Pan Gongsheng: The evolution of financial structure and the modernization of financial markets in China

Keynote speech by Mr Pan Gongsheng, Governor of the People's Bank of China, at the 2026 Lujiazui Forum, Shanghai, 17 June 2026.

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Distinguished Vice Premier He Lifeng,

Party Secretary Chen Jining,

Former PBOC Governor Zhou Xiaochuan,

Mayor Gong Zheng, and dear guests,

Good morning!

Just now, Vice Premier He delivered an important speech. His remarks provide important guidance for us to navigate changing landscapes, and carry out the key tasks of preventing risks, strengthening regulation and promoting high-quality development. Party Secretary Chen laid out in his remarks the strategic considerations and work arrangements regarding the priorities in accelerating Shanghai's endeavor to build an international financial center. We will follow their guidance vigorously and act accordingly.

I would like to extend my deepest appreciation to the Shanghai Municipal Committee of the CPC and the Shanghai Municipal People's Government for supporting the financial sector and the People's Bank of China (PBOC). After years of efforts, the international influence and market visibility of the Lujiazui Forum have been on the rise. To avail myself of this opportunity, I would like to brief you on a number of policy measures that the PBOC is going to introduce.

First, we will improve the short-term interest rate operational framework. At the Lujiazui Forum held in June 2024, I sketched out some considerations on the reform and improvement of the monetary policy framework, which included, among others, clarifying the 7-day reverse repo rate as the key policy rate, and appropriately narrowing the interest rate corridor. In practice, the 7-day reverse repo rate has well played its role as the pricing benchmark, with effective transmission to market rates and lower volatility of short-term rates.

In order to promote the transition of the monetary policy framework towards a price-based approach, and enhance the precision and effectiveness of short-term rate adjustments, the PBOC will further explore and optimize the interest rate operational framework.

On the one hand, we will improve the use of ad hoc overnight repo/reverse repo facility launched in July 2024. The interest rate on the facility will be 7-day reverse repo rate plus or minus 25 basis points (bps), and the rate band will be narrowed from 70 bps to

50 bps. **On the other hand,** the PBOC will further diversify the toolkit for open market operations, and add overnight reverse repo when necessary to better match the short-term liquidity demand of the banking system.

Second, we will create an RMB repo facility (RMB Repo) for central banks (monetary authorities), international financial organizations and sovereign wealth funds. In recent years, central banks and other overseas investors have been actively growing their footprint in China's bond market. Accordingly, the demand for liquidity management has been on the rise. Therefore, we will introduce the RMB Repo based on both domestic and international practices. Under this facility, foreign central banks (monetary authorities), international financial organizations, and sovereign wealth funds could obtain RMB liquidity from the PBOC through repos with high-grade bonds such as the Chinese government bonds. This facility will make it easier for these institutions to manage RMB liquidity and allocate RMB assets.

Third, we will launch the pilot of offshore RMB/FX trading in the Shanghai Pilot Free Trade Zone. To promote the two-way opening-up of the foreign exchange (FX) market, bridge onshore and offshore markets, and cement Shanghai's role as a global center for RMB asset allocation and risk management, we will authorize the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB), Bank of Communications (BOCOM), and China CITIC Bank to conduct offshore RMB/FX trading in the Shanghai Pilot Free Trade Zone via the China Foreign Exchange Trade System (CFETS) platform. We will further develop the offshore RMB/FX market based on how the pilot will play out.

Fourth, we are exploring a contingent liquidity backstop for non-bank financial institutions (NBFIs) as a macroprudential tool under market stress. In September 2024, the PBOC and the China Securities Regulatory Commission (CSRC) jointly launched two facilities to shore up the capital market, establishing an avenue for the central bank to provide liquidity to NBFIs and the capital market. The two facilities have played a constructive role in stabilizing the market. Building on this, we continue to explore policy tools, which will provide a liquidity backstop to NBFIs through swap operations when bond and other markets come under systemic stress, access to liquidity is disrupted, and institutions are collectively caught in a liquidity crunch that may trigger a systemic risk.

The design of the facility will strike a balance between maintaining a well-functioning financial market and preventing moral hazard. "Contingent" means the facility is not a standing liquidity backstop for NBFIs. To prevent moral hazard, NBFIs must meet macroprudential requirements and provide high-grade securities as collaterals when tapping this facility.

Fifth, the PBOC, in collaboration with the Shanghai municipal government and relevant authorities, will roll out the Action Plan for Developing Offshore Finance in Shanghai International Financial Center. We will work step by step to improve the institutional systems for offshore finance, including business rules, risk management and business environment. We will prudently develop offshore bonds in the free trade zone, financial services for offshore trade, International Treasury Centers, and other

offshore financial services. These moves will support Shanghai in developing an offshore financial services system commensurate with its status as an international financial center.

Sixth, we have officially launched the Interbank Market Data Repository. By pooling data on trading, custody and settlement into one portal, the repository can help enhance look-through monitoring of financial markets. The primary purpose of establishing the repository is to serve both regulatory and market needs.

In addition, the Shanghai E-CNY International Operation Center, which was announced last year, is now up and running, and the integrated service platform for e-CNY cross-border settlements, known as the Cross-Border E-CNY Transfer Services (CBETS), has also gone live.

In parallel to this Forum, we are staging the China International Financial Exhibition in the Shanghai World Expo Exhibition and Convention Center, showcasing the achievements and progress of innovation, development, and tech empowerment of China's finance. We warmly welcome you to visit the exhibition.

As the cradle of China's financial markets, Shanghai boasts the largest cluster of financial factors and the most developed financial markets. It has witnessed financial reform and opening-up, and the growth of financial markets in China.

Now, I would like to share some of my thoughts on "**the evolution of financial structure and the modernization of financial markets in China**".

First, about the evolution of financial structure in China. There are many dimensions to assess the financial structure, among which financing structure is the most important one. For quite a long time, China's financial structure has been bank-centric, and the size of financial markets has been small. In recent years, however, the share of indirect financing dominated by bank loans has been on the decline, while that of direct financing, which includes bond and equity financing has increased steadily. Financial structure is undergoing profound changes.

In terms of incremental amount, new indirect financing has persistently accounted for over 80 percent for a long time. In 2025, loans accounted for 45 percent of the new Aggregate Financing to the Real Economy (AFRE), while bond and equity financing combined accounted for 47 percent, outstripping loans for the first time.

In terms of outstanding amount, in the 1990s, indirect financing accounted for nearly 100 percent of the stock of AFRE. At end-2025, the share of indirect financing decreased to about 2/3, while that of direct financing increased to about 1/3.

In terms of capital allocation, over the past decade, the share of new loans to real estate and infrastructure development has declined from over 60 percent to around 10 percent. In contrast, the share of new loans to five priority areas has exceeded 70 percent. In recent years, lending to small- and medium-sized tech enterprises has maintained a growth rate of approximately 20 percent. Cumulative issuance of tech innovation bonds has reached around RMB2.6 trillion since the launch of the "Tech Board" in the bond market over a year ago. The number of A-share listed specialized,

sophisticated, distinctive and innovative enterprises has exceeded 2,000. In 2025, the combined market capitalization of the Sci-Tech Innovation Board (STAR Market), ChiNext, and the Beijing Stock Exchange rose by nearly 50 percent. Together with technology-related sectors in the main boards of Shanghai and Shenzhen stock exchanges, the direct contribution of technological innovation to growth in total A-share market capitalization exceeded 60 percent last year.

From a longer-term perspective, the evolution of China's financial structure fundamentally reflects the profound adjustment of the economic structure and the transition from old to new growth drivers. It also reflects the dynamic adaptation of the financial system to the industrial transformation and upgrading, as well as the continued deepening of supply-side structural reform in the financial sector. It is a long-term trend shift.

In terms of the stage of economic development, China's economy has pivoted from rapid growth to high-quality development. The role of finance in serving the real economy has changed in tandem, increasingly manifested in structural optimization, rather than in continuous expansion of macro financial aggregates.

At present, China's outstanding AFRE is above RMB450 trillion, and the broad money supply (M2) has exceeded RMB350 trillion. Both metrics are already very large now. Among the RMB280 trillion outstanding loans, lending to the real estate sector and local government financing vehicles (LGFVs) still accounts for a relatively big share. Now, this type of lending is no longer expanding, and in fact it is declining. Only when the decline is offset by increases in lending to other areas, can the overall lending record a growth. However, sustaining past growth rates for total lending is neither easy nor necessary. In the meantime, some existing loans are inefficiently used. Revitalizing inefficient existing loans and leveraging new loans have same implications for economic growth in essence. Slower credit growth yet more efficient credit allocation may become a new normal in China's macro economy.

In terms of industrial transformation and upgrading, China's economic growth was primarily driven by real estate, infrastructure development, and traditional manufacturing for quite a long time. These sectors often invest massively in projects with a long construction cycle, and they usually have sufficient collaterals. They naturally have a stronger demand for medium- and long-term loans. Therefore, economic growth was credit-intensive and debt-intensive.

In recent years, emerging industries have grown fast, such as technological innovation, high-end manufacturing, and green and low-carbon sector. These sectors are characterized by large R&D investment, high risks and uncertainties, and long investment cycles, compared with traditional sectors. Enterprises have also shifted from holding tangible assets such as land, factory buildings and equipment towards amassing intangible assets including technology, data, brand and human capital. Asset-light sectors usually have low liabilities, and the amount of bank loans required per unit of economic output declines correspondingly. As the economy enters the stage of high-quality development, this structural shift will become a normal. We need to adapt gradually.

It is worth noting that technological innovation activities are complex and diverse, and tech enterprises usually have to go through seed, start-up and growth stages before becoming a mature company. At each stage, tech companies have distinct risk features and financial needs, which necessitates the need to develop diversified financial markets and financial ecosystems. In its infancy, a tech enterprise mainly focuses on R&D, and its business outlook is uncertain. At this stage, proactive private equity (PE), Venture Capital (VC), and start-up investment are key funding providers. As the tech enterprise grows, its business model will mature gradually, and then it can access financing through multiple channels, including bank loans, bonds, and equity.

We shall cater to the financing needs of the real economy and technological innovation, and advance the coordinated development of direct and indirect financing. While harnessing the role of financial markets in risk sharing and resource allocation, we should also optimize the structure of bank credit, support the five priority areas in the financial sector, and build a financing system tailored to China's economic structure and industrial upgrading.

In terms of financial development itself, while the scale of traditional financial institutions remains an important indicator of a country's financial competitiveness and the influence of an international financial center, even more important are the sophistication of financial markets, their reach and influence, and the diversity of market ecosystem. Currently, China's financial system remains predominantly bank-centric. We must further diversify the financial markets, improve market depth and breadth, and provide a wide spectrum of safe and highly-liquid financial assets to both domestic and overseas investors. Against the backdrop of economic restructuring, a faster pace of financial market development is also required by the transformation and high-quality development of financial sector itself.

Second, a few thoughts on financial market modernization. The modernization of financial markets is an integral part of China's economic reform, and a vivid microcosm of China's reform and opening-up. **For more than three decades, especially since the 18th CPC National Congress,** China's financial markets have evolved from a predominantly credit-based system into a modern, full-fledged system where a full spectrum of sub-markets develop together, including stock market, bond market, money market, gold market, bill market, commodities market and derivatives market. This evolution has underpinned China's steady economic growth, structural transformation and upgrading, and high-quality development.

The depth and breadth of China's financial markets have increased significantly, along with a leap in international standing and influence. For stock market, there were only eight listed companies on the Shanghai Stock Exchange in the early 1990s. But now the number of companies listed on the A-share market stands at 5,500, with the total market capitalization exceeding RMB110 trillion, ranking second globally. **For bond market,** outstanding bonds registered less than RMB500 billion when the interbank bond market was established in 1997. But now it is above RMB200 trillion, putting China's bond market firmly on the second spot worldwide. **For FX market,** trading initially covered only a handful of foreign currencies, while now it encompasses the currencies of more than 40 major economies, with an annual trading volume of over US$42 trillion.

Market-based mechanisms for issuance, trading and other activities have been fully established. Market-based reforms of interest rate and exchange rate have continued to deepen. A multi-tiered capital market, including the SME Board, ChiNext and STAR Market, has seen steady improvement. A system of financial market infrastructures has taken shape, including stock exchanges, the China Central Depository & Clearing (CCDC), the CFETS, the Shanghai Gold Exchange and the Shanghai Clearing House. And most of these financial market infrastructures are located here in Shanghai. China's financial markets have become more resilient and withstood multiple rounds of intense external shocks.

Two-way opening-up has advanced steadily, deeply integrating China into the global financial system. China has eased market access for foreign financial institutions, brought in long-term capital via schemes such as QFII and RQFII, and launched a host of connectivity programs, including the Shanghai & Shenzhen-Hong Kong Stock Connect, Bond Connect, Swap Connect, and ETF Connect. RMB bonds and stocks have been included in major global indices, such as the MSCI, FTSE Russell, and Bloomberg Barclays. The size of onshore RMB financial assets held by overseas institutions and individuals has topped RMB10 trillion.

Further developing modern financial markets is a key task during the 15th Five-Year Plan period. Standing at a new historical starting point, China will firmly follow market principles, the rule of law and international practices in developing financial markets, and will continue to build modern financial markets that are robust, open, vibrant and resilient. Here are our five priorities.

First, we will build and develop a multi-category, multi-tiered financial market system, and further diversify financial market activities. We will advance the tech boards of equity and bond markets, improve the financial market product system, and enhance the inclusiveness of financial markets. We will meet the diverse financing needs of market entities that are at different development stages and of different sizes, and will improve the capacity, intensity and quality of financial support for technological innovation. We will encourage more mid- and long-term investments in stock and bond markets. We will develop China's wealth management market, promote the sound and orderly development of the asset management industry, and prevent funds from being used for arbitrage or sitting idle within the financial system. We will also drive high-quality development of green bonds and sustainability bonds.

Second, we will continuously deepen market-based reform, and further unleash the role of financial markets in price discovery and resource allocation. The core rationale behind the modernization drive of China's financial markets is to give full play to the market's decisive role in financial resource allocation. Therefore, we will push for financial infrastructure connectivity, enhance trading and settlement efficiency, and develop interest rate and exchange rate derivatives in a prudent manner, all of which are expected to improve market liquidity and price formation. We will strengthen the benchmark role of government bond yield curve, increase the efficiency of interest rate transmission across markets, and create favorable conditions for further transitioning the monetary policy framework.

Third, we will improve the legal system based on the rule of law, and foster a sound market ecosystem. Financial market transactions, in essence, are based on contracts. Therefore, it is vital to improve the legal environment, refine the institutional and regulatory framework, and cultivate a healthy market ecosystem. We will further improve the legal framework that underpins financial markets, and make better institutional arrangements for market transactions, registration, settlement and taxation. We will continue to explore effective approaches to default resolution. We will promote the regulated development of intermediary businesses, including underwriting, rating, auditing and legal services, and will require intermediaries to maintain high professional integrity and improve the quality of service. It is also important to strengthen the constraint mechanisms governing financial markets, which can help deliver fair, equitable and transparent financial market transactions and price formation.

Fourth, we will improve the macroprudential management framework and regulatory system for financial markets, and enhance market stability and resilience. As financial markets continue to deepen, interactions between market behaviors could get more complicated and expectations game may arise, leading to rising challenges such as cross-market risk contagion.

Therefore, we will continuously improve the risk monitoring and assessment system, enhance our dynamic perception of systemic risks, diversify the macroprudential policy toolbox, and cut off risk accumulation and contain its contagion.

Over the years, the PBOC has developed sound practices when strengthening the macroprudential management of financial markets. **For FX market,** we have adopted expectation guidance and macroprudential management tools that are transparent and aligned with international rules and practices.

For stock market, the PBOC and the CSRC have jointly launched and improved monetary policy tools for the stable development of capital market in recent two years. We have also supported Central Huijin Investment to act as a quasi-stabilization fund for the market.

For bond market, we also have some readily available policy tools, including those for managing leverage and maturity mismatch, as well as window guidance. The newly-announced liquidity backstop for NBFIs is just another step in improving the macroprudential management of financial markets.

Fifth, we will steadily promote the institutional opening-up in the financial sector to make China's financial markets more international. As shown by China's experience in financial market development, firmly expanding opening-up is a strong driver and essential guarantee for high-quality development in the financial sector. It is also a crucial step to ramp up financial support for the real economy and improve the international competitiveness of China's financial sector.

With regard to the opening-up of onshore markets, China's financial markets, such as the stock market and the bond market are already accessible for overseas investors. Going forward, we will advance high-standard two-way opening-up of financial markets to make cross-border investment and financing more convenient. We will continue to

optimize Bond Connect, Swap Connect, QFII and RQFII schemes and their management. Meanwhile, we will advance the connectivity between domestic and overseas financial market infrastructures to facilitate RMB asset allocation by overseas institutions. We will promote cross-border payments through multiple channels and pursue a wide coverage. Moreover, we will steadily develop the panda bond market.

As for the development of offshore markets, on top of developing offshore finance and pilot offshore RMB/FX trading in Shanghai, and creating the RMB Repo, which I announced just now, we will also increase the provision of offshore RMB bonds and derivatives. We support Hong Kong's endeavor to develop an international hub for offshore RMB business and to foster an offshore RMB market with depth and dynamism.

While promoting market opening-up, we will also strengthen financial stability guarantee system and capacity building in an open environment, and firmly defend the bottom line whereby no systemic financial risks will occur.

Advancing the modernization of China's financial markets requires concerted and sustained efforts from all parties. In line with the decisions and deployment of the CPC Central Committee and the State Council, the PBOC will continue to work with relevant authorities and the broader financial sector to accelerate the building of a properly structured modern financial market system and to support Shanghai's development as an international financial center.

To conclude, I wish the Forum a complete success. Thank you.