness Assessment

The solvency of the insurance sector was adequate overall. As of end−2023, the comprehensive solvency adequacy ratio and the core solvency adequacy ratio of insurance companies stayed at 197.1 percent and 128.2 percent respectively, which were above the minimum regulatory level of 100 percent and 50 percent. Among them, the average comprehensive solvency adequacy ratios of life insurers, property insurers and reinsurers were 186.7 percent, 238.2 percent and 285.3 percent respectively; their average core solvency adequacy ratios stayed at 110.5 percent, 206.2 percent and 245.6 percent respectively. In terms of the comprehensive risk rating, there were 54 companies rated A and 108 rated B in the fourth quarter of 2023, which were considered as low risk companies; and there were 12 companies rated C and 13 rated D, down by 4 and up by 2 from the previous year respectively. Companies rated C or D either failed to meet the solvency adequacy ratio requirement or met the standard but were risky.

Insurers' asset portfolio remained generally stable, but their investment returns declined. As of end−2023, funds utilized by the insurance sector stood at RMB 27.67 trillion, up 10.47 percent year-on-year, an acceleration of 2.6 percentage points from the previous year. Investment in bonds increased as a share of total portfolio, whereas the share of bank deposits, equities, securities investment funds and other investments declined (Table 3.1). The average return on investment (ROI) declined by 1.52 percentage points year-on-year to 2.24 percent, which was lower than the 10-year average of 5.06 percent (Figure 3.2).

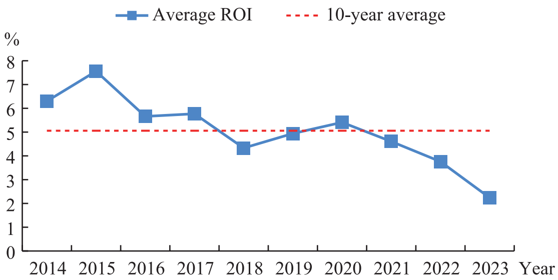
Table 3.1 Utilization of Insurance Funds (as of end−2023)

Investment Structure	Bank Deposits	Bonds	Equity and Securities Investment Funds	Other Investments
Size (RMB 100 million)	27243	125661	33274	90560
Share (%)	9.84	45.41	12.02	32.72
Y-o-y Change	−1.47	4.48	−0.68	−2.33

① The top five property insurers included PICC Property & Casualty, Ping An Property & Casualty Insurance, China Pacific Property Insurance, China Life Property & Casualty Insurance, and China United Property Insurance.

② The top five life insurers included China Life, Ping An Life Insurance, China Pacific Life Insurance, Taikang Life Insurance and New China Life Insurance.

Figure 3.2 Average ROI of Insurance Funds



Source: The NFRA.

Box 11 Spread Loss Risk of Life Insurance Companies And Its Management

Spread loss occurs when the investment return of an insurance company falls below the average predetermined interest rate of its policy contracts[①]. In a low interest rate environment, negative spread can be a particularly outstanding issue for insurance companies, as it has resulted in huge loss and mass bankruptcy cases in some developed economies, and their experiences and lessons in dealing with this issue are worth studying.

I. China's Life Insurance Companies are Faced with the Challenge of Spread Loss

Interest rate spread is the main source of profits for China's life insurance companies. In recent years, as the benchmark interest rate moves downward, Chinese life insurance companies have seen a notable drop in their returns on fund utilization. This drop in return, coupled with the fact that their liabilities tend to have a longer duration and more rigid rate than that of assets, has led to emerging pressures on insurance companies as their asset returns are increasingly unable to cover their liability costs. **On the asset side,** multiple factors, such as low interest rate environment and less-than-expected returns from equity assets, have contributed to the decline in the return in recent years. **On the liability side,** insurance policies usually have a predetermined interest rate with a long maturity, which means in a declining interest rate context insurance companies need to set aside more reserves. **In terms of maturity match between assets and liabilities,** the duration gap of life insurance companies is expected to further expand.

II. Experiences of the Developed Economies in Dealing with Spread Loss

The life insurance sectors in developed economies such as the United States, Japan

① In the national standard "Insurance Terminology GB/T 36687−2018", the predetermined interest rate refers to the interest rate used in setting policy rates by discounting the projected cash flows generating from the policy contracts.

and Europe used to suffer severely from the spread loss risk, and their risk management measures focused on both the liability and the asset sides.

Liability side. First, cutting costs through adjusting the valuation interest rate of liability reserves. For example, the Japanese authorities introduced a standardized valuation rate linked to government bond yields, and guided insurance companies' predetermined rates to go down. The United States cut their statutory reserve valuation rate to reduce life insurers' liability costs. The German authorities introduced an additional reserve system in 2011 to adjust the valuation rate, with the aim of reducing liability cost in an indirect manner. Second, restructuring savings-type insurance products. The life insurance sector in United States came up with more interest rate-sensitive products such as variable annuities and investment-linked insurance, and promoted the wider adoption of separate accounts[①] where investment risk is shared by customers themselves. In Europe, in response to the low interest rate environment following the European debt crisis, insurance companies began to sell more pure risk-loss rate priced products, rather than guaranteed return products, to reduce liability cost. Third, developing protection-type insurance products. Japan's insurance companies developed protection-type products such as health insurance to reduce reliance on savings products and also to effectively address spread loss risk. Based on the experiences of overseas insurance companies in dealing with spread loss, the key to overcoming spread loss is reducing insurance companies' liability cost.

Asset side. First, increasing the investment in long-term treasury bonds to bridge the duration gap. Insurance companies in both Japan and United States have continuously invested in more bonds with longer maturities in their investment portfolio to lengthen their asset duration and reduce maturity mismatch. The duration gap of the life insurance sector in Japan was shortened to 3.8 years in 2011 from 10–15 years in the 1990s. Second, optimizing the investment portfolio to hedge against interest rate risk. In order to address the lack of high-yield assets in the domestic market, the Japanese insurance companies increased their investment in the overseas markets to leverage the high yields there. The European insurance companies invested widely in the global bond markets to improve their investment returns, and adopted hedging tools such as derivatives to hedge against interest rate risk and exchange rate risk. Third, increasing the proportion of equity investment or alternative investment. The European insurance companies increased their investment in long-term equity assets, real estate, collective investment schemes and other alternative assets to obtain excess

① "Separate account" refers to an account set up by insurance companies, under which the funds are invested in different asset portfolios, such as stocks, bonds, funds, etc., at the client's own discretion, and the investment returns and risks are borne by the client himself/herself. This model allows the client to make his/her own investment decisions, while the insurance company mainly provides account management services.

returns.

III. Strategies for Dealing with Spread Loss Risk in China

As clearly pointed out by the Central Financial Work Conference, the insurance sector should play its role of economic shock absorber and social stabilizer. Since 2023, the regulatory authorities have taken a series of measures to preemptively address spread loss risk. These measures include launching the "consistency between the reported and actual rates" campaign, cutting the predetermined rates for traditional insurance products, and reducing the actual settlement rates of universal and participating life insurance products.

First, continue to drive down the liability cost for the insurance sector. The insurance sector should be encouraged to be flexible in their interest rate pricing for various product types based on the long-term interest rate trend, to alleviate their liability pressure and ensure spread loss is within a controllable range. In the meantime, the cap on the illustrative interest rates for participating and universal life insurance products can be lowered to put customer expectations in perspective and guide the sector-wide reduction in the settlement costs of participating and universal life insurance policies, mindful of the potential risks that may arise from such products.

Second, diversify the insurance product pool. Insurance products with a floating policy rate have lower guaranteed interest rates than traditional products, while providing a potential investment return sharing mechanism to keep competitive. The development and sale of such products can be encouraged to increase its proportion and prevent spread loss risk that may arise from the concentration of a single product.

Third, increase the supply of long-term bonds. Life insurance business is long-term in nature. The lack in long-term bonds in the domestic market that fit the investment needs of funds from life insurance products, however, has hampered the ability of life insurance companies to match the maturities of their liabilities with their assets. Therefore, the supply of fixed-income assets with longer maturities can be increased to improve maturity match of insurance companies.

Fourth, improve the long-term evaluation and assessment system for life insurance companies and strengthen the countercyclical supervision as required by the second phase of China's Risk-Oriented Solvency System. Insurance stakeholders should be encouraged to focus more on the long-term performance and potential value creation ability of insurance companies. Prudent countercyclical measures should be considered in the treatment of insurance companies' solvency and regulatory equity asset ratio exemptions, to better enable their long-term and sound investment, and to effectively safeguard financial stability.

3. New Regulations

First, deepening the comprehensive reform of auto insurance. The former CBIRC issued the *Circular on Expanding the Floating Range of the Self-determined Pricing Coefficients for Commercial Auto Insurance and Other Related Matters* in January 2023 to expand the floating range of the independent pricing coefficients for commercial auto insurance, and required insurers to strictly implement the various supervisory requirements for auto insurance, optimize and safeguard the supply of auto insurance products, and improve the service for auto insurance underwriting and claims.

Second, standardizing information disclosure for life insurance products. In January 2023, the former CBIRC issued the *Rules for Information Disclosure of Life Insurance Products of More Than One Year*, which requires comprehensive disclosure of product information, including key details such as payment methods and surrender losses.

Third, promoting risk reduction in the property insurance industry. In January 2023, the former CBIRC issued the *Guidelines on Actively Developing Risk Reduction Services in the Property Insurance Industry*, urging property insurers to expand the content, scope, and forms of risk reduction services, thereby increasing service supply.

Fourth, regulating insurance sales practices. In September 2023, the NFRA issued the *Measures for the Management of Insurance Sales Practices*, which categorizes insurance sales practices into three stages: pre-sales, during sales, and post-sales. This aims to better protect consumer rights and further promote insurers to clearly understand the management requirements of insurance sales practices.

Fifth, improving solvency supervision. In September 2023, the NFRA issued the *Notice on Optimizing the Solvency Supervision Standards for Insurance Companies*, implementing differentiated capital requirements for different types and sizes of insurers. This optimizes capital measurement standards and risk factors, guiding insurers to support the real economy and technological innovation.

Sixth, enhancing the assessment methods for systemically important insurance companies. In October 2023, the PBC and the NFRA jointly issued the *Measures for the Assessment of Systemically Important Insurance Companies*, which will identify systemically important insurance companies every two years based on the score of each assessed insurers.

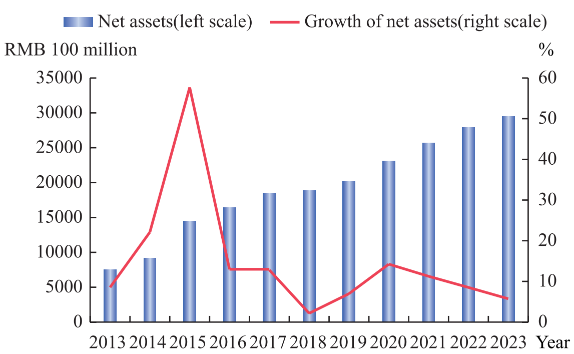
Seventh, improving the pension insurance system. In September 2023, the NFRA issued the *Notice on Matters Relating to the Transition of the Pilot Individual Tax-Deferred Commercial Pension Insurance Program to the Personal Pension*, clarifying requirements for business adjustments, product management, and insurance policy transfers during the transition to ensure orderly implementation. In October, the *Notice on Promoting the Development of Exclusive Commercial Pension Insurance* was issued, further expanding the scope of institutions allowed to offer exclusive commercial pension insurance services. In November, the *Interim Measures for the Supervision and Management of Pension Insurance Companies* were issued, specifying requirements for the institutional management, corporate governance, and risk management of pension insurance companies.

II. Securities Sector

1. Recent Developments

The number of securities companies increased with continuous asset growth. As of end - 2023, there were 146 securities companies, up by 6 from the previous year. Among them, 43 companies were listed (excluding listings of their group or parent companies), up by 1 from the previous year. Total assets of securities companies registered RMB 11.83 trillion, up by 6.96 percent year-on-year. Their total net assets registered RMB 2.95 trillion, up by 5.73 percent year-on-year (Figure 3.3). The balance of funds for client trading and settlement in securities companies (including credit trading funds) reached RMB 1.76 trillion, and the total principal amount of funds under fiduciary management reached RMB 8.83 trillion.

Figure 3.3 Net Assets of Securities Companies, 2013–2023



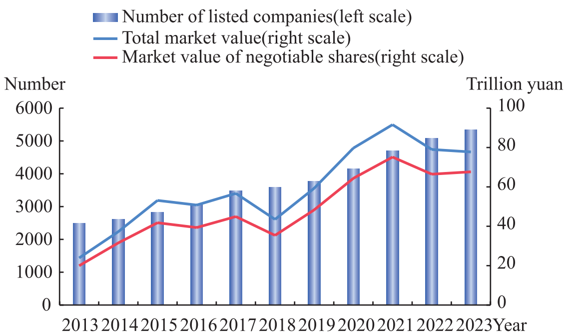
Source: The CSRC.

The assets under management of fund companies continued to grow. As of end - 2023, there were 157 mutual fund management companies, up by 2 from the previous year. Among them, there were 144 mutual fund companies with an asset of RMB 36.2 trillion under management, and 13 other mutual fund managers. There were 21625 operating private equity managers, down by 8.63 percent year-on-year, and they managed 153079 private equity funds with an asset amount of RMB 20.58 trillion, increasing by 5.56 percent and 1.48 percent year-on-year respectively.

The number of futures companies kept stable with a slight decrease in total assets. As of end - 2023, there were 150 futures companies, the same as the previous year, with 101 risk management subsidiaries, up by 1 year-on-year. The total assets of futures companies (clients' assets included) registered RMB 1.65 trillion, down by 2.76 percent year-on-year, whereas the asset growth in the previous year was 23.03 percent. Their total net assets registered RMB 194.961 billion, up by 5.88 percent, a deceleration of 8.17 percentage points from the previous year.

The number of listed companies and their market capitalization kept increasing steadily. As of end-2023, there were altogether 5346 listed companies on Shanghai, Shenzhen and Beijing Stock Exchanges, with 313 newly-listed companies and 47 delisted companies. The total market value of listed companies decreased by 1.58 percent at RMB 77.76 trillion, of which their negotiable shares worth RMB 67.66 trillion, up by 1.81 percent year-on-year (Figure 3.4). The market value of negotiable shares accounted for 87.01 percent of the total market value, up by 2.90 percentage points year-on-year.

Figure 3.4 Number and Market Value of Listed Companies, 2013–2023

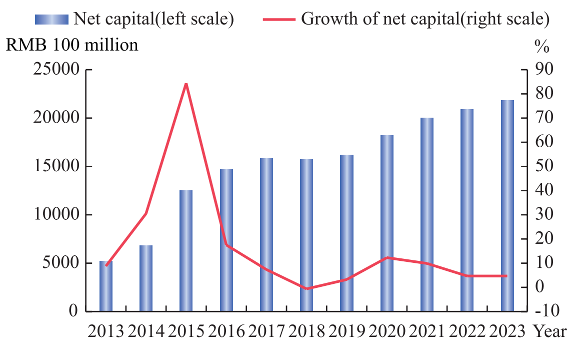


Source: The CSRC.

2. Soundness Assessment

The business performance of securities companies improved and their operation kept generally stable. As of end 2023, the total net capital of the securities sector registered RMB 2.18 trillion, up by 4.31 percent year-on-year and growing for five consecutive years (Figure 3.5); the average risk coverage ratio was 251.38 percent, down by 6.17 percentage points year-on-year; the average capital leverage ratio was 18.53 percent, down by 1.26 percentage points year-on-year; the average liquidity coverage ratio was 223.41 percent, down by 13.86 percentage points year-on-year; and the average net stable funding ratio was 150.24 percent, down by 6.37 percentage points year-on-year. All these indicators stayed above the minimum regulatory requirements. In 2023, the operating revenue of the securities sector amounted to RMB 405.671 billion, up by 2.69 percent year-on-year, compared with a 21.17 percent year-on-year decline in the previous year; its net profits registered RMB 137.618 billion, down by 4.01 percent year-on-year, with the decrease narrowing by 19.97 percentage points compared with the previous year; and the average ROE of the whole sector was 4.66 percent, 0.48 percentage point lower than the previous year. According to the rating results of securities companies by category in 2023, the number of Class A, Class B and Class C companies among 106 participating entities accounted for 50 percent, 40 percent and 10 percent respectively, which was basically comparable to that of the previous year.

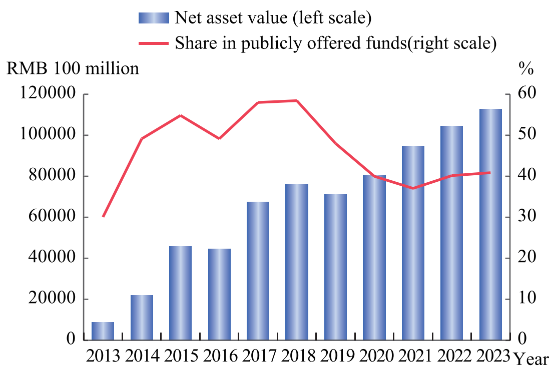
Figure 3.5 Net Capital of Securities Companies, 2013–2023



Source: The CSRC.

Assets under management of fund management companies grew steadily. As of end 2023, the net value of publicly offered funds registered RMB 27.60 trillion, up by 6.03 percent year-on-year; its average leverage ratio was 112 percent, up by 2.00 percentage points year-on-year. Among them, equity funds accounted for 10.29 percent of the publicly offered funds, up by 0.76 percentage point year-on-year; hybrid funds accounted for 15.25 percent, down by 5.07 percentage points; bond funds accounted for 32.10 percent, up by 3.37 percentage points; and money market funds accounted for 40.87 percent, up by 0.69 percentage point; QDII funds accounted for 1.52 percent, up by 0.25 percentage point (Figure 3.6). The net asset value of money market funds registered RMB 11.28 trillion, up by 7.84 percent year-on-year; and the average remaining maturity of its investment portfolios was 79 days, 5 days shorter than last year.

Figure 3.6 Money Market Funds: Net Asset Value As A Percentage of Publicly Offered Funds, 2013-2023



Source: The CSRC.

The decline in profitability of futures companies narrowed, and the number of high-risk companies continued to decrease. In 2023, futures companies achieved a total operating revenue of RMB 40.005 billion, down by 0.43 percent year-on-year, with the decrease narrowing by 18.29 percentage points compared with the previous year. Among them, net fee and commission incomes registered RMB 23.395 billion and accounted for 58.48 percent of the operating revenue, a decrease of 4.94 percent and 2.78 percentage points year-on-year respectively. The net profits registered RMB 9.480 billion, down by 13.52 percent year-on-year, with the decrease narrowing by 6.69 percentage points compared with the previous year. As of end 2023, the net capital of futures companies reached RMB 123.333 billion, up 5.73 percent year-on-year; the ratio of net capital to net assets was 63.26 percent, down by 0.09 percentage point year-on-year, which stayed above the minimum regulatory requirements. According to the 2023 rating results, there were 55 futures companies rated A, up by 1 company; 84 rated B, up by 8 companies; and 10 rated C, down by 7 companies. Companies rated from A to C were regarded as less risky. There was 1 futures company rated D (namely with higher risks), a decrease of 2 from the previous year.

Listed companies operated steadily overall. As of April 30, 2024, 5327 listed companies on Shanghai, Shenzhen and Beijing Stock Exchanges had disclosed their 2023 annual reports. Total operating revenue of listed companies registered RMB 72.69 trillion, a year-on-year growth of 0.86 percent. The net profits of listed companies reached RMB 5.71 trillion, down by 1.57 percent year-on-year, indicating a stable profitability.

3. New Regulations

First, in January 2023, the CSRC issued the *Regulations on the Operation and Management of Private Asset Management Plans by Securities and Futures Operating Institutions*, which implements differentiated supervision on private asset management businesses based on the corporate governance, internal control compliance, and risk profile of operating institutions. The aim is to further enhance the flexibility of product investment operations, improve the institutional arrangements for risk prevention and control, and promote the full play of the function of private equity asset management business in serving the real economy.

Second, in June 2023, the CSRC issued the *Guidance on Improving the Quality of Bond Business Practice of Intermediary Institutions* *under the Registration System*. The main measures include strengthening the practice norms of bond business of entrusted underwriting institutions, improving the practice quality of securities service institutions, strengthening quality control, integrity requirements and investor protection, and strengthening supervision and improving the multi-dimensional accountability system in accordance with the law. These measures aim to strengthen the whole-process practice standardization of corporate (enterprise) bond intermediary institutions and urge intermediary institutions to effectively assume the role of "gatekeepers".

Third, in July 2023, the State Council issued the *Regulations on the Supervision and Administration of Private Investment Funds*, which clarifies the obligation requirements of private fund managers and custodians, standardizes fund raising and investment operations, strengthens supervision, emphasizes legal obligations , etc. The regulations govern the business activities of private equity funds, which are conducive to the protection of the legitimate rights and interests of investors and relevant parties, the promotion of the standardized and healthy development of the private fund industry, the provision of services to the real economy and the promotion of scientific and technological innovation, among other functions.

Box 12 The Issuance of *Regulations on the Supervision and Administration of Private Investment Funds* and Its Impact

As of end 2023, there were about 22000 private investment fund managers registered with the Asset Management Association of China (AMAC), with about 153000 private investment funds under management worth RMB 21 trillion. Private investment funds have played a positive role in serving the real economy, supporting innovation and entrepreneurship, focusing on key areas and strategic industries, increasing the proportion of direct financing, and managing wealth for residents. However, some problems and risks emerged during their development, affecting the effective functioning of these funds. The CPC Central Committee and the State Council attached great importance to this issue and required accelerated improvements in institutional framework to promote the standardized and healthy development of the industry. On July 9, 2023, the State Council issued the *Regulations on the Supervision and Administration of Private Investment Funds* (hereinafter referred to as the *Regulations*), which came into effect on September 1, 2023.

I. The Main Content of the Regulations

First, clarify the scope of application. The *Regulations* apply to various organizational types of private investment funds, such as contractual, corporate, and partnership types. It stipulates that those entities raising funds through non-public means, establishing investment funds or establishing companies and partnerships for the purpose of investment activities in accordance with the law, being managed by private investment fund managers or general partners, and operating for the benefit of investors, should be subject to the *Regulations*.

Second, stipulate the obligations and requirements for private investment fund managers and custodians. The *Regulations* stipulate circumstances under which entities cannot become private investment fund managers, controlling shareholders, actual controllers, directors, supervisors, or senior management. The *Regulations* also stipulate that practitioners must undertake compliance and professional capability training in accordance with regulations. It stipulates that private investment fund managers should register with agencies designated by the securities regulatory authority of the State Council, as well as outlines the conditions of the canceling of any registration. It lists prohibited actions by shareholders, actual controllers, and partners of private investment fund managers and sets continuous compliance requirements. It clarifies the responsibilities of private investment fund managers and custodians.

Third, regulate fundraising and investment operations. Private investment funds should be raised or transferred only to qualified investors, with the number of investors in a single fund not exceeding the legal limit. Private investment fund managers must match investors with different risk levels' products based on their risk identification and bearing capacity. Monitoring shall be enhanced after the completion of fundraising. The *Regulations* clarify the scope of investments, investment tiers and prohibited businesses for private equity funds. The *Regulations* standardize the behavior of private investment fund managers and employees.

Fourth, introduce differentiated regulation on the venture capital funds. National policies support venture capital funds, encourage and guide them to invest in growth-oriented and innovative start-ups. The *Regulations* strengthen the coordination of regulatory policies and development policies, clarify the conditions that venture capital funds should meet, and introduce differentiated supervision and self-discipline for venture capital funds compared to other private investment funds.

Fifth, strengthen supervision and legal responsibilities. The *Regulations* stipulate that the supervision of private investment funds' activities shall implement the guidelines and policies of the Party and State. It clarifies the supervisory responsibilities and measures of the securities regulatory authority of the State Council. It stipulates that the securities regulatory authority of the State Council, relevant authorities, and provincial governments should establish a mechanism for sharing supervision information, reporting statistical data, and risk disposal cooperation. In addition, legal responsibilities for violations of the *Regulations* are clearly clarified, enhancing penalties for illegal activities.

II. The Importance of Issuing the Regulations

Issuing the *Regulations* is of vital significance for comprehensively strengthening supervision of private investment funds, effectively preventing and resolving risks, and promoting high-quality development of the industry. It will further push forward the sound development of the industry.

First, further solidify the legal framework for private investment funds. The *Regulations* bring private investment funds' activities under the rule of law and standardized supervision, solidifying the fundamental policies for the regulated development of the industry. This marks an important milestone in enhancing the basic regulatory framework for private investment funds, ushering in a new stage of high-quality development and enhancing regulatory effectiveness.

Second, promote regulated and healthy development of the private investment fund industry. The *Regulations* explicitly encourage the private investment fund industry to "play its role in serving the real economy and promoting scientific and technological innovation" in the general provisions. This helps to build consensus among all stakeholders, optimize the development environment for the private investment funds industry, and promote its high-quality development.

Third, clarify policy support. The *Regulations* include a dedicated chapter on venture capital funds, defining its concepts and implementing differentiated supervision and self-discipline to encourage early-stage investments in small and tech-driven enterprises. Additionally, the *Regulations* exempt one layer of nesting restrictions for funds like funds of Funds, venture capital funds, and government funds with reasonable business needs, supporting the industry to play a positive role, fostering long-term institutional investors and promoting the stable development of the private investment fund industry.

Next, the securities regulatory authority of the State Council will revise *the Interim Supervisory and Administrative Measures for Private Investment Funds* based on the *Regulations,* detail the relevant requirements, implement differentiated supervision based on the business types and asset management scale of private investment fund managers and further improve the regulatory framework. The securities regulatory authority of the State Council will continuously improve supplementary administrative and self-discipline rules, issue supplementary measures concerning investment operations, funds of funds, and information disclosure, and guide the Asset Management Association of China to revise and improve self-discipline rules such as registration and filing. The securities regulatory authority of the State Council will optimize the development environment of the private investment fund industry, leveraging policy synergies to facilitate fundraising, investment, management, and exit processes, and driving the industry to a new level of high-quality development.

Box 13 Strengthening the Delisting of Listed Companies to Promote the Survival of the Fittest in the Capital Market

The delisting system is a key fundamental arrangement for the capital market, and the normalization of delisting has long been a challenging and significant issue. In recent years, the CPC Central Committee has placed great emphasis on the reform and development of the capital market, making important decisions and deployments to improve the quality of listed companies and reform the delisting system. In November 2020, the Central Committee for Comprehensively Deepening Reform reviewed and approved the *Implementation Plan for Improving the Delisting Mechanism of Listed Companies*, initiating a new round of delisting system reforms. Delisting rules were simultaneously revised and released by stock exchanges. From the start of the reforms to the end of 2023, a total of 126 companies were delisted, including 103 forced delistings, nearly three times the total of the previous decade (38 forced delistings), as well as 23 voluntary delistings. This shows positive progress in the delisting system reform. In April 2024, the CSRC issued the *Opinions on Strictly Implementing the Delisting System*, which aims to further deepen the delisting reforms by adhering to principles such as focusing on the investment value of listed companies, availability of diversified exit channels and reduction of “shell” companies values.

I. Significance of the Delisting System Reforms

First, it is conducive to the gradual optimization of the market ecosystem. The delisting system is an important supporting system for the comprehensive registration-based IPO reform, and a crucial way to improve the quality of listed companies. After the full implementation of the registration system, the resources of listed companies have become increasingly abundant, making it more important to clear the “exit gate.” This requires the market to play a dominant role in resource allocation, and foster a positive ecosystem with balanced entries and exits. Practical experiences have shown that the normalization of delisting would help reduce the inefficient allocation of market resources, accelerate the market-based exits, improve the quality and investment value of listed companies, and guide the flow of funds to well-performing enterprises, which will eventually allow the capital market to play a bigger role in supporting the real economy.

Second, it is conducive to ensuring the fulfilment of responsibilities by intermediaries. In recent years, there are repeated cases where market intermediaries assist issuers in engaging in accounting fraud and other misconducts. Those intermediaries failed to fulfill their role as “gatekeepers” of the capital market and were punished by regulators. According to the delisting system reforms, audit opinions with statement of financial distortion and internal control failures of listed companies would be regarded as important evidence for delisting decisions. This emphasizes the accountability of accountants, and urges intermediaries to fulfill their duties, enhance their professionalism and reputations, promote the survival of the fittest in the industry, and create an open and transparent market environment.

Third, it is conducive to the cultivation of rational investment. Against the backdrop of the steady progress of the registration-based IPO system and the normalization of delisting, the value of "shell" companies has significantly declined, and investors' risk awareness and concepts of value investment have gradually strengthened. Investors will consciously stay away from "zombie" enterprises and "bad apples" with serious accounting fraud and other illegal behaviors. The exit of these inferior enterprises can help capital market investors avoid potential financial losses and protect the legitimate rights and interests of investors.

II. Main Measures to Strengthen the Delisting System

First, improving the diversified delisting mechanisms. A differentiated set of delisting criteria for different boards have been established and improved. The application scope of delistings triggered by major violations has been expanded and indicators for trading-based delistings such as market capitalization have been improved. Policies and regulations on acquisitions and mergers have been refined to facilitate the integration of industrial chain by leading companies and to broaden the diversified exit channels. Listed companies with no reorganization value are removed from the market, so as to vigorously reduce the value of "shell" resources.

Second, strengthening regulatory enforcement. The delisting rules have been strictly enforced, and violations aimed at preserving the value of "shell" companies through accounting fraud and market manipulation have been cracked down on. Those controlling shareholders, actual controllers, board members and senior executives responsible for delisting resulted from major violations are severely punished and banned from the securities market. A tiered accountability framework involving administrative, criminal, and civil compensation has been improved.

Third, forcefully carrying out investor compensation and relief. The securities investor protection agencies have played a proper role in protecting the legitimate rights and interests of investor through various channels such as representative litigation, advance compensation, professional mediation, and model judgment. Entities responsible for delisting resulted from major violations are held accountable for the compensation of investor losses.

III. Next Steps

First, to continue to thoroughly implement the delisting system reform. The Shanghai, Shenzhen, and Beijing Stock Exchanges will continue to advance the implementation of the *Stock Listing Rules* and related supporting measures. The authorities will continue oversight of information disclosure and corporate governance of listed companies, investigate and penalize any criminal activities or violations of rules during the delisting process according to relevant laws and regulations, and support local governments in maintaining local social stability.

Second, to further strengthen investor protection. Improve the investor compensation and relief mechanism for the delisting process, ensuring that delisting process is also stable. Guide and support investors in actively defending their rights against losses incurred by capital market violations.

III. Other Sectors and Emerging Risks

1. Crypto Assets

Regulatory authorities worldwide have continuously strengthened the oversight of crypto assets. Following a series of risk events that shocked the crypto asset market in 2022, prices and trading volumes rebounded significantly in 2023. By the end of the year, the global market capitalization of crypto assets reached USD 1.55 trillion, marking a year-on-year increase of 10.71 percent. Given the potential spillover risks that crypto assets pose to financial system stability, regulatory authorities worldwide have increasingly strengthened their supervision of these assets. Currently, 51 jurisdictions have imposed bans on crypto assets, while some jurisdictions have adjusted existing laws or introduced new legislation for regulation. In the United States, based on existing regulatory frameworks, violations of the *Securities Act* by crypto asset issuers are monitored. The SEC has rejected over 20 applications for spot Bitcoin ETFs from 2018 to 2023. After approving the listing of a spot Bitcoin ETF in January 2024, the SEC Chairman stated that this approval does not mean that the SEC approves or endorses Bitcoin products, and investors should remain cautious about risks associated with Bitcoin and products linked to crypto assets. The European Union has approved the *Regulation on markets in crypto-assets*, establishing the first comprehensive and clearly-defined regulatory framework for virtual assets, which is scheduled for full implementation by the end of 2024. The United Kingdom has accelerated the legislation for virtual assets by enacting the *Financial Services and Markets Act*, which includes crypto assets within its regulatory scope. Singapore has issued a *Stablecoin Regulatory Framework*, clarifying the scope of regulated stablecoins and issuer criteria. Japan has formulated the *Funds Settlement Act*, restricting the issuers of stablecoins to licensed banks, registered remittance agents, trust companies, etc.

Hong Kong SAR of China is actively exploring license management for crypto assets. It categorizes virtual assets into two types for regulation: securitized financial assets and non-securitized financial assets. Operators of virtual asset trading platforms are subject to a special “dual-licensing” system, where “security tokens” fall under the *Securities and Futures Ordinance* for regulation and licensing, while “non-security tokens” are governed by the *Anti-Money*

Laundering and Counter-Terrorist Financing Ordinance for regulation and licensing. Institutions engaged in virtual asset businesses must apply for registration and licensing from the relevant regulatory authorities before they can operate. Additionally, large financial institutions such as HSBC and Standard Chartered are required to include crypto asset exchanges in their daily customer monitoring.

2. Climate Risks

In 2023, the PBC conducted physical risk stress testing pilots in Shandong, Hubei and Gansu provinces to assess the impact of extreme weather, natural disasters and related events on financial institutions in the pilot regions.

Pilot drought risk stress test in Shandong. The stress test aimed to assess the impact of drought on the agricultural insurance payouts of eight insurance companies (including provincial branches of national insurance companies), as well as on the loan quality of the agricultural product processing industry among seven banks with legal person status. The test was designed based on scenarios from the Intergovernmental Panel on Climate Change (IPCC) and historical drought data from Shandong, and established a mild, moderate and severe scenario with different precipitation and temperatures. The test results indicated that drought would increase insurers' agricultural insurance payouts and banks' NPL ratios in the agricultural product processing industry. However, due to the relatively low proportion of agriculture-related exposures, the overall impact of drought on the participating institutions was limited.

Pilot flood risk stress test in Hubei. The stress test aimed to assess the impact of floods on the NPL ratios of 146 local banks. The test established four stress scenarios based on two dimensions: macroeconomic conditions and the severity of flood disasters. The test results showed that, in a scenario where no greenhouse gas emission control leading to floods larger than historical extremes, the average NPL ratio of local banks in Hubei increased slightly. However, when combined with macroeconomic downturn risks, the average NPL ratio of these banks increased significantly.

Pilot drought risk stress test in Gansu. The stress test aimed to assess the impact of drought on the quality of agricultural planting-related loans of all rural cooperative financial institutions in a prefecture-level city in the province. The test adopted several long-term scenarios from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The test results indicated that in a delayed transition scenario, as drought-affected area increased, farmers' per capita annual income would reduce, leading to defaults by a small number of farmers and an increase in the NPL ratio. Overall, the impact of drought risk on rural cooperative financial institutions in the pilot area was limited, though a few participating institutions would see their asset quality and capital adequacy levels affected.

Chapter IV

Financial markets

In 2023, financial markets continued to operate soundly, with active market transactions and higher level of openness. The high-quality development of the financial markets progressed in a steady way.

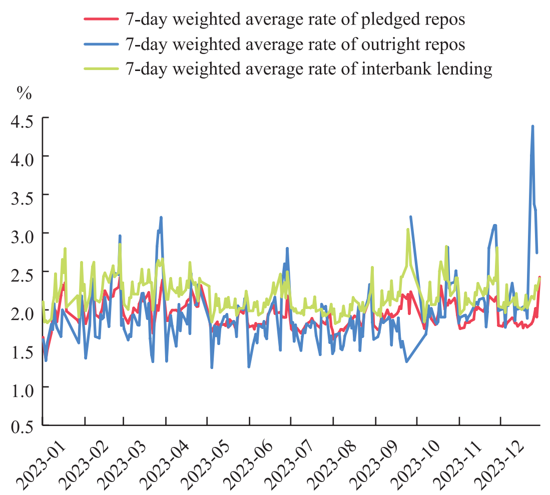
I. Performance of Financial Markets

1. Money Market

Transaction volume of money market continued to expand, though with slower growth. In 2023, money market transactions were active. Transaction volume of interbank lending and repos reached RMB 1817.2 trillion, up by 19 percent year on year, which was 12 percentage points lower compared with that of last year. Among these transactions, interbank lending registered RMB 143.0 trillion, down by 3 percent year on year; pledged repos registered RMB 1668.8 trillion, up by 21 percent year on year; outright repos registered RMB 5.4 trillion, down by 3 percent year on year. Interbank lending with maturities less than 7 days registered RMB 140.6 trillion, accounting for 98.4 percent of all interbank lending, up by 0.4 percentage point than that of last year; pledged repos with maturities less than 7 days registered RMB 1625.6 trillion, accounting for 97.4 percent of all pledged repos, up by 0.6 percentage point compared with that of last year.

Liquidity in the money market was adequate, and market rates generally fluctuated around the policy rate. Except for some special points, such as month-end and quarter-end days, for the whole year of 2023 the liquidity in the money market was adequate at a reasonable level, with interest rates fluctuating around the policy rate. The weighted average rate of 7-day Pledged Repos for Depository Institutions (DR007) generally fluctuated between 1.7 percent to 2.3 percent. In the first three quarters of 2023, DR007 edged downward alongside with the policy rate, with deviation from the policy rate within 10 basis points. Since September, it generally moves above the policy rate. For the whole year, the weighted average of DR007 registered 1.97 percent, up by 12 basis points compared with last year (Figure 4.1). The weighted average rate of 7-day outright repos witnessed unusual hikes at the end of the year, mainly due to the overall rise in financing costs of non-banking institutions as they competed for funds in preparation of the New Year festivals.

Figure 4.1 Money Market Interest Rates in 2023



Source: China Foreign Exchange Trading Centre.

2. Foreign Exchange Market

Transaction volume has increased. In 2023, the cumulative trading volume in the RMB foreign exchange market was USD 35.8 trillion, an increase of 3.9 percent year on year. Among them, the volume of the bank-to-client trading and the interbank foreign exchange trading registered USD 5.3 trillion and USD 30.6 trillion respectively, down by 8.6 percent and up by 6.6 percent year on year, while the trading volume of spot and derivative products registered USD 12.7 trillion and USD 23.1 trillion respectively, up by 0.8 percent and 5.5 percent year on year.

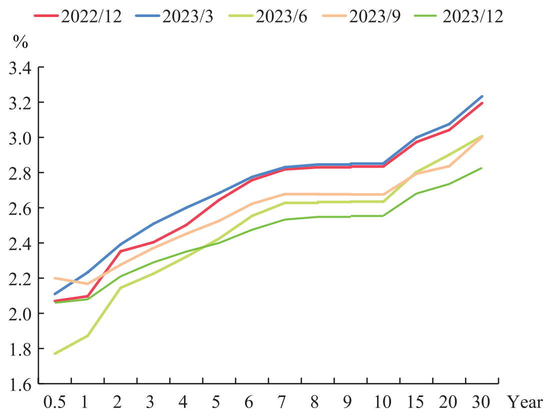
3. Bond Market

The scale of spot transactions in the bond market grew year on year. In 2023, spot transactions in the interbank bond market amounted to RMB 307.3 trillion, an increase of 13.3 percent year on year, with a daily average of RMB 1234.2 billion; spot transactions in the exchange bond market amounted to RMB 46.8 trillion, an increase of 22.8 percent year on year, with an average of RMB 193.3 billion per day. The cumulative number of transactions in the over-the-counter bond market was 1.051 million, with a volume of RMB 196.14 billion.

Government bond yields declined overall and term spreads narrowed. At the end of 2023, the yields on 1-year, 3-year, 5-year and 10-year government bonds were 2.08 percent, 2.29 percent, 2.40 percent and 2.56 percent respectively, down by 2, 11, 24 and 28 basis points from the end of the previous year (Figure 4.2). The spread between 1-year and 10-year bonds was 48 basis points, narrowed by 26 basis points compared with that at the end of 2022.

The level of opening up has been further increased. By the end of 2023, 1124 overseas institutions had gained entry to China's bond market, with a bond holding of RMB 3.72 trillion, accounting for 2.4 percent of all

Figure 4.2 Change of Government Bond Yields in the Interbank Market



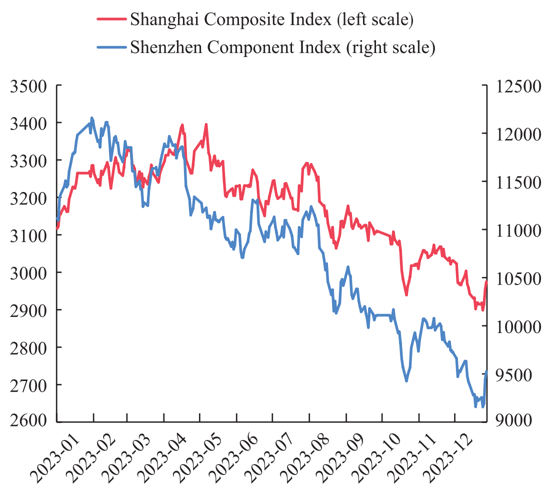
Source: CCDC.

outstanding bonds under custody in China's bond market. Among them, the scale of bonds held by overseas institutions in the interbank bond market was RMB 3.67 trillion. Divided by bond types, government bonds held by overseas institutions registered RMB 2.29 trillion, accounting for 62.4 percent of the total bonds outstanding held by them, and policy financial bonds registered RMB 0.8 trillion, accounting for 21.8 percent. Since 2023, overseas institutions have been actively investing in China's bond market, and by the end of the year, overseas institutions had been net buyers for 11 consecutive months, with a total net purchase of RMB 1.5 trillion. Among them, overseas institutions registered a record high monthly net purchase of China's bonds in November with RMB 363.8 billion.

4. Stock Market

The stock market went downward with fluctuation. At the end of 2023, the Shanghai Composite Index closed at 2974.93, down by 3.7 percent from the end of the previous year; the Shenzhen Component Index closed at 9524.69, down by 13.54 percent from the end of the previous year (Figure 4.3). At the end of 2023, the P/E ratio of Shanghai Composite Index stocks was 12.54, that of Shenzhen Component Index stocks was 20.90, that of ChiNext was 27.85, and that of STAR 50 was 45.29.

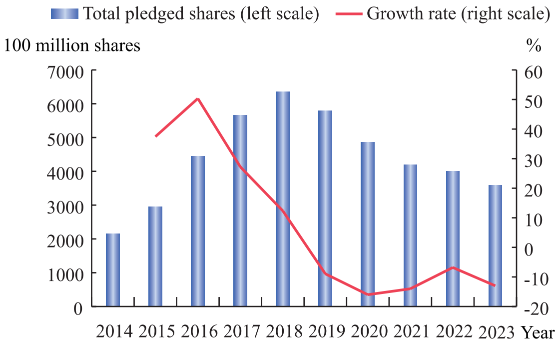
Figure 4.3 Trend of Shanghai Composite Index and Shenzhen Component Index in 2023



Source: Wind.

Trading vitality was generally stable. In 2023, the total turnover of the Shanghai and Shenzhen stock exchanges registered RMB 212.2 trillion. The daily average turnover was RMB 876.90 billion, down by 5.5 percent year on year. The turnover ratio of the Shanghai stock market was 207.76 percent, down by 32.04 percentage points year on year. The turnover ratio of the Shenzhen stock market was 448.22 percent, down by 51.28 percentage points year on year. The scale of stock pledge financing continued to decline. As of the end of 2023, the outstanding amount of pledged A-shares registered 348.758 billion shares, down by 12.99 percent year on year, showing a downward trend for five consecutive years (Figure 4.4).

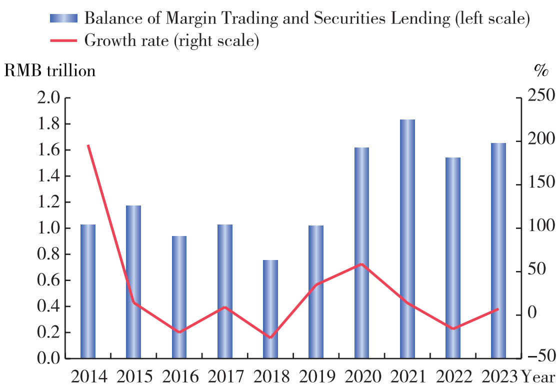
Figure 4.4 Outstanding Amount and y-o-y Growth of Shares Pledged by Shareholders of Listed Companies



Source: Wind.

The balance of margin trading and securities lending increased year on year. At end–2023, the balance of margin trading and securities lending registered RMB 1.65 trillion, up by 7.17 percent year on year. Among this, the balance of margin trading accounted for 95.66 percent, and the balance of securities lending accounted for 4.34 percent (Figure 4.5). The proportion of margin trading balance to the market value of negotiable A shares was 2.45 percent, up by 0.12 percentage point compared with that at the end of last year.

Figure 4.5 Balance and y-o-y Growth of Margin Trading and Securities Lending



Source: Wind.

5. Futures and Options Markets

The futures market was generally stable with rapidly increasing trading volume. In 2023, the total trading volume of the Chinese futures and options market was 8.501 billion lots (one-sided, the same below), and the total value of all these contracts registered RMB 568.51 trillion, up by 25.60 percent and 6.28 percent year on year, respectively. Among them, the trading volume of Shanghai Futures Exchange, China Financial Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, Shanghai International Energy Exchange, Guangzhou Futures Exchange accounted for 24.24 percent, 1.98 percent, 41.56 percent, 29.51 percent, 1.96 percent and 0.76 percent of the total trading volume in China, respectively; and the trading value of them accounted for 26.61 percent, 23.42 percent, 22.59 percent, 19.99 percent, 6.32 percent and 1.07 percent of that in China, respectively.

6. Commercial Paper Market

Commercial paper activities continued to grow. In 2023, commercial paper activities totaled RMB 224.5 trillion, up by 15.1 percent year on year. Among them, the amount of commercial paper acceptances amounted to RMB 31.3 trillion, up by 14.5 percent year on year; the amount of endorsement amounted to RMB 62.7 trillion, up by 7.0 percent year on year; the amount of commercial paper discounted by financial institutions reached RMB 23.8 trillion, up by 22.4 percent year on year; the amount of re-discounting amounted to RMB 73.4 trillion, up by 26.1 percent year on year; and the amount of repos amounted to RMB 31.5 trillion, up by 5.3 percent year on year. As of end–2023, the outstanding amount of commercial drafts registered RMB 18.6 trillion, down by 2.7 percent year on year; the outstanding amount of discount was RMB 13.3 trillion, up by 2.1 percent year on year. The weighted average market-wide discount rate for the whole year was 1.78 percent, down by 17 basis points year on year; the re-discounting rate was 1.60 percent, down by 15 basis points year on year; and the pledged repo rate was 1.80 percent, up by 21 basis points year on year.

7. RMB Interest Rate Derivatives Market

The RMB interest rate derivatives market operated smoothly. The number of RMB interest rate swap contracts executed in 2023 was 352300, with a total notional principal amount of RMB 31.71 trillion, up by 44.1 percent and 50.8 percent, respectively. By maturity distribution, swaps with maturity of 1 year or less were most commonly traded, with a total notional principal amount of RMB 21.72 trillion, accounting for 68.5 percent of total trading volume of RMB interest rate swaps. By reference rate, the 7-day repo rate and Shibor were the major reference rates for the floating leg of RMB interest rate swaps. Swaps based on 7-day repo rate and Shibor, measured by notional principal amount, accounted for 91.46 percent and 7.36 percent, respectively. There were also 1256 transactions of swaps based on LPR, and the notional principal amount was RMB 231.929 billion. The standard interest rate swap business based on the interbank certificate rate was launched in November 2023, and 103 transactions were carried out in 2023, with a notional principal amount of RMB 3.19 billion. In 2023, there were 1007 transactions of RMB interest rate option with a notional principal amount of RMB 160.68 billion, and there were 3849 transactions of standard bond forward with a notional principal amount of RMB 308.82 billion.

8. Gold Market

Gold prices rose and the trading volume increased. At the end of 2023, international gold price closed at USD 2078.40 per ounce, a year-on-year increase of 14.59 percent; the Au99.99 price on the Shanghai Gold Exchange closed at RMB 479.59 per gram, a year-on-year increase of 16.83 percent. In 2023, the cumulative trading volume on the Shanghai Gold Exchange amounted to 41500 tons with a trading value of RMB 18.57 trillion, a year-on-year increase of 7.09 percent and 22.31 percent respectively.

II. Overview of Market Financing

Bond issuance grew year on year. In 2023, China's bond issuance totaled RMB 71.0 trillion, up by 14.8 percent year on year, of which RMB 61.4 trillion were issued in the interbank market and RMB 9.6 trillion were issued in the exchange market. In terms of bond types, RMB 11.0 trillion of central government bonds were issued, RMB 9.3 trillion of local government bonds were issued, RMB 10.2 trillion of financial bonds were issued, RMB 14.0 trillion of corporate bonds were issued, RMB 348.52 billion of credit asset-backed securities were issued, and RMB 25.8 trillion of interbank certificates of deposit were issued (Table 4.1).

The outstanding amount of bonds under custody in China's bond market grew year on year. As of end−2023, the outstanding amount of bonds under custody registered RMB 157.9 trillion, up by 9.1 percent year on year. Among this, the outstanding amount of bonds under custody in the interbank bond market registered RMB 137.0 trillion, up by 9.4 percent year on year; the outstanding amount of bonds under custody in the exchange market registered RMB 20.9 trillion, up by 7.3 percent year on year; and the outstanding amount of bonds under custody traded over commercial banks' counters registered RMB 57.75 billion, up by 38.8 percent year on year.

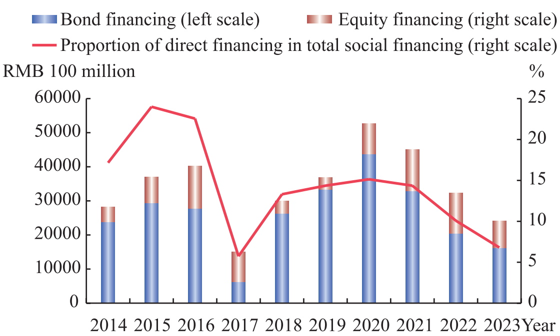
Table 4.1 Amount of Bond Issuance and Bonds under Custody in 2023

Types of Bonds	Issuance (RMB trillion)	Y-o-y Growth of Issuance (percent)	Bonds under Custody (RMB trillion)	Y-o-y Growth of bonds under custody (percent)
Central Government Bonds	11.0	14.3	29.3	16.5
Local government Bonds	9.3	26.8	40.6	16.3
Policy Bank Bonds	5.9	0.6	24.3	8.7
Other financial Bonds	4.3	10.2	13.9	12.7
Interbank Certificates of deposit	25.8	25.7	14.8	4.5
Corporate Credit Bonds	14.0	1.8	32.0	1.1
Other	0.7	−17.3	3.0	−27.7
Total	71.0	14.8	157.9	9.1

Source: The CSRC, CCDC, and Shanghai Clearing House.

IPO financing and refinancing declined. There were 313 IPOs on the Chinese stock market in 2023, down by 115 year on year. These companies raised a total funding of RMB 356.539 billion, down by RMB 230.347 billion, or 39.25 percent year on year. A total of 331 listed companies completed refinancing, down by 24 year on year, and they raised a total funding of RMB 578.951 billion, down by RMB 143.973 billion, or 19.92 percent (Figure 4.6).

Figure 4.6 Direct Financing by Non-financial Enterprises and Its Proportion in Total Social Financing in 2014–2023



Source: The PBC.

III. Institutional Development of Financial Markets

Steady progress has been made in the two-way opening up of financial markets. First, the bond market's institutional arrangements have been steadily reformed. A package of measures has been put in place to facilitate investment, including the provision of a "basket" of bonds as trading portfolio, and the inclusion of new foreign owned institutions operating in China to serve as market makers in the northbound direction of the Bond Connect Program. Second, the opening up of the derivatives market has been further enhanced. In May 2023, the Mainland/Hong Kong Interest Rate Swap Market Interconnection Cooperation (herein after referred to as "Swap Connect") was formally launched. Under the Swap Connect, domestic and foreign investors can conduct RMB interest rate swap transactions and centralised clearing without changing their trading practices, while complying with the laws and regulations of both sides, via the swap mechanism which connects the financial infrastructures of the Mainland and Hong Kong in the areas of trading, clearing and settlement. Third, to strengthen financial cooperation between the Mainland and Hong Kong, the PBC and the Hong Kong Monetary Authority (HKMA) launched six policy initiatives under the "Three Connects and Three Facilities" in January 2024, including the implementation of policies to facilitate the participation of the Greater Bay Area (Guangdong, Hong Kong and Macao) residents in the Cross-border Wealth Management System (CBWMS), and the expansion of the pilot scheme of e-CNY in Hong Kong, etc. These policies focus on deepening the financial cooperation between the Mainland and Hong Kong with emphasis on opening up on the institutional level. Fourth, expanding the ETF Connect Scheme. In December 2023, the Shanghai-Singapore ETF Connect was formally launched with the simultaneous listing of Huatai-PineBridge CSOP iEdge Southeast Asia+ TECH Index ETF and the CSOP Huatai-PineBridge SSE Dividend Index ETF on the Shanghai Stock Exchange and the Singapore Exchange. Fifth, the opening up of the futures market has been deepened. 7 new specific futures and options products were opened to foreign investors in 2023, and a total of 24 specific products had been opened to foreign investors by the end of 2023.

The regulation and supervision of financial market infrastructures was strengthened. The draft *Measures for the Regulation and Supervision of Financial Infrastructures* has completed public consultation, and is being further refined. The first enforcement inspection of the interbank market infrastructures was carried out in accordance with the law, covering the Central Clearing Corporation, the Shanghai Clearing House, the Shanghai Commercial Paper Exchange and the Shanghai Gold Exchange.

The regulation of bond valuation business was enhanced. In December 2023, the PBC issued the *Regulation of Bond Valuation Business in the Interbank Bond Market*, clarifying requirements such as the internal governance of valuation institutions, basic principles of valuation, valuation methodology and information disclosure, setting rules for the bond valuation business, improving the neutrality, fairness, professionalism and transparency of the bond valuation business, enhancing the effectiveness of the pricing in the bond market and the market functioning, and preventing market risks.

The regulatory system of the commercial paper market was further improved. In January 2023, the revised *Regulation of Acceptance, Discounting and Rediscounting of Commercial Papers,* jointly issued by the PBC and the former CBIRC, came into effects. This revised regulation follows the principles of market-orientation and the rule of law, and focuses on improving the credit management framework and the market-based constraint mechanism in the commercial paper market, reinforcing the conduct norms of the participating entities, and clarifying the supervision and regulation as well as the legal liabilities, so as to further promote the sound and healthy development of the commercial paper market.

The reform of fees and commissions in the public fund sector has been steadily advancing. In July 2023, the CSRC issued and implemented the *Work Plan for the Reform of Fees and Commissions in the Public Fund Sector*, formally launching the reform of fees and commissions in the public fund sector. The purpose is to reduce the comprehensive fees and commissions in the public fund sector in three phases, i.e. from fund managers to securities companies to selling institutions. In the first phase, the fees and commissions in the active equity public funds will be steadily reduced, the pilot of floating rates will be launched, and the transaction and settlement model of public fund will be further optimized and improved. In the second phase, the commissions for public funds' stock transactions will be adjusted to a more reasonable level, and a dynamic adjustment mechanism for commissions will be established. In the third phase, it is proposed to introduce reform measures in the sales of public funds around the end of 2024.

Supporting arrangements for the futures and derivatives markets continued to be improved. First, risk management in the futures market has been strengthened. In March 2023, the CSRC revised the *Regulation of Futures Exchanges* to optimize the internal governance of futures exchanges and strengthen their responsibility for risk management. In July 2023, the CSRC formulated and implemented the *Interim Provisions on the Management of Positions in the Futures Market*, which stipulated the definition, adjustment principles, applicable circumstances and duties of participants about the basic requirements such as position limits, hedging practices, reporting of large positions and position consolidation, etc. Second, business innovation and supporting mechanism arrangements in the derivatives market will be steadily promoted, including the introduction of standard interest rate swaps linked to the interest rate of interbank certificates of deposit and centrally cleared, the introduction of roll-over transactions for centrally cleared interest rate swaps contracts, and the improvement of the decision-making procedures on credit issues for credit risk mitigation instruments so as to facilitate the full play of their role in credit risk sharing.

Box 14 Cracking Down on Illegal and Non-compliant Activities in the Capital Market

Severely cracking down on illegal and non-compliant activities in the securities market is an important decision made by the CPC Central Committee and the State Council. It is also a crucial safeguard and prerequisite for maintaining the order of the capital market and effectively leveraging its pivotal function. In 2023, China continued to strengthen its tough and "zero-tolerance" stance against illegal and non-compliant activities in the capital market. The securities regulator investigated and handled 717 cases of violations in the securities and futures markets throughout the year, a 19 percent increase from the previous year. 539 administrative penalties were issued, a 40 percent year-on-year increase, with fines and confiscations amounting to RMB 6.389 billion, more than doubled from the previous year.

I. Measures and Achievements in Cracking Down on Illegal and Non-compliant Activities in the Capital Market

First, resolutely cracking down on fraudulent issuance and accounting fraud to promote high-quality development of listed companies. In 2023, the securities regulator investigated and handled 244 cases involving information disclosure violations, issued 200 penalty decisions, and imposed fines exceeding RMB 1.1 billion. During the crackdown on illegal and non-compliant activities in the capital market, regulator rigorously punished behaviors such as "running to IPO with unresolved problems", "big bath" and accounting fraud, while strengthening accountability for controlling shareholders, actual controllers, and intermediaries. Some cases involved issuers submitting false financial data during the pre-IPO stage or listed companies engaging in accounting fraud. Additionally, 73 cases involved violations by intermediaries.

Second, maintaining a high-pressure enforcement stance against market manipulation and insider trading to purify the industry ecosystem. In 2023, the securities regulator investigated and handled 63 cases involving market manipulation and 191 cases involving insider trading, which led to 26 and 98 penalty decisions respectively, with fines and confiscations exceeding RMB 4.4 billion. Over 10 cases of collusion to manipulate stock prices were investigated, along with multiple cases of insider trading involving board members, supervisors, senior executives of listed companies and public officials. The growing trend of insider trading was effectively curbed.

Third, increasing collaboration to enhance enforcement efficiency. In terms of regulatory cooperation, cross-agency communication and coordination has been strengthened to share clues and address illegal and non-compliant activities in a timely manner, and to form regulatory synergy. Cross-border enforcement cooperation with overseas regulators such as the Hong Kong Securities and Futures Commission has deepened, with 159 cross-border cases handled throughout the year, strengthening the crackdown on cross-border violations. In terms of accountability, the first case solved under the administrative enforcement commitment system was finalized, with investors compensated by intermediaries through advance payments. The intensity of criminal crackdowns was increased, with 118 cases and clues involving suspected crimes transferred to the public security authorities, and several major cases of market manipulation and insider trading were jointly solved with public security authorities.

II. Next Steps

First, to continuously improve the enforcement capabilities and transparency. Strengthen the application of technology in regulation to enhance the sensitivity and precision of cracking down on illegal and non-compliant activities throughout the entire chain, adhering to the principle of cracking down as soon as clues emerge. Improve the reward system for reporting illegal and non-compliant clues in the securities and futures sector, increase the reward amounts, and effectively leverage the role of internal “whistle blowers”. For cases attracting market-wide attention, proactively communicate with the public on the progress and penalty results to address market concerns and dispel doubts in a prompt manner. Regularly release case summaries and enforcement reviews to continuously emphasize the “zero-tolerance” enforcement principle and strengthen deterrence.

Second, to further leverage the “punishment, education, and governance” roles of enforcement. Severe punishment ensures that those who disrupt market order and infringe on investors’ legitimate rights and interests pay their price, and serves to promote prompt rectification and enhance supervision through timely identification of regulatory loopholes and institutional improvements, so as to foster and restore a good market ecosystem.

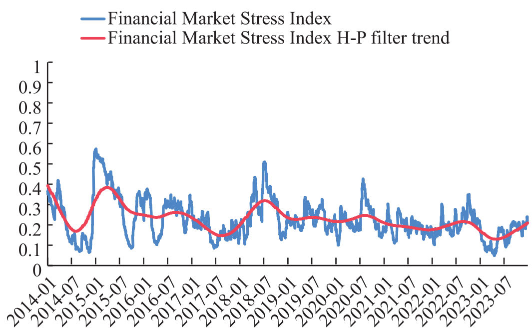
Third, to further improve the multi-tiered accountability system. Comprehensively utilize administrative regulatory measures, administrative penalties, civil compensation, criminal accountability, integrity penalties, delisting regulation, and self-disciplined management to build a multi-tiered accountability system with teeth. Significantly increase the cost of illegal and non-compliant activities, and continuously enhance the sense of gain and security for investors.

Fourth, to deepen enforcement cooperation. Fully leverage the existing cooperation mechanisms with the public security and procuratorial authorities to strengthen enforcement cooperation in information and data sharing, and to promote the swift investigation and trial of major criminal cases. Establish and improve the cross-agency information sharing and enforcement cooperation mechanisms among authorities responsible for the oversight and management of state-owned assets, the financial industry, taxation and the market to effectively form a joint enforcement force.

IV. Soundness Assessment of Financial Markets

Financial markets generally functioned soundly. In 2023, stress conditions remained stable in the stock market and money market, while rising in the bond market and declining in the foreign exchange market. The Financial Market Stress Index was at a mildly low level throughout the year (Figure 4.7).

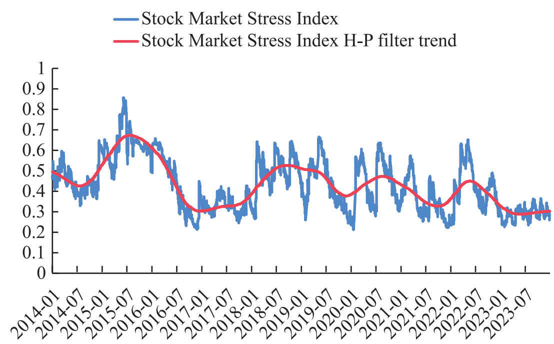
Figure 4.7 Financial Market Stress Index, 2014–2023



Source: The PBC.

The stress condition in the stock market was generally stable. In 2023, major A-share indexes retreated and the trading volume decreased year on year. Overall, the stress level in the A-share market was relatively stable throughout the year (Figures 4.8), with some degree of increase due to multiple factors such as weak expectations of economic fundamentals and the failure of the market's endogenous adjustment mechanism to function effectively.

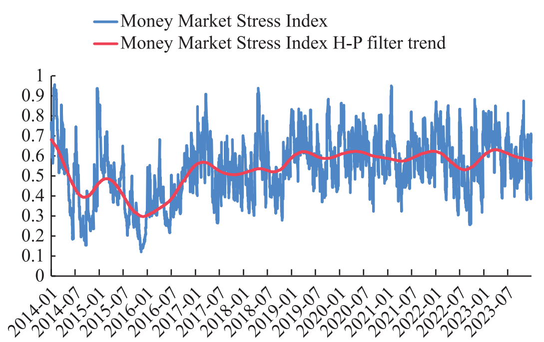
Figure 4.8 Stock Market Stress Index, 2014–2023



Source: The PBC.

The stress level in the money market was generally the same as that in the last year. In 2023, liquidity in the money market was adequate at a reasonable level. Due to the impact of certain events, including the increasing household cash demand during the spring festival holidays, quarter-end supervisory assessment in March and June, and the intensive issuance of government bonds in October, there was short-term tightness of liquidity and a temporary rise in the interest rate of the money market, thus the money market stress index rose. For the year as a whole, the interest rate fell steadily, and the stress index was largely unchanged from that of the previous year (Figure 4.9). As of 31 December 2023, the weighted average overnight pledged repo rate for depository institutions was 1.83 percent, 59 basis points lower than that at the end of the previous year, and the weighted average 7-day pledged repo rate was 2.25 percent, 54 basis points lower than that at the end of the previous year.

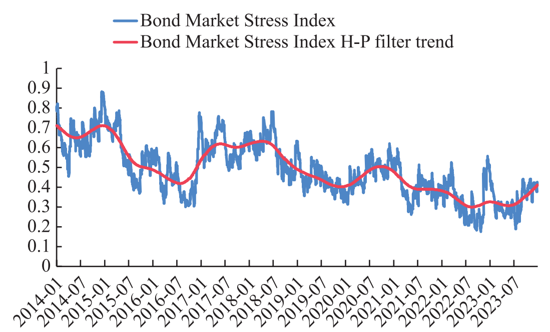
Figure 4.9 Money Market Stress Index, 2014–2023



Source: The PBC.

As the short-term bond yields rose and the long-term bond yields declined, term spreads of the central government bonds narrowed and stress in the bond market was slightly elevated(Figure 4.10). Specifically, in 2023, the daily average of the 1-year government bond yield rose by 13 basis points year on year, and the daily average of the 10-year government bond yield declined by 5 basis points year on year; the daily average of the 1-year AA-rated medium-term commercial paper yield rose by 14 basis points year on year, and the daily average of the 5-year AA-rated medium-term commercial paper yield declined by 10 basis points year on year. The daily average of term spreads between the 1-year and 10-year government bonds was 62 basis points, down by 17 basis points year on year, and the daily average term spreads between the 1-year AA-rated medium-term commercial paper and the 1-year government bond was 71 basis points, up by 1 basis point year on year. The daily average term spreads between the 5-year AA-rated medium-term commercial paper and the 5-year government bond was 131 basis points, down by 10 basis points year on year.

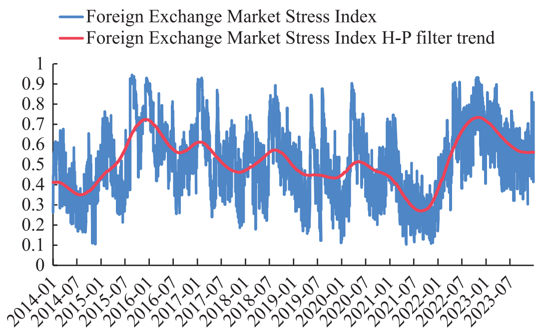
Figure 4.10 Bond Market Stress Index, 2014–2023



Source: The PBC.

The RMB exchange rate depreciated slightly against USD, and the stress in the foreign exchange market declined steadily. In 2023, the global landscape is highly complicated, with interest rates in major advanced economies remaining high. The RMB exchange rate was relatively robust among major currencies, featuring two-way fluctuations and serving as the automatic stabilizer of macro-economy and the balance of payments. Throughout the year, the RMB exchange rate, determined by market supply and demand, remained stable against a basket of currencies, and the foreign exchange market stress index was stable overall (Figure 4.11). As of end–2023, the onshore RMB exchange rate against USD closed at RMB 7.092 per USD, a depreciation of 1.98 percent; the offshore RMB exchange rate against USD closed at RMB 7.1248 per USD, a depreciation of 2.86 percent.

Figure 4.11 Foreign Exchange Market Stress Index, 2014–2023



Source: The PBC.

V. Outlook

In 2024, we need to comprehensively and thoroughly implement the spirit of the Central Economic Work Conference and the Central Financial Work Conference, adhere to the fundamental mandate that financial industry should provide services to the real economy, continuously strengthen the construction of the financial market, optimize the structure of the financial market, deepen the market functions and strengthen the market rules, and intensify the financial support for major strategies, key areas and weak links.

To continue to deepen the reform of interest rate liberalization. Continue to release the effectiveness of LPR reform, improve the quotation mechanism, enhance the quality of banks' quotes, strengthen the guiding effect of LPR on the pricing of lending rates, and consolidate the effectiveness of the decline in the cost of corporate financing and residential borrowing. The market-based adjustment mechanism for deposit interest rates shall play an important role in guiding financial institutions to reasonably determine the level of deposit interest rates in accordance with changes in market interest rates, so as to enhance their ability and sustainability of serving the real economy.

To continuously promote the high-quality development of the bond market. Improve the legal system of the bond market and consolidate the rule of law for corporate credit bonds. Implement the linkage mechanism between market makers and primary dealers in open market operations, improve the regulation of bond underwriting, valuation, market making and other businesses, and enhance the pricing function and resilience of the bond market. Promote the expansion of over-the-counter bond business, and improve the convenience and efficiency of individuals, enterprises and small- and medium-sized financial institutions investing in government bonds through over-the-counter channels. Continue to implement the principle of "zero tolerance" and intensify the efforts to investigate and deal with violations of regulations and laws in the bond market in accordance with the principles of market-orientation and the rule of law.

To make steady progress in the reform and development of the stock market. Promote and implement the registration system for stock issuance, strengthen the supervision of the entire chain of issuance and listing, and assess and improve the relevant mechanisms and arrangements. Improve the delisting mechanism, build diversified exit channels, and refine the bankruptcy and restructuring system for listed companies. Vigorously push forward the reform on the investor side, support more long-term funds to enter the market, and facilitate the implementation of the pilot reform of long-term stock investment by insurance funds. Strike a balance between opening up and safety, steadily expand the institutional opening up of the capital market, and strengthen the regulatory capacity building and risk prevention.

To further develop the foreign exchange market. Deepen the reform and opening up of the foreign exchange market in an orderly manner, expand the pilot of high-level opening up of cross-border trade and investment, and endeavour to improve the quality of capital account liberalization. Continuously promote the facilitation of cross-border trade, investment and financing, and strengthen and improve the supply of foreign exchange facilitation for cross-border trade. Promote banks to improve the long-term mechanism of exchange rate risk management services, and support enterprises to better carry out exchange rate risk management. Strengthen the unified management of "macro-prudential plus micro-supervision" in the foreign exchange market, intensify the risk monitoring of, researches on and responses to cross-border capital flows, and enhance expectation guidance, so as to keep the RMB exchange rate basically stable at a reasonable equilibrium level.

To promote the healthy development of the commercial paper and gold markets. Further improve the application scenarios of the new-generation commercial paper business system, ensure the safety and efficiency of the commercial paper market infrastructures, and give full play to the role of commercial paper in serving the real economy with a focus on the five major articles of finance. Further improve the institutional arrangement and infrastructures of the gold market, provide higher quality and more efficient supply of products, and maintain its smooth operation.

Chapter V

Macroprudential Management

In 2023, the international community has actively promoted the implementation of the agreed international financial regulatory reforms, responded to the European and U.S. banking turmoil, closely monitored global financial risks, and continuously improved the macroprudential framework. In the face of the complex and volatile international situation, China has improved its macroprudential management policies from a practical perspective, enriched its macroprudential policy tools, and continuously strengthened its macroprudential management, so as to safeguard the bottom line of no systemic financial risks.

I. Progress on the Implementation of International Financial Regulatory Reforms

1. Promoting the Improvement of International Banking Regulations

The BCBS continued to monitor and assess risks in the global banking sector and promote the full and consistent implementation of Basel III framework. First, the BCBS regularly stocktaked and evaluated the progress of Basel III implementation in member jurisdictions. Currently, about one-third of member jurisdictions have implemented all or most of the Basel III rules, about two-thirds have planned to implement by the end of 2024 and the rest by 2025. Second, the BCBS analyzed the causes of the 2023 European and U.S. banking turmoil, summarized the lessons learned from risk response, and released a thematic report. Third, the BCBS focused on emerging risks such as crypto-assets, climate-related financial risks, and digital fraud. In 2023, the BCBS published consultation documents on climate-related financial risks disclosure framework, standards for banks' exposures to crypto-assets, and the impact of digital fraud on banking supervision and financial stability, etc.

2. Ending "Too Big to Fail"

The G-SIB list was updated. In November 2023, the FSB released the updated list of G-SIBs based on the end−2022 data. 29 banks were designated as G-SIBs, one less than the 2022 list, with the buckets of specific banks changed. For example, Agricultural Bank of China, China Construction Bank and UBS moved up from bucket 1 to bucket 2. Bank of Communications was designated for the first time. Credit Suisse and UniCredit moved below the threshold for the designation. Following the annual designation in November each year, the newly designated G-SIB will be subject to higher capital buffer requirements in 14 months (starting January 2025) (Table 5.1).

Table 5.1　The Updated List of G-SIB

Bucket (Higher Capital Buffer Requirements)	G-SIBs
5 (3.5%)	(Empty)
4 (2.5%)	JP Morgan Chase

(Cont)

Bucket (Higher Capital Buffer Requirements)	G-SIBs
3 (2.0%)	Bank of America
	Citigroup
	HSBC
2 (1.5%)	**Agricultural Bank of China**
	Bank of China
	Barclays
	BNP Paribas
	China Construction Bank
	Deutsche Bank
	Goldman Sachs
	Industrial and Commercial Bank of China
	Mitsubishi UFJ FG
	UBS
1 (1.0%)	**Bank of Communications**
	Bank of New York Mellon
	Groupe BPCE
	Groupe Crédit Agricole
	ING
	Mizuho FG
	Morgan Stanley
	Royal Bank of Canada
	Santander
	Société Générale
	Standard Chartered
	State Street
	Sumitomo Mitsui FG
	Toronto Dominion
	Wells Fargo

Source: *2023 List of Global Systemically Important Banks* by the FSB.

3. Promoting Effective Resolution Regimes

Promoting the implementation of the *Key Attributes of Effective Resolution Regimes for Financial Institutions.* According to the FSB's evaluation, the implementation progress of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (hereinafter referred to as *Key Attributes*) is uneven across sectors. The banking sector is leading the way in this respect. All G-SIBs have finished the ninth G-SIBs resolvability assessment process (RAP). The FSB planned to further improve G-SIB's resolvability and ensure sufficient sources of funding. In the insurance sector, after the discontinuation of G-SIIs, the FSB member jurisdictions reported for the first time in 2023 insurers subject to the resolution planning requirements by the *Key Attributes*. However, since not all jurisdictions were able to report on time, the FSB will postpone list publication. In the CCP sector, the FSB launched a consultation document about the resolution toolkit for CCPs, which proposed global standards for CCPs resolution toolkit, making sure that resolution authorities have financial resources and tools to support CCP resolution. The toolkit includes bail-in bonds, resolution funds, and resolution-specific insurance, etc. All CCPs that are systemically important in more than one jurisdiction (SI>1) have statutory resolution regimes in place, with resolution planning having been started for 13 SI>1 CCPs. Most resolution authorities have the powers set out in the *Key Attributes*, while RAPs have been initiated for 10 of them.

Pushing forward the implementation of TLAC requirements. All G-SIBs headquartered in advanced economies, have met the TLAC standard, while G-SIBs headquartered in the EMEs should meet these requirements starting from 2025. Issuance of external TLAC continued. Total issuance in the second half of 2022 was about USD 221 billion, USD 7 billion less than that of the same period last year. Total issuance for the first half of 2023 was about USD 192 billion, USD 50 billion less than that of the same period last year. Progress continued in the implementation of internal TLAC requirements, and most regulators have started to discuss the calibration of internal TLAC.

4. Monitoring NBFI Risks

In December 2023, the FSB published the *Global Monitoring Report on Non-bank Financial Intermediation 2023* covering 29 jurisdictions. Based on the broad measure, by end-2022, the size of global NBFI fell by 5.5 percent to USD 217.9 trillion, accounting for about 47.2 percent of total financial assets in participating jurisdictions. Based on the narrow measure, the size of global NBFI went down by 2.9 percent to USD 63.1 trillion, accounting for 13.9 percent of total financial assets in participating jurisdictions. Among all participating jurisdictions, China ranked the third with a narrow measure of NBFIs in USD 10.3 trillion, following the U.S. (USD 19.2 trillion) and the EU (USD 13.6 trillion).

Box 15 Continued Efforts in Risk Prevention and Resolution of Shadow Banking in China

I. Highlights of Shadow Banking Risk Monitoring

FSB defined the concept of shadow banking in 2011 from both broad and narrow measures. In broad measure, it refers to the system of credit intermediation that is composed of entities and activities outside the regular banking system. In narrow measure, it refers to a group of institutions and activities that operate out of the regular banking system, yet can increase systemic risks considering the vulnerabilities arising from its maturity/liquidity transformation, leverage and credit intermediation process, as well as can lead to the regulatory arbitrage risks. In 2015, the FSB further reviewed shadow banking issues in broad measure, in terms of other financial intermediation, and in narrow measure respectively. In 2018, in order to prevent the public from interpreting "shadow banking"in a negative way, the FSB replaced the term "shadow banking" with "non-bank financial intermediation (NBFI)".

Since the financial system structure and financial instruments in China are notably distinct from those of advanced economies, the general focus of China's shadow banking is placed on asset management products, off-balance sheet operations of banks, credit intermediation activities engaged by non-bank institutions, as well as activities with credit, maturity and liquidity transformation nature carried out by local financial organizations and other non-licensed institutions. Shadow banking in China involves many types of institutions and its risk characteristics are relatively more complex. First, shadow banking institutions and activities de facto serve the role of indirect finance, but are not subject to capital regulation and not complying with the strict credit underwriting standards as those followed by banks. This will often lead to its behavior of circumventing the prudential regulation requirements in the credit intermediation process, as well as driving banks to move certain impaired assets out of the balance-sheets not in an prudent and clean way with hidden risks. Second, with the nature of its cross-market, cross-institutional and cross-sector operation, the risks of shadow banking entities and activities can be identified in serious asset-liability mismatch, complex business models and incomplete information disclosure.

II. Outcomes of China's Shadow Banking Risk Mitigation

With the publication of *Guiding Opinions on Regulating the Asset Management Businesses of Financial Institutions*, (hereinafter referred to as the new asset management rule), the asset management sector has come back to its essential function while shadow banking risks in China have continued to decrease.

First, authorities have further strengthened regulatory collaboration data collection and risk monitoring. The PBC worked closely with relevant authorities to establish the communication and coordination system for the asset management sector, as well as to establish a comprehensive statistics system to facilitate the supervisory information sharing and policy coordination among authorities, and to conduct the regular and granular information collection of various asset management products including the underlying assets, leverage, interconnectedness, cross-nesting positions and maturities, etc.

Second, the asset management sector has gradually returned to its fundamentals. The standards and regulations of the asset management sector continue to be improved, the product structure has been further optimized, the regulatory standards for similar products have gradually converged, the proportion of products in net worth pricing has significantly increased, the liquidity management of the product and asset sides are greatly strengthened, and the protection of investors has been enhanced.

Third, the disorderly development of shadow banking has been deterred. In order to help financial institutions implement the new asset management rule and supplementary regulations consistantly and smoothly, authorities set a reasonable transition period, and made supportive rules and measures. With such strong efforts, the resolution of the asset management business not complying with the new regulations was undertaken successfully, with the old risky business model featured with high leverage, channel funding and multi-layer nesting largely stopped, and illegal and unauthorized activities significantly declined.

Currently, the scale of shadow banking in China is kept overall stable, serving its function in credit intermediation and maturity transformation in an orderly and prudent way. The leverage of shadow banking is sound and manageable, playing a supporting role for the real economy. Influenced by investor risk appetite, financial product structure and other factors, the proportion of long-maturity products and investment businesses in shadow banking is still relatively low, therefore the liquidity risk management of related products and businesses remains to be a concern for authorities.

III. Continued Efforts to Regulate Shadow Banking

First, give the full play of shadow banking in its support for the real economy on the premise of strict regulation and supervision. The regulation and supervision of shadow banking shall be conducted based on the functional regulation principle, under which the supervisors focus more on substance over form. With sound risk management system in place to reduce vulnerabilities, shadow banking can play an important role in better serving real economy, taking advantage of its unique role in such processes as direct finance, risk-sharing and cultivating new-quality productivity forces etc.

Second, continuously strengthen regulation and supervision to prevent the rebound of risks. Authorities shall strengthen the efforts to resolve the remaining asset management cases that were conducted before the introduction of the new asset management rule, managing the pace and intensity of such resolution process to ensure that the resolution can be completed in a timely and stable way. In the meantime, continued efforts shall be devoted to strengthening the comprehensive regulation and supervision of shadow banking,and to prevent the come back of old risky business model with multi-layer nesting and idle funding mechanism that funds flow within the financial system instead of serving the real economy.

Third, enhance risk management process and foster prudent investment philosophy. Urge financial institutions to fully implement fiduciary duty, strengthen compliance awareness, enhance risk management capacity and fully improve comprehensive risk management. Explore tools including stress testing to create better alignmence between asset liquidity and product operation models, as well as promote investor education to foster value investing and long-term investment philosophy.

Fourth, continosly improve the authorities' risk monitoring framework. Focus shall be placed on the interconnectedness between banking system and shadow banking arising from the investment of banks' on-balance-sheet funds in special purpose vehicles. Products and operations exhibiting shadow banking characteristics will be incorporated into the data collection and risk monitoring system. Authorities shall continue to upgrade the risk monitoring and assessment indicator system for shadow banking based on our own reality, to achieve early identification and resolution of potential risks, as well as to ensure the early risk identification, warning, exposure, and resolution of financial risks.

5. Evaluating and Addressing Climate-Related Financial Risks

Implementation of the *FSB Roadmap for Addressing Financial Risks from Climate Change* continued to move forward. In terms of information disclosure, in June 2023, the ISSB published two landmark documents, namely the *General Requirements for Disclosure of Sustainability-Related Financial Information* and *Climate-Related Disclosures*. In terms of data, the FSB is working with international organizations such as the IMF and the G20 to fill identified data gaps and promote the implementation of the third phase of the G20 Data Gaps Initiative. In terms of vulnerability analysis, in April 2023, the FSB published *Climate-related Financial Risk Factors in Compensation Frameworks*, which focused on the challenges faced by economies in monitoring climate-related risk factors in compensation framework in the banking, insurance and asset management sectors. In terms of regulatory practices and tools, the FSB is assessing climate-related vulnerabilities and developing indicators to monitor climate-related vulnerabilities across sectors and economies based on the results of climate scenario analyses.

6. Enhancing Global Crypto-asset Regulatory Framework

In recent years, crypto-asset activities have become increasingly complex with high market volatility. In general, there is limited correlation between crypto-asset activities and systemically important financial institutions (SIFIs), core financial markets, and market infrastructures, but crypto-assets may pose a risk in some economies as the use of crypto-assets increases in areas such as payment and retail investment. The FSB and relevant standard setting bodies have developed a global crypto-asset regulatory framework in line with the principle of "same activity, same risk, same regulation", so as to guide regulators to address financial stability risks related to crypto-assets. The IMF and FSB have developed a regulatory policy roadmap to identify and address the macroeconomic and financial stability risks associated with crypto-assets. The roadmap organizes work related to the implementation of the regulatory policy framework for crypto-assets and aims to facilitate global information sharing and cooperation to fill the data gaps needed to address the rapid changes in the crypto-asset ecosystem.

Box 16 FSB Published Global Regulatory Framework for Crypto-asset Activities

FSB released the Global Regulatory Framework for Crypto-asset Activities in July, 2023, including high-level recommendations for regulation on crypto-asset activities and "global stablecoin"[①] (hereinafter referred to as GSC). It aims to develop a coherent global regulatory framework for crypto-assets, reduce regulatory gaps, address regulatory arbitrage and prevent financial risks effectively.

I. Overall Principles of Two High-level Regulatory Recommendations

First, it introduces the principle of "same activity, same risk, same regulation". If any crypto-asset or GSC seeks to perform an equivalent economic function and carry the same financial risks as those in the traditional financial system, it shall be subject to the same or equivalent regulation.

Second, the framework provides flexibility. Jurisdictions may apply existing regulations to crypto-asset activities or develop new rules to implement relevant regulatory recommendations.

Third, the regulation shall be technology neutral. Crypto-asset activities must be regulated based on their economic functions

① Global stablecoin: Stablecoin that is widely used in multiple economies and may be systemically important in one or more economies.

and the risks they pose, irrespective of the technological means used.

II. Regulatory Recommendations

Two high-level regulatory recommendations have listed specific requirements for regulatory authorities, crypto-asset issuers and service providers[①].

1. High-level Recommendations for the Regulation, Supervision and Oversight of Crypto-asset Activities and Markets (hereinafter referred to as CA Recommendation)

CA Recommendation contains nine high-level recommendations.

First, regulatory powers and tools. Authorities should have and utilize the appropriate powers and tools, and adequate resources to regulate, supervise, and oversee crypto-asset activities and markets, and enforce relevant laws and regulations effectively.

Second, general regulatory framework. Authorities should apply comprehensive regulation, supervision, and oversight to crypto-asset activities and markets in line with the principle "same activity, same risk, same regulation". Authorities should have in place regulatory policies applicable to crypto-asset risk, size, complexity and systemic importance. Authorities should assess whether existing regulatory, supervisory and oversight requirements adequately address the financial stability risks of crypto-asset activities, and expand or adjust the scope of existing regulatory, supervisory and oversight requirements if needed. Authorities should target regulatory outcomes in the crypto-asset market equivalent to those in the traditional financial market so as to protect all relevant parties.

Third, cross-border cooperation, coordination and information sharing. Authorities should consider the spillover risk given the cross-border nature of crypto-asset, facilitate effective communication, information sharing and consultation of the risks and activities of crypto-assets, and foster consistent regulation.

Fourth, governance. Crypto-asset issuers and service providers should disclose a comprehensive governance framework that is proportionate to their risk, size, complexity and systemic importance, and to the financial stability risk that may be posed. The governance framework should have clear lines of responsibility and accountability, and procedures for identifying, addressing and managing conflicts of interest.

Fifth, risk management. Crypto-asset issuers and service providers should have an effective risk management framework in place that can identify, measure, evaluate, monitor, report, and control all

① Crypto-asset Issuers : Entities and individuals that create new crypto-assets in a centralized network. Crypto-asset Service Providers: Individuals and entities that conduct businesses such as crypto-asset trading, lending, custodian, market making, wallets, etc.

material risks. Crypto-asset issuers and service providers should be directed by a management which is of good repute and able to monitor compliance functions of all the activities. Crypto-asset issuers and service providers should establish effective contingency arrangements and business continuity planning, be consistent with FATF Standards, protect customers' ownership rights, and minimize the risk of loss, misuse of or delayed access to assets.

Sixth, data management. Crypto-asset issuers and service providers should be required to have data management systems. Issuers and service providers should safeguard the integrity and security of relevant data, conform to applicable regulation, rectify poor data and ensure data quality, and have full, timely, complete, and ongoing report of relevant data and information. Authorities should support data sharing, as appropriate, across relevant jurisdictions, to improve public understanding of crypto-assets.

Seventh, disclosures. Crypto-asset issuers and service providers are required to adequately disclose the information, includes all necessary information regarding how they operate, how they transact, how they manage and the risk features of their products, as well as the terms and conditions of the custodial relationship, safeguards implemented by the service providers, and the risks that could be faced by the clients if the custodians were to enter bankruptcy. Risks associated with the underlying technologies, such as cyber security risk, as well as environmental and climate risks and impacts should also be disclosed.

Eighth, addressing financial stability risks arising from interconnections and interdependencies between crypto-asset ecosystem and financial system. Authorities should seek to effectively monitor interlinkages among different parts of the crypto-asset ecosystem and interlinkages between the crypto-asset ecosystem and the wider financial system, as well as identify and address potential financial stability risks.

Ninth, comprehensive regulation of crypto-asset service providers with multiple functions. Authorities should require that crypto-asset service providers to have organizational and managerial structures, which are consistent with their overall strategy and risk profile. Authorities should apply robust measures in line with jurisdictional legal frameworks in case of non-compliance with existing regulations or will generate acute conflicts of interest. Authorities should prevent concentration risk and risks from related transactions, and formulate additional prudential requirements if appropriate. Cross-border information sharing about service providers is required to prevent spillover to other jurisdictions.

2. High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements (hereinafter referred to as GSC Recommendation)

GSC Recommendation includes ten

high-level recommendations. Apart from seven requirements similar to the CA recommendations, such as recommendations on regulatory powers, governance framework, and risk management, three separate recommendations have been made.

First, recovery and resolution plans of the GSC. GSC arrangements are required to have appropriate recovery and resolution plans to support an orderly wind down or resolution under the applicable legal frameworks, ensuring the continuity of any critical functions and activities within the GSC.

Second, redemption rights, stabilisation, and prudential requirements. Authorities should require that GSC arrangements provide a robust legal claim to all users against the issuers or underlying reserve assets and guarantee timely redemption. The GSC arrangement should also provide adequate information on the process and fees for redemption, and enforcement of claims, including ensuring smooth redemption under stressed circumstances. Reserve assets should be at least equal to the amount of outstanding stablecoins in circulation at all times, consisting only of high quality and highly liquid assets that are unencumbered and easily and immediately convertible into fiat currency at little or no loss of value. The reserve assets should be protected in the event of insolvency of the issuers. GSC arrangements should also be subject to appropriate prudential requirements (including capital and liquidity requirements) to make sure that there is sufficient liquidity to deal with outflows.

Third, conformance with regulatory, supervisory and oversight requirements before commencing operations. Authorities should require that GSC arrangements meet all applicable requirements of a particular jurisdiction before commencing any operations in that jurisdiction, including affirmative approval (e.g. licenses or registrations) where such a mechanism is in place. Where relevant, GSC arrangements should build the necessary products and systems to adapt to the new regulatory requirements.

III. Recent Development and Next Steps

Follow-up on the implementation in member jurisdictions. The FSB will conduct follow-up work on major market and regulatory developments since the publication of regulatory recommendations, and summarize progress, practices and challenges in implementing the high-level recommendations.

Evaluating implementation effectiveness of regulatory recommendations. By the end of 2025, the FSB will cooperate with relevant international organizations to evaluate the implementation of the regulatory recommendations by member jurisdictions, ensure that the recommendations are fully and consistently implemented, and discuss whether it is necessary to update the recommendations.

Continuously study and improve regulatory policies. The FSB will conduct the research on the potential financial risks of crypto-asset service providers that combine multiple functions and assess the need for additional regulatory policies based on the potential impact.

Expand the scope of implementation and monitoring. The FSB will take measures with relevant standard-setting bodies and other international organizations to promote the effective implementation of recommendations in non-FSB members and reduce the risk of regulatory arbitrage. The FSB will invite non-FSB members with significant cross-border crypto-asset operations to join relevant FSB working groups to expand the scope of monitoring.

7. Others

First, the FSB revised the *Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds*, proposing that financial regulators should establish an effective regulatory framework, including providing greater clarity on the redemption terms that open-ended funds could offer to investors, and encouraging funds that invest mainly in less liquid assets to use anti-dilution liquidity management tools. Second, the FSB published the *Report on Enhancing Third-party Risk Management and Oversight*, which encourages financial institutions to identify key services provided by third-party service providers, conduct continuous monitoring, and establish emergency response mechanism. Financial regulators should monitor and identify financial institutions' reliance on third-party service providers and assess their potential systemic risks. Third, international OTC derivatives reform continued to advance. As of the end of October 2023, 18 of the 24 FSB jurisdictions had implemented higher capital requirements for non-centrally cleared derivatives, unchanged from last year. 18 jurisdictions had implemented central clearing frameworks, up by one from last year. Fourth, wider adoption of LEI was witnessed. By the end of 2023, 33 jurisdictions had been authorized to issue LEIs and over 2.53 million entities had received their LEIs.

II. Major Advanced Economies' Practices

1. The United States

Monitoring and assessing systemic risks. In October 2023, the Federal Reserve released its *Financial Stability Report*, assessing financial stability and vulnerabilities in the United States since 2023. The report shows that asset prices remained elevated, with asset valuation under pressure and property price climbing. Excessive borrowing in corporate and household sectors may lead to borrowers in distress under the scenario of income fall or asset depreciation. High leverage in the financial sector increased risks of financial institutions. Under negative shocks, those highly-leveraged institutions may not be able to absorb losses while functioning as usual, and the financial system may further face funding risks as investors withdraw funds quickly from certain financial institutions or market sectors. The banking system remained sound and resilient, with strong profitability, but some banks were facing financing pressure. Leverage at life insurance companies rose, but remained near its historical average. Hedge fund leverage remained elevated. Structural vulnerabilities persisted at money market funds and some other cash management instruments. CCPs' initial margin levels and prefunded resources remained high, but liquidity risks remained. The short-term risks to the United States financial system included persistent inflation, spillover effects from geopolitical conflicts, and commercial real estate related risks.

Conducting stress tests. The Federal Reserve published the results of the stress test participated by 23 large banks in June 2023. The severely adverse scenario is characterized by a severe global recession accompanied by a 38 percent decline in house prices and a 40 percent decline in commercial real estate prices, with spillover effects on the corporate sector, leading to an accumulative decline of real GDP by 8.75 percent to its bottom in the first quarter of 2024 and a 10 percent rise in unemployment rate to its peak in the third quarter of 2024. Under this scenario, the aggregate CET1 ratio of participating banks declines from 12.4 percent at the end of 2022 to a minimum of 9.9 percent in the testing period, still higher than the hurdle rate (4.5 percent), and the aggregate losses are projected to be USD 541 billion. Based on the test results, participating banks are subject to the Federal Reserve's differentiated stress capital buffer requirements.

Improving the financial regulatory framework. First, maintaining banking system resilience and responding to systemic risks. The Treasury, Federal Reserve and FDIC have adopted measures such as announcing Systemic Risk Exception to deal with regional bank risks. The Bank Term Funding Program was created by Federal Reserve to provide liquidity support and prevent risks from spreading in the financial system. Second, managing AI related risks. The U.S. Congress pointed out that the application of AI in financial services has become an emerging vulnerability in the financial system. In 2023, the National Institute of Standards and Technology published an AI risk management framework as a non-mandatory guiding document for AI-related risk and its management. Third, dealing with crypto-asset related risks. In 2023, the Federal Reserve, OCC and FDIC issued a *Joint Statement on Crypto-Asset Risks to Banking Organizations* and another *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities*. Fourth, coping with climate change related financial risks. The Federal Reserve, OCC and FDIC jointly issued *Principles for Climate-Related Financial Risk Management for Large Financial Institutions*.

2. The European Union

Monitoring and assessing systemic risks. The ECB published its *Financial Stability Review* in November 2023, which indicates that in the context of acute geopolitical tensions and uncertain macro-financial outlook, tightening financial market condition may have an impact on the real economy. Banking system in the Euro Area was overall resilient, but headwinds to bank profitability existed as funding costs rise under high interest rate environment. Corporations in the Euro Area manifested resilient balance sheets, but activity was slowing in several sectors, weighing on the debt servicing capacity of non-financial corporations. Downturn in the real estate market continued, and between February 2022 and March 2023, Moody's downgraded ratings or outlooks on 40 percent of European real estate firms. Housing market continued to adjust, while fallen housing price and rising interest rate in several Euro Area economies influenced the debt-servicing capacity of the household sector. Commercial real estate prices continued to decline, bringing weak profitability prospects for banks' commercial real estate related businesses.

Carrying out macroprudential management. Since 2023, the EU authorities have further raised macroprudential capital buffer requirements to continuously enhance banking resilience. For example, Germany began to implement the 0.75 percent countercyclical capital buffer (CCyB) requirement in February 2023, Denmark began to implement the 2.5 percent CCyB requirement in March 2023, and Sweden began to implement the 2 percent CCyB requirement in June 2023. In June 2023, the EU authorities jointly issued an agreement on implementing the final standard of Basel III, which requires the banking system to enhance their sustainable operation capacity, providing powerful tools for EU banking authorities.

Monitoring the Non-Bank Financial Intermediation. The ESRB published its *EU Non-bank Financial Intermediation Risk Monitor* in June 2023. By the end of 2022, the EU NBFI measure totaled about EUR 41.5 trillion, a decline of 5 percent compared with end-2021. The NBFI was faced with both cyclical and structural risks. Cyclical risks included deteriorated macroeconomic outlook, increasing likelihood of recession, rising financing costs led by tightening financial condition, increased default risk, higher risk of disorderly asset price declines brought by financial tightening and higher correlations of various asset classes, and increased volatility resulting from liquidity stress and collateral shortage in several markets. Structural risks included liquidity mismatches in NBFI, liquidity risk potentially brought by investors redeeming on a large scale and triggering pro-cyclical selling, amplified liquidity or market risks from excessive leverage in the financial system, and contagion risk from high interconnectedness within NBFIs and across sectors.

3. The United Kingdom

Monitoring and assessing systemic risks. The FPC of the BOE published its *Financial Stability Report* in December 2023. On the international front, outlook for global growth remained subdued, with prolonged high inflation and increased geopolitical tensions. Policy interest rates were at or near peaks in major advanced economies, and expected to remain high for a long period. Rising interest rates may affect the debt servicing and refinancing ability of household and corporate sectors in advanced economies and place downward pressure on global commercial and residential real estate valuations, leading to investors' sell-off and exacerbated recession. Exposures to corporates remained high in some systemically important financial institutions. In the United Kingdom, interest rates rose, with the upward trend in inflation being curbed, but cost of living still increased. Household sector suffered from higher debt burden on average from high mortgage interest rate. Major banks' capital and liquidity positions remained robust, but indicators of UK banks' asset quality had continued to deteriorate, with reduced demand for credit and a tightening in banks' risk appetites, resulting in low levels of new lending. Liquidity mismatch in money market funds and open-ended funds had been identified as an important vulnerability.

Carrying out macroprudential management. In March 2023, the FPC made the recommendation that under the severe but plausible stress scenarios, liability-driven investment (LDI) funds should remain resilient and account for volatility risk in treasury bond yields. The FPC agreed to maintain the UK's CCyB rate at 2 percent in November 2023.

III. China's Practices

Strengthening the monitoring and assessment of systemic risks. The PBC established and improved the financial stability risk index and financial stability monitoring and assessment indicator system. It also enhanced the "qualitative and quantitative" as well as "subjective and objective" analytical framework that determines whether risks of financial institutions have systemic impacts, and preliminarily established a framework for identifying systemic financial risks of banking institutions. The PBC improved the differentiated management framework of central bank rating of financial institutions, and strengthened the mandatory prompt correction mechanism. It conducted stress tests covering nearly 4 000 banking institutions nationwide, and utilized tools such as the financial market stress index, stock pledge financing risk stress tests, and public fund liquidity risk stress tests to monitor risks in the capital market and cross-market segments. In addition, it conducted climate risk stress tests that focus on potential impact of climate risks on financial stability.

Enhancing the regulation of systemically important financial institutions. According to the *Assessment Methodology of Systemically Important Banks*, the PBC and NFRA conducted the third assessment of systemically important banks and published the list in September 2023, which includes 6 large state-owned commercial banks, 9 joint-stock commercial banks, and 5 city commercial banks. According to the *Additional Regulations for Systemically Important Banks (Provisional)*, systemically important banks are required to meet additional capital requirements and leverage ratio requirements within the specific timeframe, and their 2023 recovery and resolution plans were submitted to the authorities for review. In October 2023, the PBC and NFRA issued the *Assessment Methodology of Systemically Important Insurers*, clarifying the scope, methodology, process, and threshold for domestic systemically important insurer assessment in China, thereby expanding the scope of systemically important financial institution identification from the banking sector to the insurance sector.

Steadily promoting the high-quality development of asset management business. In 2023, the PBC strengthened communication and coordination with relevant authorities through the asset management business liaison and coordination mechanism, and continued to refine the regulations and standards in the asset management sector. The asset management sector witnessed a sound operation in 2023, with the proportion of net-value based AMPs increasing steadily and the aggregate debt leverage ratio remaining generally stable. Their investment in non-standardized assets continued to decrease. By the end of 2023, the total size of AMPs was near RMB 100 trillion, with RMB 34.7 trillion being directly allocated to the real economy sectors through investments in non-financial corporate bonds and stocks, which showed continued strong support for the real economy.

Actively supporting the stable and sound development of the real estate market. Under the guidance of the CPC Central Committee and the State Council, the PBC has actively collaborated with competent authorities and local governments to implement comprehensive measures from supply and demand sides. The PBC extended the "16 Financial Measures", and supported bond financing of private developers through the so-called "second arrow", to satisfy the reasonable financing needs of real estate enterprises of all types of ownership. Financial institutions are guided to increase financial support for the completion of unfinished housing projects and for the risk mitigation in the real estate sector by effectively utilizing existing facilities, including the special loans for ensuring housing delivery, loan support programs for housing delivery and the special central bank lending facility for troubled property developers. City-specific policies have been implemented to lower the down payment ratios for residential housing and mortgage rate policy floors, in order to guide the actual down payment ratios and mortgage rates to go down and to better support people's basic and improved housing demand. An additional RMB 500 billion quota for Pledged Supplemental Lending (PSL) facility has been extended to support affordable housing construction, urban village renovation, and constructions of infrastructures that could be used in both regular and emergency situations, so as to develop a new growth model for the real estate sector.

Adjusting macroprudential adjustment parameters for cross-border financing. In order to further improve the macroprudential management for cross-border financing, continue to increase the sources of cross-border financing for enterprises and financial institutions, and guide them to optimize their asset-liability structure, in July 2023, the PBC and SAFE adjusted the macroprudential adjustment parameters for cross-border financing for enterprises and financial institutions from 1.25 to 1.5.

Accelerating the introduction of the financial stability law. In December 2022, the draft Financial Stability Law, after reviewed by the 38th session of the Standing Committee of the 13th National People's Congress (NPC), was released for public consultation. Since 2023, the PBC has conscientiously implemented the *Plan for the Reform of the Party and State Institutions* and the spirit of the Central Financial Work Conference, and actively coordinated with the NPC in advancing the legislative process. The Standing Committee of the 14th NPC included the Financial Stability Law into the first category of legislative plan and its 2024 legislative agenda. In June 2024, the 10th session of the Standing Committee of the 14th NPC carried out a second review of the draft Financial Stability Law and released it for further public consultation. The draft adheres to the objective- and problem-oriented approach, and aims to improve the institutional arrangements for the whole process of ex-ante prevention, mitigation during the process, and ex-post resolution of financial risks, strengthen the financial safety net, and firmly safeguard the bottom line of no systemic financial risks. The main revisions of the second draft include: improving the management system by clarifying the mandates of the central financial work leading authority; refining the relevant provisions on financial supervision and regulation, as well as financial risk prevention, mitigation and resolution; and better coordinating with other financial laws.

Deepening comprehensive financial statistics. The PBC improved the comprehensive financial statistics and continued to promote the compendium of unified standards for the implementation of comprehensive financial statistics. The PBC organized deposit-taking banking institutions nationwide to carry out assessment of the implementation of comprehensive financial statistics standards. *Guidance on Source Data Quality Verification for Financial Statistics* was formulated and implemented to strengthen the management of data quality at the source. Statistics in key areas and weak links such as science and technology finance, green finance, inclusive finance and real estate finance sectors were improved to inform structural policies. The quality and effectiveness of National Financial Database continued to improve, which serves to monitor development and structural characteristics of key areas.

Special Topic 1 Strengthening Additional Regulation of Systemically Important Financial Institutions and Continuously Improving the Macroprudential Policy Framework

Systemically important financial institutions (SIFIs) are characterized by their large sizes, high complexity and strong interconnectedness. They provide critical financial services in the financial system and have significant impacts on the smooth and efficient operation of the entire financial system. Strengthening the regulation of SIFIs is an essential part of improving the macroprudential policy framework. In accordance with the decisions of the CPC Central Committee and the State Council, the PBC, in collaboration with the NFRA, has designated and released the list of domestic systemically important banks (D-SIBs) for three consecutive years, twice reviewed the recovery and resolution plans (RRP) submitted by D-SIBs, and developed and issued the assessment methodology for systemically important insurers. All the above has contributed to the establishment of the basic framework for the assessment and additional regulation of SIFIs.

1. International Experiences in Additional Regulation of SIFIs

From an international perspective, a key priority of the global financial regulatory reform in the wake of the 2008 Global Financial Crisis was to strengthen the regulation of SIFIs with additional regulatory requirements to address the risks of “too big to fail”. International organizations such as the FSB, BCBS and the IAIS have established frameworks for the assessment and additional regulation of global systemically important financial institutions (G-SIFIs). Based on international benchmarks, major economies have generally strengthened supervision of SIFIs and developed assessment methodology and regulatory requirements for domestic systemically important financial institutions (D-SIFIs). Overall, the policy framework for additional regulatory requirements for SIFIs mainly includes the following four aspects:

First, assessment and designation methodology for SIFI. G-SIFIs are identified by international organizations. The BCBS has developed the assessment methodology for global systemically important banks (G-SIBs) based on dimensions such as size, interconnectedness, substitutability, complexity and cross-jurisdictional activity. The IAIS has established the assessment methodology for global systemically important insurers (G-SIIs) based on dimensions such as size, interconnectedness, substitutability, asset liquidity and cross-jurisdictional activity. The Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, and Ping An Insurance Group have been included in the list of G-SIFIs.

Major economies have also established their own frameworks for assessing and designating their D-SIFIs, and the designation are usually conducted by regulatory authorities.

Second, higher capital buffers and Total Loss-Absorbing Capacity (TLAC) Requirements. The FSB requires G-SIBs to maintain additional capital buffers and TLAC on top of the minimum capital adequacy ratio requirements. These additional buffers are intended to absorb losses during normal operations and resolution. The IAIS is exploring the development of a globally unified capital regulation for the insurance sector, imposing higher capital requirements on G-SIIs. In practice, major economies have, in line with international standards, set additional regulatory requirements for their banks and insurance companies based on their systemic importance.

Third, higher regulatory expectations for corporate governance and risk management. In addition to capital and TLAC requirements, the FSB has set higher regulatory expectations for G-SIB in areas such as corporate governance, internal controls, risk management, liquidity management, stress testing, information disclosure, and risk data aggregation and reporting. The IAIS emphasizes strengthening the comprehensive risk management of G-SIIs from a macroprudential perspective, particularly in areas such as liquidity risk, counterparty risk, and the negative impacts of macroeconomic fluctuations. Currently, most major economies have imposed higher requirements on SIFIs in terms of corporate governance and risk management.

Fourth, enhancing resolvability of SIFIs. Since 2011, the FSB has issued the *Key Attributes of Effective Resolution Regimes for Financial Institutions* and a series of supporting documents, establishing an orderly resolution framework for SIFIs. This framework requires SIFIs to develop RRP, and asks regulatory authorities to review these plans and conduct resolvability assessments. The recovery plan focuses on how financial institutions can restore their operational continuity during shocks, while the resolution plan focuses on how to effectively resolve a financial institution in the event of a major risk. Currently, major economies all require their SIFIs to develop RRP and conduct resolvability assessments. Advanced economies have established resolution regimes for SIFIs, while emerging economies are accelerating their progress on recovery and resolution regimes.

2. Progress in China

The 2017 National Financial Work Conference made it clear that the PBC leads the assessment and additional regulation on SIFIs. Since 2018, in accordance with the *Guiding Opinions on Improving the Regulation of Systemically Important Financial Institutions* approved by the Central Committee for Comprehensively Deepening Reforms, significant progress has been made in the regulation of SIFIs, focusing on formulating rules, accurately designating institutions, and implementing additional regulation.

First, developing institutional arrangement and designating systemically important banks. The PBC, in collaboration with the financial regulatory authorities, has formulated and issued the *Assessment Methodology for Systemically Important Banks* and the *Additional Regulations of Systemically Important Banks*

(Trial), and assessed and designated systemically important banks for three consecutive years. The designated banks are urged to play a more active role in serving the real economy and preventing financial risks, and to enhance their operational soundness and resilience. The 2023 list of D-SIBs includes 6 large state-owned commercial banks, 9 joint-stock commercial banks and 5 city commercial banks.

Second, implementing additional regulatory requirements to enhance the resilience of systemically important banks. The primary goal of SIFIs regulation is to improve their loss-absorbing capacity and prevent risk spillovers. According to the additional regulations, systemically important banks must, on top of the minimum capital requirements, meet additional capital requirements of 0.25 percent to 1.5 percent by CET 1 capital and additional leverage ratio requirements of 0.125 percent to 0.75 percent by Tier 1 capital. The PBC monitors the capital and leverage levels of systemically important banks on a quarterly basis, with a focus on commercial banks whose CET 1 capital adequacy buffer (actual CET 1 minus regulatory minimum) is less than 1 percent, urging them to adhere to a prudent operational strategy and increase their capital buffers through multiple channels.

Third, reviewing RRP to enhance their feasibility and effectiveness. The purpose of developing and reviewing RRP is to improve the resolvability of systemically important banks in the event of risks and to plan in advance for major risks. The PBC, in collaboration with the MOF and NFRA, has conducted two rounds of reviews of RRP. Based on the results of the reviews, D-SIBs have generally developed risk warning and trigger indicators, and proposed recovery and resolution measures under major risk scenarios, which helps to strengthen their crisis awareness and response capabilities. Some banks, though, were found to have insufficient analysis of their own risk profiles and weaknesses, inadequate consideration of risk spillovers, and limited availability of bail-in resources. The PBC and NFRA have urged these D-SIBs to continuously improve their RRP by providing feedbacks to their RRP.

Fourth, strengthening monitoring and analysis to closely track operational changes in systemically important banks. Effective additional regulation requires enhanced daily monitoring of systemically important banks, in order to understand their operations and risk situations in a timely basis and to enable early identification and warning of risks. The PBC conducts the thematic research on key areas such as capital, liquidity, net interest margins and non-performing loan ratios, introduces the consultation mechanism with market analysts and bank experts, and carries out macroprudential stress tests and liquidity-specific stress tests. These efforts aim to help assess the ability of systemically important banks to withstand liquidity shocks, analyze the potential risk transmission paths and impacts, and provide targeted risk warnings based on potential risks and weaknesses identified.

Fifth, gradually expanding the scope of additional regulation to cover systemically important insurance companies. China's large insurance groups are characterized by their large size, high structural and business complexity, broad retail customer base and cross-sector operations, and their prudent operations are key. In October 2023, the PBC and NFRA issued the *Assessment Methodology for Systemically Important Insurance Companies*, expanding the scope of systemically important financial institutions from the banking sector to the insurance sector. This lays the foundation for implementing differentiated regulation and promotes the stable operation and high-quality development of systemically important insurance companies.

3. Next Steps

The PBC will focus on enhancing the loss-absorbing capacity and risk response capabilities of SIFIs, strengthening forward-looking risk identification and warning, and fully implementing the additional regulation of SIFIs. The goal is to promote the sound operation and healthy development of SIFIs and continuously strengthen the foundation of financial stability through the combination of macroprudential management and microprudential supervision. First of all, we will revise and improve the *Assessment Methodology for Systemically Important Banks* by refining assessment indicators and adjusting assessment frequency, to ensure that the assessment methods are reasonable. Second, we will continue to strengthen capital constraints, explore measures to replenish CET 1 capital for systemically important banks, and enhance their ability to support the real economy in a sustainable manner. Third, we will continue to monitor systemically important banks and explore the establishment of a monitoring and analysis framework for systemically important insurance companies. Fourth, we will conduct thorough reviews of RRP for systemically important banks to continuously improve their feasibility and effectiveness in risk resolution. And lastly, we will launch the assessment of systemically important insurance companies and explore additional regulatory requirements for them.

Special Topic 2 Findings of the Central Bank Rating of Financial Institutions

At the end of 2023, the PBC conducted the Central Bank Rating of Financial Institutions (hereinafter referred to as the Central Bank Rating) on 3936 banking financial institutions. The rating results show that banking institutions as a whole are stable and their risks are overall manageable.

I. Results of the Central Bank Rating by the end of 2023

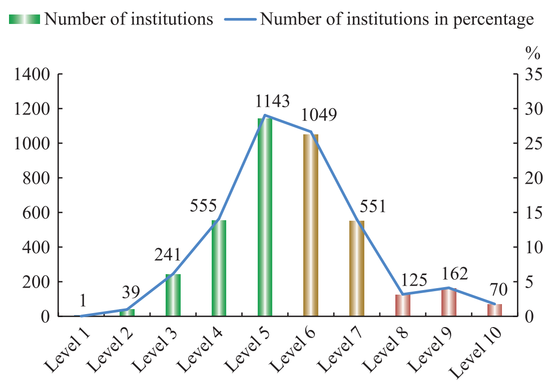
The Central Bank Rating covered 3936 banks, including 24 large banks and 3912 small- and medium-sized banks. Depending on their risk levels, banks are rated into 11 categories, i.e. level 1 to 10 and level D. Banks in level D are either bankrupt, in receivership or closed down. Level 1−5 is tagged as the "green zone" and level 6−7"yellow zone", both of which are safe zones. Level 8-D is the "red zone", meaning institutions are in a high-risk status. Table 1 shows a breakdown of the rating results.

Table 1 Results of the end−2023 Rating

Institution Type	Number	Rating
Development and policy banks	3	Level 1−5
State-owned commercial banks	6	
Joint-stock commercial banks	12	
City commercial banks	125	Level 2−10
Rural commercial banks	1602	Level 2−10
Rural cooperative banks	23	Level 5−9
Rural credit cooperatives	466	Level 2−10
Private banks and others	21	Level 2−7
Foreign banks	42	Level 2−6
Village and township banks	1636	Level 2−10
Total	**3936**	-

A total of 3579 banks are rated level 1−7, and their combined assets account for 98.22 percent of the total assets of all participating banks. 1979 banks are in the "green zone", with combined assets of RMB 371.88 trillion, or 93.88 percent of the total assets; 1600 banks are in the "yellow zone", with combined assets of RMB 17.19 trillion, or 4.34 percent of the total assets; 357 banks are in the "red zone", with combined assets of RMB 7.05 trillion, or 1.78 percent of the total assets (Figure 1). Based on the rating results, China's banking institutions remain sound as a whole and risks are overall manageable.

Figure 1 Distribution of the End-2023 Rating Result



Source: The PBC.

By institution type, large banks receive better ratings and some rural small- and medium-sized institutions tend to be riskier. The 24 large banks, with 1 level-1, 11 level-2, 7 level-3, 3 level-4 and 2 level-5, have combined assets of 73.78 percent of the total assets of all participating banks, and are anchors of the financial system. Among the rest, foreign banks and privately-owned/direct banks are better rated than other small- and medium-sized banks, with 95 percent and 81 percent rated in the"green zone"respectively, and no"red zone"banks. 68 percent of city commercial banks are rated in the "green zone" and 11 percent in the"red zone". For rural cooperative institutions (including rural commercial banks, rural cooperative banks, and rural credit cooperatives) and village/township banks, a higher proportion of them are "red zone" banks compared with other types of banks, but the combined assets of these high-risk banks account for less than 1% of all rated banks.

At the regional level, banking risk levels in most provinces have decreased and regional financial ecosystem has been improving. 9 provinces/autonomous regions/municipalities are clear of "red zone" banks, including Hubei, Zhejiang, Xizang, Shanghai, Shandong, Qinghai, Jiangxi, Jiangsu, and Fujian. Another 14 provinces/autonomous regions/municipalities manage to contain the number of "red zone" banks within their region in single digit.

II. Application of the Central Bank Rating Results

The rating results have informed the PBC's management of banks depending on their rating levels and zones, focusing on strengthening the Prompt Corrective Actions with rigid limits. For institutions not rated in the "red zone", the PBC, in line with the "early identification, early warning, early exposure and early resolution" principle, carries out early warning to detect outlier indicators and emerging risky trends, and take necessary actions such as issuing risk alerts and having conversations with banks' management. These actions have brought the regulatory indicators of most banks in the early-warning list back to normal, and play a positive role in preventing potential risks from materializing at an early stage. For institutions rated in the "red zone", the PBC takes prompt corrective actions (PCAs) such as issuing "one-on-one" notice, requiring meetings with banks' management, issuing risk alert and rating opinion letters, to urge them to repair their balance sheets and mitigate potential risks in a responsible and proactive manner. The PBC's PCA pilot program has been carried out in 19 provinces. In pilot regions, the PBC works closely with financial regulators and local governments to promptly take correspondent actions targeting those "red zone"banks newly added to the list, with an aim to decreasing their risks within a given time limit and preventing risk accumulation.

The rating results are also used to enhance the risk monitoring and assessment of the banking system. The rating results serve as an input for the PBC and its local branches to implement differentiated management of banks through financial risk assessments, differentiated deposit insurance premiums, and other central bank functions, in order to inform appropriate evaluation on financial institutions' business management and their risk profiles, and guide them to operate on a prudent and sound basis. In addition, the PBC shares the rating results with local governments and financial regulators to strengthen coordination and improve the effectiveness and synergy of banking supervision.

Special Topic 3 The Basel Committee on Banking Supervision revised Core Principles for effective banking supervision

The *Core Principles for Effective Banking Supervision* was first introduced by the BCBS in 1997 and then revised twice in 2006 and 2012. In April 2024, the BCBS further revised and published *Core Principles for Effective Banking Supervi*sion (hereinafter referred to as “2024 Core Principles”), with additions and enhancements related to supervisory powers and responsibilities, business models, corporate governance, risk management, climate-related financial risks, emerging risks, and etc. The revised Core Principles reflect regulatory and supervisory developments, structural changes in banking, and lessons learnt in the Financial Sector Assessment Program (FSAP) assessments. It serves as a guidance to jurisdictions to strengthen the effectiveness of supervision over individual banks and the banking system, and is also used by the IMF/World Bank in the context of FSAP to assess the effectiveness of jurisdictions’ supervisory framework and practices.

I. The revisions to the Core Principles and assessment criteria

The 2024 Core Principles establish 29 principles that can be categorised into two groups: Principles 1 to 13 focus on supervisory powers and responsibilities, while Principles 14 to 29 focus on prudential regulations and requirements for banks. Each of the 29 Core Principles has their accompanying essential and additional criteria. Essential criteria are minimum requirements for sound supervisory practices and are universally applicable to all jurisdictions. Additional criteria are best practices that jurisdictions with more complex banking systems should aim for.

1. Adjustments to supervisory powers and responsibilities. The scope of supervisory access and review requirements have been further clarified. For example, the supervisor has the power to review the activities and information of banks and banking groups. To clarify the application of macroprudential aspects of supervision, the supervisor, in conjunction with relevant authorities, uses a process to assess and identify systemically important banks and to establish working mechanisms to address systemic risks. Some revisions also aim to better recognize supervisory discretion applicable for corrective and sanctioning powers.

2. Amendments to the definition of business model sustainability. Drawing on the lessons learned from 2023 banking turmoil, the Core Principles set out that the supervisor should assess the sustainability of bank’s business models . Banks should have an appropriate internal process for assessing their business model sustainability in relation to their risk appetite, risk profile and business strategies. The revisions emphasize that the ultimate responsibility for designing and implementing sustainable business strategies lies with a bank's board.

3. Enhancements to corporate governance and risk management. Higher qualifications and capabilities are required for board members. The supervisor determines that the bank's board has developed effective processes to allocate authority, responsibility and accountability within the bank. At a minimum, banks' stress-testing programmes should cover credit risk, market risk, interest rate risk in the banking book, liquidity risk, country and transfer risk, operational risk and significant risk concentrations. Disclosure requirements are clarified for internationally active banks.

4. Introduction of climate-related financial risks and emerging risks. The supervisor should consider climate-related financial risks and emerging risks in its risk assessment of banks, with banks providing the information needed for such assessment. Banks should have a risk management process to identify, measure, evaluate, monitor, report and control climate-related financial risks and emerging risks, and they also need accordingly adjust their internal control systems.

5. Enhancements to operational resilience. The name of Principle 25 is changed from"Operational Risk" to "Operational Risk and Operational Resilience". Some revisions aim to enhance the focus on operational risk management, business continuity planning and testing, third-party dependency management, incident management, and resilient cyber security and information and communication technology (ICT).

II. The Core Principles

Principle 1: Responsibilities, objectives and powers. An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.

Principle 2: Independence, accountability, resourcing and legal protection for supervisors. The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy, and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.

Principle 3: Cooperation and collaboration. Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.

Principle 4: Permissible activities. The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined, and the use of the word "bank" in names is controlled.

Principle 5: Licensing criteria. The licensing authority has the power to set criteria for licensing banks and to reject applications where the criteria are not met. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of board members and senior management) of the bank and its wider group, its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.

Principle 6: Transfer of significant ownership. The supervisor has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.

Principle 7: Major acuiqisitions. The supervisor has the power to: (i) approve or reject (or recommend to the responsible authority the approval or rejection of) and impose prudential conditions on major acquisitions or investments by a bank (including the establishment of cross-border operations), against prescribed criteria; and (ii) determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

Principle 8: Supervisory approach. An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.

Principle 9: Supervisory techniques and tools. The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, considering the risk profile and systemic importance of banks.

Principle 10: Supervisory reporting. The supervisor collects, reviews and analyses prudential reports and statistical returns from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.

Principle 11: Corrective and sanctioning powers of supervisors. The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools, that it can apply at its discretion, to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation.

Principle 12: Consolidated supervision. The supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

Principle 13: Home-host relationships. Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

Principle 14: Corporate governance. The supervisor determines that banks have robust corporate governance policies and processes covering, for example, corporate culture and values, strategic direction and oversight, group and organizational structure, the control environment, the suitability assessment process, the responsibilities of the banks' boards and senior management, and compensation practices. These policies and processes are commensurate with the risk profile and systemic importance of the bank.

Principle 15: Risk management process. The supervisor determines that banks have a comprehensive risk management process (including effective board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks(which can include risks related to digitalisation, climate-related financial risks and emerging risks) on a timely basis and to assess the adequacy of their capital, their liquidity and the sustainability of their business models in relation to their risk profile and market and macroeconomic conditions. This extends to the development and review of contingency arrangements (including robust and credible recovery plans where warranted) that consider the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.

Principle 16: Capital adequacy. The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken and presented by a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less stringent than the applicable Basel standards.

Principle 17: Credit risk. The supervisor determines that banks have an adequate credit risk management process that considers their risk appetite, risk profile, market conditions, macroeconomic factors and forward-looking information. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk(including counterparty credit risk) on a timely basis. The full credit life cycle is covered, including credit underwriting, credit evaluation and the ongoing management of the bank's loan and investment portfolios.

Principle 18: Problem exposure, provisions and reserves. The supervisor determines that banks have adequate policies and processes for the early identification and management of problem exposures and the maintenance of adequate provisions and reserves.

Principle 19: Concentration risk and large exposure limits. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties. At least for internationally active banks, large exposure requirements are not less stringent than the applicable Basel standard.

Principle 20: Transactions with related parties. To prevent abuses arising in transactions with related parties and to address the risk of conflicts of interest, the supervisor requires banks to: enter into any transactions with related parties on an arm's length basis; monitor these transactions; take appropriate steps to control or mitigate the risks; and write off exposures to related parties in accordance with standard policies and processes.

Principle 21: Country and transfer risks. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk and transfer risk in their international lending and investment activities on a timely basis.

Principle 22: Market risk. The supervisor determines that banks have an adequate market risk management process that considers risk appetite, risk profile, market and macroeconomic conditions, and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.

Principle 23: Interest rate risk in the banking book. The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk in the banking book on a timely basis. These systems consider the bank's risk appetite, risk profile and market and macroeconomic conditions.

Principle 24: Liquidity risk. The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) that reflect the liquidity needs of banks. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy considers the bank's risk profile, market and macroeconomic conditions, and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity (including funding) requirements are not lower than the applicable Basel standards.

Principle 25: Operational risk and operational resilience. The supervisor determines that banks have an adequate operational risk management framework and operational resilience approach that considers their risk profile, risk appetite, business environment, tolerance for disruption to their critical operations, and emerging risks. This includes prudent policies and processes to: (i) identify, assess, evaluate, monitor, report and control or mitigate operational risk on a timely basis; and (ii) identify and protect themselves from threats and potential failures, respond and adapt to, as well as recover and learn from, disruptive events to minimise their impact on delivering critical operations through disruption.

Principle 26: Internal control and audit. The supervisor determines that banks have adequate internal control frameworks to establish and maintain an effectively controlled and tested operating environment for the conduct of their business, considering their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent internal audit, compliance and other control functions to test adherence to and effectiveness of these controls as well as applicable laws and regulations.

Principle 27: Financial reporting and external audit. The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.

Principle 28: Disclosure and transparency. The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes (including compensation practices). At least for internationally active banks, disclosure requirements are not less stringent than the applicable Basel standards.

Principle 29: Abuse of financial services. The supervisor determines that banks have adequate policies and processes, including robust and risk-based customer due diligence rules and effective compliance functions to promote high ethical and professional standards in the financial sector and prevent the bank from being used intentionally or unintentionally for criminal activities.

Special Topic 4 Implications from the 2023 Banking Turmoil in the United States and Europe

The Banking Turmoil in March 2023 in Europe and the United States was the largest and most widespread banking risk event since the Global Financial Crisis in 2008. It severely affected market confidence, and triggered sharp declines in banking stock prices and volatility in the financial system. Relevant authorities responded to it with measures such as providing central bank liquidity support and government guarantees, increasing the frequency of foreign exchange swap operations, and expanding the coverage of deposit insurance. This risk event highlighted potential vulnerabilities in the banking sector including unreasonable asset-liability structure, risky business model, large amounts of uninsured deposits and rapid deposit outflows, which pose new challenges for risk prevention and control in the banking sector.

I. Overview of the Banking Turmoil

Following the outbreak of the COVID-19 pandemic in 2020, major advanced economies introduced expansionary fiscal and monetary policies to mitigate the pandemic impact. The resulting inflation, however, forced these economies to tighten monetary policy starting in 2022. The subsequent interest rate rise, while helping to improve net profits for most banks, caused depreciation in the value of their longer-term assets held at a fixed interest rate and worsening of their financial conditions. Banks with asset-liability mismatches became particularly fragile, and their distress was further accelerated by structural market factors such as high interconnectedness between banks and nonbank financial intermediaries, and the widely-adopted mobile payments. The banking turmoil started in March 2023, during which 4 banks with total combined assets of approximately USD 900 billion were caught in distress within 11 days, and market confidence in the robustness of the banking sector was affected.

1. Silicon Valley Bank

Silicon Valley Bank was established in 1983 and ranked as the 16th largest bank in the United States before its collapse, primarily serving small- and medium-sized startups and venture capital funds. From 2019 to 2021, benefiting from the rapid growth of high-tech companies, the bank saw a massive influx of deposits, and its asset size grew by more than twice. Most of its investment was allocated to long-term bonds. By the end of 2022, Silicon Valley Bank had a total asset of USD 209 billion, of which about USD 120 billion was held in securities investment such as U.S. Treasury bonds, mortgage-backed securities, etc., and total deposits of about USD 175.4 billion. Starting in 2022, in the context of rapid interest rate rise by the Federal Reserve, Silicon Valley Bank saw its deposits dropping as startup clients faced tightened cash flow, while unrealized losses on its bond holdings surged. On March 8, 2023, Silicon Valley Bank made an announcement on its intention to sell about USD 21 billion worth of securities holdings to replenish its liquidity positions, leading to realized losses on these holdings. The massive losses triggered a large-scale run on the bank, with customers withdrawing as much as USD 42 billion deposits on March 9 alone. On March 10, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, and the FDIC was named receiver.

On March 12, the U.S. Treasury, Federal Reserve and FDIC jointly released a statement, announcing a systemic risk exception for the resolution of Silicon Valley Bank and providing full coverage for depositors. Meanwhile, the Bank Term Funding Program (BTFP) was launched by the Federal Reserve to offer loans of up to one year to eligible deposit-taking institutions. On March 26, the FDIC announced the takeover of Silicon Valley Bank by the First Citizens Bank & Trust Company.

2. Signature Bank

Signature Bank was founded in 2001 and expanded its business in 2018 to provide financial services for private equity, fund companies, and the crypto-asset sector, leading to rapid business expansion. From 2020 to 2021, its asset size doubled. By the end of 2022, it had a total asset of USD 110.4 billion, primarily comprising loans to the real estate, industrial and commercial sectors. Total deposits stood at USD 88.6 billion, mainly uninsured deposits of medium-sized commercial companies. The impact of the failure of Silicon Valley Bank on March 10 spilled over to Signature Bank, who suffered similar deposit runs. On March 12, the New York state regulators announced the closure of Signature Bank, and it was taken over by the FDIC. On March 19, Flagstar Bank, a subsidiary of New York Community Bank, reached an agreement with the FDIC to acquire the core assets of Signature Bank for USD 2.7 billion. It was estimated that the resolution of the Silicon Valley Bank and Signature Bank would bring a total loss of about USD 19.2 billion to the FDIC-managed Deposit Insurance Fund.

3. Credit Suisse

Credit Suisse was established in 1856 and had a total asset of CHF 531.4 billion by the end of 2022, making it a global systemically important bank and Switzerland's second largest bank. In recent years, Credit Suisse's profitability continued to decline and its internal management became problematic. From 2021 onwards, it reported several significant investment losses, bringing damages to its market reputation. Starting in October 2022, Credit Suisse's liquidity situation deteriorated rapidly, with deposits declining sharply by 41 percent by the end of 2022 compared to the first half of the year, including an outflow of CHF 143.7 billion in the fourth quarter alone. On March 14, 2023, Credit Suisse reported significant internal control deficiencies in its annual report. The following day, its top shareholder, the Saudi National Bank, explicitly stated that it would not increase its stake in Credit Suisse. Market sentiment worsened, and Credit Suisse's stock price plummeted. As a result, deposit outflow from the bank accelerated, and several large global banks restricted new transactions with Credit Suisse.

To address the problem, on March 19, under the facilitation of the Swiss government, UBS Group announced its intention to acquire Credit Suisse for a total price of approximately CHF 3 billion; in the meanwhile, about CHF 16 billion worth of additional tier 1 capital instruments of Credit Suisse were completely written down. To facilitate the acquisition and stabilize the market, the Swiss National Bank provided additional liquidity assistance of up to CHF 100 billion, and the Swiss federal government offered a guarantee of CHF 9 billion for excess losses (losses exceeding CHF 5 billion) incurred by the acquisition. The acquisition transaction was completed in June 2023.

4. First Republic Bank

Established in 1985, First Republic Bank was the 14th largest bank in the United States, focusing on a range of services such as real estate loans, private banking, trust and brokerage services for high net-worth clients. By the end of March 2023, First Republic Bank had a total asset of USD 232.9 billion and total deposits of USD 104.5 billion, of which uninsured deposits accounted for 49 percent. Due to contagion effect triggered by the collapse of Silicon Valley Bank on March 10, similar regional banks with large proportion of uninsured deposits came under huge pressure. Stock price of First Republic Bank was severely impacted. On April 24, the bank released its financial report in the first quarter indicating massive deposit outflow, to which the market made negative response, causing its stock price to plummet and deposit outflow accelerate. On May 1, the FDIC took over the First Republic Bank and announced acceptance of JPMorgan Chase's acquisition offer. The FDIC also provided loss-sharing for the acquisition, and the incurred loss to the Deposit Insurance Fund was estimated at about USD 16.7 billion.

II. Implications

Currently, China's financial system is operating soundly. According to the Central Bank Rating of Financial Institutions, the vast majority of banking financial institutions are within a safe zone, with the 24 large banks, accounting for about 70 percent of the total banking assets, receiving good ratings for consecutive quarters. It is, however, still necessary to reflect upon the lessons learned from the banking turmoil in early 2023, in order to further enhance the banking system resilience and ensure high-quality development of commercial banks.

1. On bank's asset side, the high proportion of non-credit assets warrant attention. The run on Silicon Valley Bank due to its reported losses from bond investments shows that banks with a high proportion of bond investments should pay close attention to interest rate risk management. They should strike a proper balance between the funding scale, allocation strategies and term structure of their bond investments, and hedge against the revaluation risks triggered by interest rate fluctuations. Regulatory authorities should strengthen the supervision of market risk and interest rate risk in the banking book to prevent banks from allocating assets among different books in search of regulatory arbitrage. Authorities should also closely monitor the financial market activities of small- and medium-sized financial institutions, with a focus on those with a significantly higher financial market exposures than their peers, and take timely actions as needed.

2. On the liability side, the low proportion of savings deposits warrant attention. Silicon Valley Bank and First Republic Bank both featured a low proportion of stable savings deposits and high proportion of uninsured deposits, which makes them susceptible to significant outflows within a short period of time under external shocks. Their failure highlighted the need for banks with low proportion of savings deposits to optimize their liability structure and improve the identification, measurement, early warning, monitoring, and response of liquidity stress. In addition, they should effectively utilize liquidity risk management tools, such as core liabilities and liquidity gaps, to ensure stable and long-term funding sources. Regulatory authorities should further optimize the regulatory framework for bank liquidity risk in the digital era, consider collecting high-frequency data and introducing new liquidity stress indicators as a supplement to their daily monitoring, and enhance the regulator-led liquidity stress testing.

3. Resolution tools need to be diversified and response actions need to be swift and strong. In the context of wide adoption of financial technology and social media, the transmission of financial risks is rapid, complex, and self-reinforcing. The experiences of the banking turmoil in Europe and the United States shows that the more clear-cut and responsive the regulatory authorities are in risk resolution, the lower the resolution costs are. It is essential to continuously improve the swift response mechanism to avoid spillover of financial risks due to delayed resolution. Furthermore, it is crucial to enhance the reserves of resolution resources and tools available for dealing with financial risks, and ensure proper fee-collection and management of the Deposit Insurance Fund, sector-specific guarantee funds, and the Financial Stability Guarantee Fund, to ensure timely risk resolution.

Appendix

Statistics

Table 1 Selected Economic Indicators

Items	2019	2020	2021	2022	2023
Gross Domestic Product (RMB 100 million)	986515.2	1013567.0	1149237.0	1204724.0	1260582.1
Value-added of Industry (RMB 100 million)	311858.7	312902.9	374545.6	395043.7	399103.1
Total Investment in Fixed Assets in the Whole Country (RMB 100 million)	439541.18	451154.75	473002.55	495966.38	509707.91
Retail Sales of Consumer Goods (RMB 100 million)	408017.2	391980.6	440823.2	439732.5	471495.2
Exports & Imports (RMB 100 million)	315627.3	322215.2	387414.6	418011.6	417568.3
Exports	172373.6	179278.8	214255.2	237411.5	237725.9
Imports	143253.7	142936.4	173159.4	180600.1	179842.4
Balance	29119.9	36342.4	41095.9	56811.5	57883.0
Value of Foreign Direct Investment Actually Utilized (USD 100 million)	1381.4	1443.7	1734.8	1891.3	1632.5
Foreign Exchange Reserves (USD 100 million)	31079.24	32165.22	32501.66	31276.91	32379.77
Consumer Price Index (previous year=100)	102.9	102.5	100.9	102.0	100.2
Fiscal Revenue (RMB 100 million)	190390.08	182913.88	202554.64	203649.29	216784.37
Fiscal Expenditure (RMB 100 million)	238858.37	245679.03	245673.00	260552.12	274573.81
Per Capita Urban Household Disposable Income (RMB)	42359	43834	47412	49283	51821
Per Capita Rural Household Disposable Income (RMB)	16021	17131	18931	20133	21691
Urban Employed Persons (million)	452.49	462.71	467.73	459.31	470.32
Surveyed Urban Unemployment Rate (%)	5.2	5.2	5.1	5.5	5.1
Total Population (million)	1410.08	1412.12	1412.60	1411.75	1409.67

Note: ① 2019−2022 GDP is verified and final, and 2023 GDP is preliminary.

② In accordance with China's regulations on GDP data revision and international practices, systematic revisions are made on the GDP figures for 2018 and previous years with data from the fourth national economic census.

Source: The NBS.

Table 2 Selected Financial Indicators (1)

(Year-end Balance)

(RMB 100 million)

Items	2022	2023
Money & Quasi-Money (M_2)	2664320.8	2922713.3
Money (M_1)	671674.8	680542.5
Currency in Circulation (M_0)	104706.0	113444.6
Total Deposits with Financial Institutions	2584998.2	2842623.3
Household Deposits	1074032.2	1219510.0
Non-financial Enterprise Deposits	746574.1	787756.2
Total Lending by Financial Institutions	2139852.7	2375905.4

Note: Starting from January 2023, the People's Bank of China has incorporated into the coverage of financial statistics three types of non-depository banking financial institutions, i.e., consumer finance companies, wealth management companies and financial asset investment companies. All data in 2023 are provided on a comparable basis.
Source: The PBC.

Table 3 Selected Financial Indicators(2)

(Growth Rates)

(percent)

Items	2022	2023
Money & Quasi-Money (M_2)	11.8	9.7
Money (M_1)	3.7	1.3
Currency in Circulation (M_0)	15.3	8.3
Total Deposits with Financial Institutions	11.3	10.0
Household Deposits	18.9	13.6
Non-financial Enterprise Deposits	7.2	5.5
Total Lending by Financial Institutions	11.1	10.6

Note: Starting from January 2023, the People's Bank of China has incorporated into the coverage of financial statistics three types of non-depository banking financial institutions, i.e., consumer finance companies, wealth management companies and financial asset investment companies. All data in 2023 are provided on a comparable basis.
Source: The PBC.

Table 4 International Liquidity

(USD million)

Items	2019	2020	2021	2022	2023
Total Reserves (minus gold)	3127493	3238782	3313920	3189689	3301320
Special Drawing Rights (SDRs)	11126	11495	53065	51159	53596
IMF Reserve Position	8444	10765	10689	10839	9747
Foreign Exchange	3107924	3216522	3250166	3127691	3237977
Gold (10 thousand ounces)	6264	6264	6264	6464	7187
Gold (national valuation)	95406	118246	113125	117235	148226
Foreign Liabilities of Other Depository Corporations	241046	255007	235197	208876	213112

Source: The PBC.

Table 5 Gold and Foreign Exchange Reserves

Year	Gold Reserves (10 thousand ounces)	Foreign Exchange Reserves (USD 100 million)	Change in Foreign Exchange Reserves (percent)
2003	1929	4032.5	40.8
2004	1929	6099.3	51.3
2005	1929	8188.7	34.3
2006	1929	10663.4	30.2
2007	1929	15282.5	43.3
2008	1929	19460.3	27.3
2009	3389	23991.5	23.3
2010	3389	28473.4	18.7
2011	3389	31811.5	10.7
2012	3389	33115.9	4.1
2013	3389	38213.2	15.4
2014	3389	38430.2	0.6
2015	5666	33303.6	−13.3
2016	5924	30105.2	−9.6
2017	5924	31399.5	4.3
2018	5956	30727.1	−2.1
2019	6264	31079.2	1.1
2020	6264	32165.2	3.5
2021	6264	32501.7	1.0
2022	6464	31276.9	−3.8
2023	7187	32379.8	3.5

Source: The PBC.

Table 6 Assets of China's Financial Sector

(December 31, 2023)

(RMB trillion)

Type of Financial Institutions	Assets
Financial Sector	506.78
Central Bank	45.69
Banking Financial Institutions	417.29
Securities Financial Institutions	13.84
Insurance Financial Institutions	29.96

Note: ① Banking institutions refer to legal entities (also covering overseas branches), excluding the central bank. Securities institutions include securities companies, futures companies and fund companies. The total assets of securities companies and futures companies include both their own assets and clients' assets. Insurance institutions include property insurance companies, personal insurance companies, reinsurance companies, insurance group companies and insurance asset management companies.

② Aggregate data does not include those of institutions, such as in the insurance sector, that are in the process of risk resolution.

Source: The PBC, NFRA and CSRC.

Table 7 Depository Corporations Survey in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Net Foreign Assets	293151.30	294842.57	290328.70	292868.12
Domestic Credits	3088857.83	3166568.53	3206579.57	3257914.49
Claims on Government (net)	467701.84	485136.28	499270.32	522896.87
Claims on Non-financial Sectors	2349738.77	2397542.04	2430961.20	2454025.98
Claims on Other Financial Sectors	271417.22	283890.22	276348.05	280991.64
Money & Quasi-Money	2814566.31	2873023.83	2896659.11	2922713.33
Money	678059.63	695595.48	678443.65	680542.52
Currency in Circulation	105591.30	105419.20	109253.22	113444.64
Corporate Demand Deposits	572468.33	590176.28	569190.43	567097.87
Quasi-Money	2136506.68	2177428.35	2218215.45	2242170.81
Corporate Time Deposits	498890.82	507502.51	526043.56	520995.50
Personal Deposits	1311044.43	1331168.72	1356228.42	1378566.94
Other Deposits	326571.43	338757.12	335943.48	342608.37
Deposits Excluded from Broad Money	58800.05	56510.06	51896.81	52672.94
Bonds	390279.36	404905.93	413533.18	421556.56
Paid-in Capital	55949.65	56318.33	56419.72	57383.10
Other Items (net)	62413.75	70652.96	78399.45	96456.68

Source: The PBC.

Table 8 Balance Sheet of Monetary Authority in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	230941.18	231574.38	230938.68	233548.51
Foreign Exchange	217893.63	217733.71	218095.08	220453.85
Monetary Gold	3349.50	3539.95	3855.33	4052.88
Other Foreign Assets	9698.05	10300.72	8988.26	9041.78
Claims on Government	15240.68	15240.68	15240.68	15240.68
Claims on Other Depository Corporations	146628.42	143449.64	158157.05	185561.01
Claims on Other Financial Corporations	1564.52	1559.25	1341.33	1310.90
Claims on Non-financial Sector	0.00	0.00	0.00	0.00
Other Assets	26632.46	26238.89	21677.15	21283.04
Total Assets	421007.27	418062.84	427354.89	456944.14
Reserve Money	364071.50	365235.34	363920.94	389036.93
Currency Issue	110936.84	110311.22	114478.45	118660.94
Deposits of Financial Corporations	230382.81	231388.96	224684.87	245687.45
Deposits of Other Depository Corporations	230382.81	231388.96	224684.87	245687.45
Deposits of Other Financial Corporations	0.00	0.00	0.00	0.00
Deposits of Non-financial Corporations	22751.85	23535.15	24757.62	24688.54
Deposits of Financial Corporations Excluded from Reserve Money	6104.75	6781.46	5771.05	6038.42
Bond Issue	950.00	950.00	1150.00	1250.00
Foreign Liabilities	1652.61	1458.24	3539.93	3062.34
Deposits of Government	41318.08	36873.70	43978.84	46291.74
Own Capital	219.75	219.75	219.75	219.75
Other Liabilities	6690.57	6544.37	8774.38	11044.96
Total Liabilities	421007.27	418062.84	427354.89	456944.14

Source: The PBC.

Table 9 Balance Sheet of Other Depository Corporations in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	78330.36	79471.91	78212.96	77476.02
Reserve Assets	239819.99	240810.06	233423.85	253764.99
Deposits with Central Bank	234474.45	235918.04	228198.62	248548.70
Cash in Vault	5345.54	4892.02	5225.23	5216.29
Claims on Government	493779.24	506769.29	528008.47	553947.93
Claims on Central Bank	144.80	152.51	158.88	224.24
Claims on Other Depository Corporations	375472.26	381887.42	374074.67	382273.44
Claims on Other Financial Corporations	269852.70	282330.97	275006.72	279680.74
Claims on Non-financial Corporations	1590861.70	1629158.74	1652636.57	1671554.04
Claims on Other Resident Sectors	758877.06	768383.30	778324.63	782471.94
Other Assets	134236.22	139321.51	140190.47	131375.25
Total Assets	3941374.33	4028285.71	4060037.22	4132768.58
Liabilities to Non-financial Institutions and Households	2479732.39	2526360.66	2541263.96	2556823.93
Deposits Included in Broad Money	2382403.58	2428847.51	2451462.41	2466660.31
Corporate Demand Deposits	572468.33	590176.28	569190.43	567097.87
Corporate Time Deposits	498890.82	507502.51	526043.56	520995.50
Personal Deposits	1311044.43	1331168.72	1356228.42	1378566.94
Deposits Excluded from Broad Money	58800.05	56510.06	51896.81	52672.94
Transferable Deposits	22390.03	20046.92	18916.01	21613.52
Other Deposits	36410.02	36463.14	32980.79	31059.42
Other Liabilities	38528.76	41003.10	37904.74	37490.68
Liabilities to Central Bank	137874.39	139491.12	155245.73	180439.64
Liabilities to Other Depository Corporations	128982.98	133942.32	122878.32	129084.53
Liabilities to Other Financial Corporations	283559.05	286402.33	279632.73	296667.92
Of Which: Deposits Included in Broad Money	280020.53	283175.57	276077.89	293323.47
Foreign Liabilities	14467.63	14745.48	15283.00	15094.06
Bond Issue	390279.36	404905.93	413533.18	421556.56
Paid-in Capital	55729.90	56098.58	56199.97	57163.35
Other Liabilities	450748.63	466339.30	476000.33	475938.58
Total Liabilities	3941374.33	4028285.71	4060037.22	4132768.58

Source: The PBC.

Table 10 Balance Sheet of Chinese-funded Large Banks in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	41153.26	41232.11	40954.21	39771.26
Reserve Assets	132355.36	131879.32	126094.13	136151.09
Deposits with Central Bank	129757.61	129510.83	123469.72	133623.07
Cash in Vault	2597.75	2368.50	2624.41	2528.02
Claims on Government	282452.93	290446.67	298018.12	310978.93
Claims on Central Bank	70.06	66.32	73.32	79.40
Claims on Other Depository Corporations	133326.95	142519.49	136345.30	139379.79
Claims on Other Financial Corporations	72805.72	79524.18	75519.77	78273.12
Claims on Non-financial Corporations	772398.99	796930.18	814457.73	825235.54
Claims on Other Resident Sectors	369508.19	372392.90	378358.63	380967.27
Other Assets	56011.59	58821.82	58328.79	54066.00
Total Assets	1860083.07	1913813.00	1928150.00	1964902.41
Liabilities to Non-financial Institutions and Households	1227137.00	1249673.94	1259574.96	1258373.85
Deposits Included in Broad Money	1159604.06	1184136.71	1200532.34	1200282.75
Corporate Demand Deposits	268804.24	274863.94	266530.31	255633.47
Corporate Time Deposits	198507.29	209636.08	220475.73	220657.86
Personal Deposits	692292.53	699636.68	713526.31	723991.41
Deposits Excluded from Broad Money	35284.06	34345.01	30582.59	29129.33
Transferable Deposits	12167.19	10668.88	10463.53	10950.16
Other Deposits	23116.87	23676.13	20119.06	18179.17
Other Liabilities	32248.87	31192.22	28460.03	28961.78
Liabilities to Central Bank	66204.29	68800.22	70331.62	83591.58
Liabilities to Other Depository Corporations	32430.73	35034.61	27013.97	33304.36
Liabilities to Other Financial Corporations	118744.32	128864.42	129301.61	141687.20
Of Which: Deposits Included in Broad Money	117117.80	127139.25	127676.00	140172.23
Foreign Liabilities	5440.24	5810.10	6389.57	6492.93
Bond Issue	173675.81	179908.10	184661.26	190843.54
Paid-in Capital	18454.60	18454.60	18454.60	18454.60
Other Liabilities	217996.08	227267.01	232422.42	232154.34
Total Liabilities	1860083.07	1913813.00	1928150.00	1964902.41

Source: The PBC.

Table 11 Balance Sheet of Chinese-funded Medium-Sized Banks in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	29842.74	30923.36	29886.33	30153.42
Reserve Assets	36345.75	37310.81	35192.20	39783.24
Deposits with Central Bank	35895.29	36870.32	34713.45	39273.74
Cash in Vault	450.45	440.49	478.76	509.50
Claims on Government	94314.82	96787.94	102802.69	108254.99
Claims on Central Bank	23.05	25.52	36.27	71.06
Claims on Other Depository Corporations	52326.07	48932.38	46149.68	48991.66
Claims on Other Financial Corporations	99153.74	101210.34	96909.25	100057.74
Claims on Non-financial Corporations	382541.85	387072.85	389082.66	392738.36
Claims on Other Resident Sectors	174842.44	176806.19	177950.72	178318.78
Other Assets	24904.97	25019.54	26422.68	22855.63
Total Assets	894295.41	904088.92	904432.50	921224.89
Liabilities to Non-financial Institutions and Households	423559.71	431950.95	429745.95	431878.74
Deposits Included in Broad Money	406800.99	414003.59	412799.56	415018.19
Corporate Demand Deposits	137447.95	141300.56	135053.49	136159.65
Corporate Time Deposits	142268.02	141656.61	145016.15	142829.68
Personal Deposits	127085.02	131046.43	132729.92	136028.86
Deposits Excluded from Broad Money	13677.08	12742.59	11811.84	12676.95
Transferable Deposits	5404.59	4719.92	4216.81	5258.59
Other Deposits	8272.49	8022.67	7595.03	7418.36
Other Liabilities	3081.63	5204.77	5134.55	4183.60
Liabilities to Central Bank	37495.30	35962.47	45743.89	54073.28
Liabilities to Other Depository Corporations	39100.71	39812.08	36059.51	36727.17
Liabilities to Other Financial Corporations	105793.27	99802.00	92667.21	96035.60
Of Which: Deposits Included in Broad Money	105359.35	99342.22	92091.12	95267.70
Foreign Liabilities	4476.26	4491.49	4325.02	4272.24
Bond Issue	175897.73	181868.66	184624.40	186629.51
Paid-in Capital	5179.31	5183.63	5188.47	5189.36
Other Liabilities	102793.13	105017.63	106078.06	106418.98
Total Liabilities	894295.41	904088.92	904432.50	921224.89

Source: The PBC.

Table 12 Balance Sheet of Chinese-funded Small Banks in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	4095.83	4206.46	4264.52	4202.57
Reserve Assets	59265.38	59770.47	59810.92	64920.89
Deposits with Central Bank	57202.61	57895.87	57900.35	62923.49
Cash in Vault	2062.77	1874.60	1910.57	1997.40
Claims on Government	107166.39	109415.69	116494.57	123546.74
Claims on Central Bank	51.69	47.68	26.29	59.26
Claims on Other Depository Corporations	136600.39	135120.52	137335.47	135952.75
Claims on Other Financial Corporations	85752.13	88711.91	88709.12	88673.02
Claims on Non-financial Corporations	371778.43	380125.07	384301.89	388565.98
Claims on Other Resident Sectors	197549.24	202053.03	204743.84	206435.82
Other Assets	34722.77	35838.99	36256.51	35891.48
Total Assets	996982.24	1015289.82	1031943.14	1048248.50
Liabilities to Non-financial Institutions and Households	700762.35	712561.57	720612.45	729831.60
Deposits Included in Broad Money	693871.24	705764.49	713727.24	722376.84
Corporate Demand	125008.51	127691.28	124110.15	122681.26
Corporate Time Deposits	116231.67	116980.81	119545.60	119401.68
Personal Deposits	452631.06	461092.41	470071.49	480293.90
Deposits Excluded from Broad Money	4875.02	4318.09	4414.71	4854.32
Transferable Deposits	1945.00	1656.15	1609.19	2005.87
Other Deposits	2930.02	2661.94	2805.53	2848.45
Other Liabilities	2016.09	2478.99	2470.50	2600.44
Liabilities to Central Bank	32565.91	33036.37	36966.38	40970.34
Liabilities to Other Depository Corporations	46503.36	48023.54	48544.61	48570.20
Liabilities to Other Financial Corporations	56232.88	55101.99	54939.72	56277.24
Of Which: Deposits Included in Broad Money	55010.26	54280.72	53801.69	55495.63
Foreign Liabilities	849.13	998.90	1005.82	957.94
Bond Issue	39619.51	42060.87	43193.07	42993.18
Paid-in Capital	21228.61	21423.41	21659.14	22408.77
Other Liabilities	99220.50	102083.19	105021.95	106239.24
Total Liabilities	996982.24	1015289.82	1031943.14	1048248.50

Source: The PBC.

Table 13 Balance Sheet of Foreign-funded Banks in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	2936.18	2799.30	2806.41	3027.46
Reserve Assets	2327.27	2358.89	2424.42	2887.91
Deposits with Central Bank	2324.79	2356.58	2422.10	2885.42
Cash in Vault	2.48	2.31	2.32	2.48
Claims on Government	5291.98	5607.25	5720.31	5989.77
Claims on Central Bank	0.00	12.99	23.00	14.51
Claims on Other Depository Corporations	3692.16	3932.96	3918.13	4263.48
Claims on Other Financial Corporations	4758.32	4907.57	4993.06	5177.48
Claims on Non-financial Corporations	13162.96	13778.52	13563.36	12909.57
Claims on Other Resident Sectors	2075.93	2068.40	2057.41	2051.63
Other Assets	13873.26	14884.53	14773.34	14358.10
Total Assets	48118.06	50350.41	50279.44	50679.90
Liabilities to Non-financial Institutions and Households	19651.44	20851.11	20414.30	21612.81
Deposits Included in Broad Money	14840.59	14948.00	14695.08	15673.26
Corporate Demand Deposits	4567.53	5177.91	4868.22	5907.89
Corporate Time Deposits	8584.74	8003.90	7970.08	7784.75
Personal Deposits	1688.32	1766.18	1856.79	1980.61
Deposits Excluded from Broad Money	3730.10	3873.43	3973.31	4331.94
Transferable Deposits	2108.82	2134.35	1978.35	2138.00
Other Deposits	1621.28	1739.07	1994.96	2193.95
Other Liabilities	1080.75	2029.69	1745.91	1607.61
Liabilities to Central Bank	338.63	535.39	1042.25	588.78
Liabilities to Other Depository Corporations	2570.27	2760.71	2583.44	2959.57
Liabilities to Other Financial Corporations	2465.36	2298.54	2393.76	2255.41
Of Which: Deposits Included in Broad Money	2307.94	2148.97	2269.84	2118.28
Foreign Liabilities	3701.47	3444.52	3562.19	3370.61
Bond Issue	1079.90	1067.33	1049.44	1082.38
Paid-in Capital	2045.22	2047.29	2051.99	2054.45
Other Liabilities	16265.78	17345.52	17182.06	16755.88
Total Liabilities	48118.06	50350.41	50279.44	50679.90

Source: The PBC.

Table 14 Balance Sheet of Rural Credit Cooperatives in 2023

(Quarter-end Balance)

(RMB 100 million)

Items	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Foreign Assets	1.74	4.12	4.79	6.79
Reserve Assets	6207.74	6153.64	6346.20	6476.20
Deposits with Central Bank	5975.67	5947.55	6137.05	6297.32
Cash in Vault	232.07	206.09	209.15	178.88
Claims on Government	3862.13	3961.86	4311.73	4471.97
Claims on Central Bank	0.00	0.00	0.00	0.00
Claims on Other Depository Corporations	17698.28	17602.06	17812.02	15790.55
Claims on Other Financial Corporations	1369.10	1405.98	1931.73	1262.30
Claims on Non-financial Corporations	13653.69	13821.01	13780.55	12943.77
Claims on Other Resident Sectors	13714.16	13946.32	14161.67	13679.62
Other Assets	4070.01	4015.54	3773.87	3571.68
Total Assets	60576.86	60910.53	62122.55	58202.88
Liabilities to Non-financial Institutions and Households	42891.84	43261.92	43530.07	41518.16
Deposits Included in Broad Money	42804.02	43186.68	43455.31	41403.55
Corporate Demand Deposits	4225.50	4237.43	4095.66	3846.87
Corporate Time Deposits	1232.47	1323.45	1316.76	1285.39
Personal Deposits	37346.05	37625.80	38042.89	36271.30
Deposits Excluded from Broad Money	0.38	0.27	0.26	0.38
Transferable Deposits	0.37	0.25	0.25	0.36
Other Deposits	0.02	0.01	0.01	0.01
Other Liabilities	87.44	74.97	74.50	114.23
Liabilities to Central Bank	971.23	890.05	913.97	1009.50
Liabilities to Other Depository Corporations	7848.51	7700.99	8235.54	7051.42
Liabilities to Other Financial Corporations	125.69	121.80	133.54	132.86
Of Which: Deposits Included in Broad Money	106.79	103.75	95.86	97.48
Foreign Liabilities	0.53	0.47	0.40	0.34
Bond Issue	6.41	0.98	5.02	7.95
Paid-in Capital	1294.37	1329.95	1319.53	1381.07
Other Liabilities	7438.28	7604.38	7984.48	7101.60
Total Liabilities	60576.86	60910.53	62122.55	58202.88

Source: The PBC.

Table 15 Statistics of Securities Market

Year	2017	2018	2019	2020	2021	2022	2023
Number of Listed Companies in Shanghai Stock Exchange and Shenzhen Stock Exchange (A shares, B shares)	3485	3584	3777	4154	4615	4917	5107
Number of Listed Foreign Investment Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (B shares)	100	99	97	93	90	86	85
Number of Listed Companies in Beijing Stock Exchange	—	—	—	—	82	162	239
Number of Overseas Listed Companies (H shares)	252	267	294	291	323	316	339
Total Issued Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (100 million shares)	53747	57581	61740	65526	70694	73312	75489
Of Which: Negotiable Shares (100 million shares)	45045	49048	52488	56375	60755	64245	68142
Total Issued Shares in Beijing Stock Exchange (100 million shares)	—	—	—	—	123	214	318
Of Which: Negotiable Shares (100 million shares)	—	—	—	—	57	111	169
Total Market Capitalization of Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (RMB 100 million)	567086	434924	593075	796487	916088	788006	773131
Of Which: Negotiable Shares (RMB 100 million)	449298	353794	483327	643096	751556	663429	674342
Total Market Capitalization of Shares in Beijing Stock Exchange (RMB 100 million)	—	—	—	—	2723	2110	4496
Of Which: Negotiable Shares (RMB 100 million)	—	—	—	—	1074	1148	2263
Trading Volume of Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (100 million shares)	87781	82037	126624	167452	187426	185725	170809
Trading Volume of Shares in Beijing Stock Exchange (100 million shares)	—	—	—	—	37	159	615
Turnover of Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (RMB 100 million)	1124625	901739	1274159	2068253	2579734	2245095	2122110
Turnover of Shares in Beijing Stock Exchange (RMB 100 million)	—	—	—	—	667	1980	7272
Shanghai Composite Index (close)	3307.17	2493.90	3050.12	3473.07	3639.78	3089.26	2975
Shenzhen Composite Index (close)	1899.34	1267.87	1722.95	2329.37	2530.14	1975.61	1838
Number of Investor Accounts (10 thousand)	13398.29	14650.44	15975.24	17777.49	19740.85	21213.62	22406.06
Average P/E Ratio							
Shanghai	16.3	12.5	15.6	16.1	20.9	12.8	11.9

(Cont)

Year	2017	2018	2019	2020	2021	2022	2023
Shenzhen	36.2	20.0	35.6	33.5	33.0	23.4	21.6
Beijing	—	—	—	—	46.7	18.9	24.2
Average Turnover Rate (%)							
Shanghai	180.5	150.9	193.9	258.8	280.7	239.8	207.8
Shenzhen	412.9	356.9	454.9	555.8	506.1	470.3	448.2
Beijing	—	—	—	—	62.6	173.0	419.2
Government Bond Issuance (RMB 100 million)	83513	78278	85187	135293	142662	170719	204210
Corporate Credit Bond Issuance (RMB 100 million)	56352	77905	107058	142012	146804	136720	138206
Turnover of Outright Government Bond Purchase(RMB 100 million)	55442	63822	83530	201786	289275	381136	464485
Turnover of Government Bond Repo(RMB 100 million)	2632194	2341632	2390194	2874188	3501926	4035601	4557976
Number of Securities Investment Funds	4848	5580	6111	7258	9152	10576	11528
Total Net Asset Value of Securities Investment Funds (RMB 100 million)	115989	130339	147673	198519	255625	260311	275993
Turnover of Securities Investment Funds Listed on Exchanges (RMB 100 million)	98052	102705	91679	136239	183100	231615	277800
Trading Volume of Futures (10 thousand lots)	307106	301070	392157	602735	726924	634228	737871
Turnover of Futures (RMB 100 million)	1878951	2108057	2905856	4373005	5807071	5343025	5675694

Source: The PBC, the CSRC, Asset Management Association of China, China Central Depository & Clearing Co., Ltd.

Table 16 Ratio of Stock Market Capitalization to GDP

(RMB 100 million, %)

Year	GDP	Market Capitalization	Ratio of Market Captialization to GDP (percent)	Negotiable Market Capitalization	Ratio of Negotiable Market Captialization to GDP (percent)
2003	135823	42478	31.26	13185	9.70
2004	159878	37081	23.18	11701	7.31
2005	183868	32446	17.64	10638	5.78
2006	211923	89441	42.19	25021	11.80
2007	249530	327291	131.10	93141	37.30
2008	300670	121541	40.36	45303	15.04
2009	335353	244104	72.74	151342	45.10
2010	397983	265423	66.69	193110	48.52
2011	471564	214758	45.54	164921	34.97
2012	519322	230358	44.36	181658	34.98
2013	568845	239077	42.03	199580	35.09
2014	636463	372547	58.53	315624	49.59
2015	676708	531463	78.51	417881	61.76
2016	744127	507686	68.30	393402	52.85
2017	827122	567086	68.56	449298	54.32
2018	900309	434924	48.31	353794	39.30
2019	990865	593075	59.85	483327	48.78
2020	1015986	796487	78.47	643096	63.35
2021	1143670	918811	80.10	752630	65.71
2022	1210207	790116	65.29	664577	54.91
2023	1260582	777627	61.69	676605	53.67

Note: Data on market capitalization and negotiable market capitalization include that of Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange from 2021 onwards.
Source: The NBS, the CSRC.

Table 17 Ratio of Domestic Stock Financing to Total Lending Increment

(RMB 100 million, %)

Year	Domestic Stock Financing	Total Lending Increment	Ratio (percent)
2003	665.51	27652.00	2.41
2004	650.53	22648.00	2.87
2005	339.03	23543.82	1.44
2006	2374.5	31809.00	7.46
2007	7814.74	36322.51	21.51
2008	3312.39	49041.00	6.75
2009	4834.34	95941.63	5.04
2010	9799.8	79450.29	12.33
2011	7154.43	74715.39	9.58
2012	4542.4	82037.63	5.54
2013	4131.46	88916.22	4.65
2014	8498.26	97815.77	8.69
2015	16361.62	117238.60	13.96
2016	20297.39	126496.23	16.05
2017	15534.98	135277.81	11.48
2018	11377.88	161704.90	7.04
2019	12538.82	168144.09	7.46
2020	14221.58	196340.43	7.24
2021	15422.00	199489.96	7.73
2022	14341.99	213097.18	6.73
2023	10056.35	227462.87	4.42

Notes: ① "Total Lending" includes loans offered by banking financial institutions to non-bank financial institutions from 2015 onwards.

② The amount of domestic stock financing does not include the amount of convertible bonds that have been converted into stocks.

③ Domestic stock financing includes that of Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange from 2021 onwards.

Source: Staff calculation based on data from the CSRC and the PBC.

Table 18 Statistics of Stock Market

Year	2016	2017	2018	2019	2020	2021	2022	2023
Number of Listed Companies in Shanghai Stock Exchange and Shenzhen Stock Exchange (A shares, B shares)	3052	3485	3584	3777	4154	4615	4917	5107
Of Which: ST Companies	62	64	57	137	218	179	109	116
SME Board	822	903	922	943	994	—	—	—
ChiNext	570	710	739	791	892	1090	1232	1333
STAR	—	—	—	70	215	377	501	566
Number of Listed Foreign Investment Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (B shares)	100	100	99	97	20	90	86	85
Of Which: ST Companies	4	4	1	4	4	4	0	1
Number of Listed Companies in Beijing Stock Exchange	—	—	—	—	—	82	162	239
Total Issued Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (100 million shares)	48750	53747	57581	61740	65526	70694	73312.06	75489.4
Of Which: SME Board	6424	7612	8360	9322	9924	—	—	—
ChiNext	2631	3258	3728	4097	4510	5165	5685	6210
STAR	—	—	—	—	—	1212	1742	2112
Total Issued Shares in Beijing Stock Exchange (100 million shares)	—	—	—	—	—	123	214	318
Total Market Capitalization of Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (RMB 100 million)	507686	567086	434924	593075	796487	916088	788006	773131
Of Which: SME Board	98114	103992	70122	98681	135378	—	—	—
ChiNext	52255	51289	40460	61348	109339	140240	112721	113734
STAR	—	—	—	8638	33491	56306	58151	61617
Total Market Capitalization of Shares in Beijing Stock Exchange (RMB 100 million)	—	—	—	—	—	2723	2110	4496
Market Capitalization of Negotiable Shares in Shanghai Stock Exchange and Shenzhen Stock Exchange (RMB 100 million)	393402	449298	353794	483327	643096	751556	663429	674342
Of Which: SME Board	64089	71155	50479	73661	106105	—	—	—
ChiNext	30537	30495	24543	40232	69630	140240	79367	82062
STAR	—	—	—	1288	10002	22591	27583	38611
Market Capitalization of Negotiable Shares in Beijing Stock Exchange (RMB 100 million)	—	—	—	—	—	1074	1148	2263

(Cont)

Year		2016	2017	2018	2019	2020	2021	2022	2023
Volume in Shanghai Stock Exchange and Shenzhen Stock Exchange (100 million shares)	Total	95525	87781	82037	126624	167452	187426	185725	170809
	Daily Average	388	360	338	519	689	756	767	706
	SME Board	20578	17409	18286	31971	42244	—	—	—
	ChiNext	9510	8830	11642	19009	30219	29060	26371	12991
	STAR	—	—	—	305	1203	1951	2581	4041
Turnover in Shanghai Stock Exchange and Shenzhen Stock Exchange (RMB 100 million)	Total	1277680	1124625	901739	1274159	2068253	2579734	2245095	2122110
	Daily Average	5221	4609	3711	5222	8511	10660	9277	8769
	SME Board	344165	259880	203626	310657	501796	—	—	—
	ChiNext	216832	165522	158862	231604	466723	543303	450781	535435
	STAR	—	—	—	13314	66230	105422	119869	157383
Average Turnover Rate (%)	Shanghai	158.4	180.5	150.9	193.4	258.8	223.0	239.8	207.8
	Shenzhen	541.8	412.9	356.9	454.9	555.8	523.4	499.5	448.2
	Beijing	—	—	—	—	—	206.5	172.95	419.2
Average P/E Ratio	Shanghai	15.9	16.3	12.5	15.6	16.1	20.9	12.8	11.9
	Shenzhen	41.2	36.2	20.0	35.6	33.5	33.0	23.4	21.6
	Beijing	—	—	—	—	—	46.7	18.9	24.2
	SME Board	50.4	45.6	21.0	28.5	35.8	—	—	—
	ChiNext	73.2	51.4	32.8	47.0	64.9	60.0	37.9	32.9
	STAR	—	—	—	77.1	91.1	75.6	44.2	35.5
Shanghai Composite Index	Open	3536.59	3105.31	3314.03	2497.88	3066.34	3474.68	3649.15	3087.51
	Highest	3538.69	3450.5	3587.03	3288.45	3474.92	3731.69	3651.89	3418.95
	Date	2016/1/4	2017/11/14	2018/1/29	2019/4/8	2020/12/31	2021/2/18	2022/1/4	2023/5/9
	Lowest	2638.30	3016.53	2449.20	2440.91	2646.80	3312.72	2863.65	2882.02
	Date	2016/1/27	2017/5/11	2018/10/19	2019/1/4	2020/3/19	2021/7/28	2022/4/27	2023/12/21
	Close	3103.64	3307.17	2493.90	3050.12	3473.07	3639.78	3089.26	2974.93
Shenzhen Composite Index	Open	2304.48	1972.55	1903.49	1270.5	1734.63	2335.16	2541.46	1974.66
	Highest	2304.49	2054.02	1966.15	1799.1	2340.89	2571.27	2542.99	2200.22
	Date	2016/1/4	2017/3/17	2018/1/25	2019/4/8	2020/11/9	2021/12/13	2022/1/4	2023/2/16
	Lowest	1618.12	1753.53	1212.23	1231.83	1552.96	2130.09	1724.92	1760.70
	Date	2016/1/27	2017/6/2	2018/10/19	2019/1/4	2020/2/4	2021/3/9	2022/4/27	2023/12/27
	Close	1969.11	1899.34	1267.87	1722.95	2329.37	2530.14	1975.61	1837.85

Source: The CSRC, Shanghai Stock Exchange ,Shenzhen Stock Exchange and Beijing Stock Exchange.

Table 19 Summary of China's Bond Issuance

(RMB 100 million)

Year	Government Bonds			Financial Bonds			Corporate Credit Bonds		
	Issuance	Redemption	Outstanding	Issuance	Redemption	Outstanding	Issuance	Redemption	Outstanding
2003	6280	2756	22604				358		
2004	6924	3750	25778				327		
2005	7042	4046	28774				2047	37	
2006	8883	6209	31449				3938	1672	
2007	23139	5847	48741				5181	2881	7683
2008	8558	7531	49768				8723	3278	13251
2009	17927	9745	57950				16599	4309	25541
2010	19778	10043	67685				16094	5099	36318
2011	17100	10959	75832	23491	7683	75748	23548	10326	49095
2012	16154	9464	82522	26202	8588	93362	37365	8750	77710
2013	20230	8996	95471	26310	13306	105772	36784	18673	93242
2014	21747	10365	107275	36552	19345	125489	51516	27388	116214
2015	59408	12803	154524	102095	53852	184596	67205	39757	144329
2016	91086	19709	225734	182152	125677	236499	82242	61139	175180
2017	83513	27567	281538	258056	216410	278301	56352	52378	183252
2018	78278	29875	330069	274056	229047	322585	77905	51561	205603
2019	85187	37175	377273	259360	217335	364622	107058	74064	246176
2020	135293	51408	460911	291539	239860	415080	142012	95558	289472
2021	142662	71258	532744	323516	257093	482241	146804	115152	314477
2022	170719	98976	604602	306195	271922	515874	136720	120363	323177
2023	204210	106154	702779	364417	325374	550899	138206	125112	320908

Notes: ① "Financial Bonds" are bonds issued by financial insitutions, including financial bonds issued by CDB; policy financial bonds; common bonds, subordinated bonds and hybrid bonds issued by commercial banks; asset-backed securities; bonds and short-term financing bills issued by securities companies; financial bonds issued by asset management companies; and interbank negotiable certificates of deposit.

② Due to statistical method adjustment, the item "Enterprise bonds" is replaced by "Corporate credit bonds" from 2012 onwards, which includes debt financing instruments of non-financial enterprises, enterprise bonds, corporate bonds, convertible bonds, bonds with detachable warrants, and SME private-funded bonds.

Source:The PBC.

Table 20 Statistics of China's Insurance Sector

(RMB 100 million, %)

Items	2017	Growth (y-o-y) (percent)	2018	Growth (y-o-y) (percent)	2019	Growth (y-o-y) (percent)	2020	Growth (y-o-y) (percent)	2021	Growth (y-o-y) (percent)	2022	Growth (y-o-y) (percent)	2023	Growth (y-o-y) (percent)
Premium Income	36581.01	18.16	38016.62	3.92	42644.75	12.17	45257.33	6.13	44900.17	−0.79	46957.18	4.58	51246.71	9.13
1.Property Insurance	9834.66	12.72	10770.08	9.51	11649.47	8.17	11928.58	2.40	11671.11	−2.16	12712.38	8.92	13606.98	7.04
2.Life Insurance	21455.57	23.01	20722.86	−3.41	22754.14	9.80	23981.92	5.40	23571.85	−1.71	24518.63	4.02	27646.42	12.76
3.Health Insurance	4389.46	8.58	5448.13	24.12	7065.98	29.70	8172.71	15.66	8447.02	3.36	8652.94	2.44	9034.54	4.41
4.Personal Accident Insurance	901.32	20.19	1075.55	19.33	1175.16	9.26	1174.11	−0.09	1210.19	3.07	1073.23	−11.32	958.77	−10.67
Claims and Payments	11180.79	6.35	12297.87	9.99	12893.97	4.85	13907.10	7.86	15608.64	12.24	15485.14	−0.79	18882.98	21.94
1.Property Insurance	5087.45	7.64	5897.32	15.92	6501.62	10.25	6954.79	6.97	7687.50	10.54	7756.95	0.90	9171.35	18.23
2.Life Insurance	4574.89	−0.61	4388.52	−4.07	3743.21	−14.70	3715.11	−0.75	3540.25	−4.71	3791.40	7.09	5504.96	45.20
3.Health Insurance	1294.77	29.38	1744.34	34.72	2351.48	34.81	2921.16	24.23	4028.50	37.91	3599.53	−10.65	3830.66	6.42
4.Personal Accident Insurance	223.69	22.23	267.70	19.68	297.66	11.19	316.04	6.17	352.39	11.50	337.26	−4.29	376.01	11.49
Operating Expenses	4288.06	10.08	4717.73	10.02	5490.57	16.38	5728.05	4.33	5224.93	−8.78	5238.88	0.27	5477.89	4.56
Bank Deposits	19274.07	−22.42	24363.50	26.41	25227.42	3.55	25973.45	2.96	26178.59	0.79	28347.87	8.29	27243.40	−3.90
Investment	129932.14	19.13	139724.88	7.54	120618.47	−13.67	190827.68	58.21	206101.46	8.00	222161.06	7.79	249494.84	12.30
Of Which: Government Bonds	10167.99	30.42	14027.62	37.96	20672.01	47.37	32069.60	55.14	43054.84	34.25	51139.60	18.78	63193.74	23.57
Securities Investment Funds	7524.77	−12.04	8650.55	14.96	9423.29	8.93	11040.41	17.16	12248.02	10.94	13971.79	14.07	15302.46	9.52
Total Assets	167489.37	10.80	183308.92	9.45	205644.92	12.18	232984.30	13.29	248874.05	6.82	271467.47	9.08	299573.15	10.35

Notes: ① Data of premium income, claims and payments and operating expenses are data for the year.
② Data of bank deposits, investment and total assets are data of the year-end balance.
③ Data for 2021 do not include those of institutions that are in the process of risk resolution.

Source: The former CBIRC, the former CIRC.

Table 21 The Structure of Non-life Insurance Premium Income, 2017–2023

(RMB 100 million, %)

Insurance Lines	2017	Proportion (percent)	2018	Proportion (percent)	2019	Proportion (percent)	2020	Proportion (percent)	2021	Proportion (percent)	2022	Proportion (percent)	2023	Proportion (percent)
Automobile Insurance	7521.07	71.35	7834.02	66.64	8188.32	62.91	8244.75	60.70	7772.68	56.83	8210.18	55.23	8672.60	54.66
Enterprise Property Insurance	392.10	3.72	423.11	3.60	464.10	3.57	490.26	3.61	519.76	3.80	553.38	3.72	595.80	3.75
Cargo Transportation Insurance	100.19	0.95	121.11	1.03	130.12	1.00	135.96	1.00	167.72	1.23	177.93	1.20	226.49	1.43
Accident Insurance	312.66	2.97	416.60	3.54	526.57	4.05	540.90	3.98	627.30	4.59	574.06	3.86	509.12	3.21
Liability Insurance	451.27	4.28	590.79	5.03	753.30	5.79	901.13	6.63	1018.44	7.45	1147.50	7.72	1268.46	7.99
Others	1764.09	16.73	2370.06	20.16	2953.92	22.69	3270.69	24.08	3570.59	26.11	4203.50	28.27	4595.30	28.96
Total	10541.38	100.00	11755.69	100.00	13016.33	100.00	13583.69	100.00	13676.48	100.00	14866.54	100.00	15867.77	100.00

Note: Data of 2021 do not include those of institutions that are in the process of risk resolution.
Source: The former CBIRC, the former CIRC.

Table 22 The Structure of Life Insurance Premium Income, 2017–2023

(RMB 100 million, %)

Insurance Lines	2017	Proportion (percent)	2018	Proportion (percent)	2019	Proportion (percent)	2020	Proportion (percent)	2021	Proportion (percent)	2022	Proportion (percent)	2023	Proportion (percent)
Life Insurance	21455.49	82.40	20722.80	78.91	22754.14	76.80	23981.92	75.97	23571.84	75.49	24518.62	76.40	27646.10	78.14
Of Which: Common Life Insurance	12936.48	49.68	9120.97	34.73	10473.62	35.35	12545.94	39.74	13520.14	43.30	15808.90	49.26	20304.15	57.39
Participating Insurance	8403.20	32.27	11489.15	43.75	12166.97	41.07	11327.18	35.88	9952.80	31.88	8610.09	26.83	7240.29	20.46
Unit-linked Insurance	3.91	0.02	4.12	0.02	4.40	0.01	4.33	0.01	3.72	0.01	3.63	0.01	3.69	0.01
Accident Insurance	588.66	2.26	658.95	2.51	648.60	2.19	633.21	2.01	582.89	1.87	499.17	1.56	449.65	1.27
Health Insurance	3995.40	15.34	4879.12	18.58	6225.68	21.01	7058.50	22.36	7068.94	22.64	7072.84	22.04	7282.85	20.59
Total	26039.55	100.00	26260.87	100.00	29628.42	100.00	31569.16	100.00	31223.67	100.00	32090.63	100.00	35378.91	100.00

Note: ① Data of 2021 do not include the insurance premium income of life insurance business of China United Insurance Holding Company.
② Data of 2021 do not include those of institutions that are in the process of risk resolution.
Source: The former CBIRC, the former CIRC.

Table 23 Insurance Premium Income in 2023 by Region

(RMB 100 million)

Regions	Insurance Premium Income	Property Insurance	Life Insurance	Accident Insurance	Health Insurance
Total	51247	13607	27646	959	9035
Guangdong	4836	1237	2678	105	817
Jiangsu	4790	1193	2829	71	697
Beijing	3205	518	2080	48	559
Shandong	3100	764	1649	56	632
Zhejiang	3099	881	1683	57	477
Sichuan	2484	634	1315	52	482
Shanghai	2471	640	1412	52	366
Henan	2400	618	1308	41	433
Hebei	2136	626	1118	35	357
Hubei	2118	463	1193	35	426
Shenzhen	1720	443	844	36	397
Hunan	1694	465	876	34	318
Anhui	1495	514	688	28	264
Fujian	1212	292	645	23	251
Shaanxi	1193	294	673	20	206
Liaoning	1118	328	565	17	209
Shanxi	1107	267	652	19	168
Chongqing	1056	244	578	18	215
Heilongjiang	1026	239	534	14	240
Jiangxi	1008	328	487	19	175
Guangxi	845	284	380	23	157
Yunnan	760	286	300	24	151
Tianjin	731	167	442	11	112
Xinjiang	724	250	326	18	129
Jilin	721	200	364	11	147
Inner Mongolia	719	242	339	14	125
Qingdao	541	143	286	11	101
Guizhou	538	245	197	14	81
Gansu	534	151	284	12	87
Ningbo	455	198	198	10	49
Dalian	451	97	289	6	59
Xiamen	297	80	166	5	46
Ningxia	245	79	123	6	36
Hainan	210	86	91	5	28
Qinghai	118	51	48	3	17
Tibet	47	32	6	3	6
Group and Head Office Level	43	28	0	2	14

Note: ① Data of "Group and Head Office Level" refer to the premium income earned by the group and head office, which are not reflected in any region's data.

② Aggregate data in all regions do not include those of institutions that are in the process of risk resolution.

Source: The former CBIRC.

Table 24 Transactions of Payment Systems

(100 million transactions, RMB trillion)

Items \ Year	2019		2020		2021		2022		2023	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
HVPS	10.94	4950.72	5.12	5647.73	4.82	6171.42	4.16	7425.74	3.82	8480.95
BEPS	26.27	60.58	34.58	146.87	38.81	162.55	41.58	167.72	46.14	185.81
IBPS	140.11	110.77	156.24	203.49	174.91	273.76	165.52	278.65	169.80	300.95
CFXPS	0.0220	8.54	0.0266	10.27	0.0416	14.46	0.0475	17.15	0.05	18.68
CIPS	0.0188	33.93	0.0220	45.27	0.0334	79.60	0.0440	96.70	0.07	123.06
Intra-bank Payment Systems of Commercial Banks	164.69	1218.69	169.19	1588.32	184.51	2055.34	188.60	2183.00	215.92	2168.89
Inter-bank Bankcard Payment System	1351.75	173.60	1505.60	192.18	2080.04	226.95	2474.90	251.95	3099.46	279.53
NetsUnion Clearing Platform	3975.42	259.84	5431.68	348.86	6827.60	461.46	7713.49	450.50	8950.55	497.90
Urban Commercial Banks Draft Processing System and Payment & Clearing System	0.05	0.73	0.08	1.10	0.16	1.87	0.27	2.60	0.40	3.78
Rural Credit Banks Payment & Clearing System	13.02	2.93	17.38	2.64	25.30	3.27	40.57	3.24	30.73	3.11

Source: The PBC.

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