

Market Summaries

People's Republic of China

Yield Movements

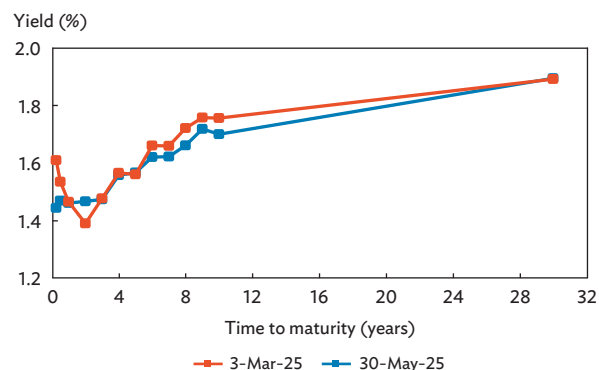
The yield curve for local currency (LCY) bonds in the People's Republic of China (PRC) shifted downward for most maturities over lingering concerns about a weakening domestic economy despite the imposition of a 90-day tariff pause between the US and the PRC. On average, bond yields fell 3 basis points (bps) across the curve from 3 March to 30 May over heightened economic uncertainties (Figure 1). The PRC's gross domestic product grew 5.4% year-on-year (y-o-y) in the first quarter (Q1) of 2025, the same pace as in the previous quarter, due to the government's stimulus efforts. More recent data show some weakening. Industrial production fell to 6.1% y-o-y in April from 7.7% y-o-y in March. Similarly, retail sales growth fell to 5.1% y-o-y in April from 5.9% y-o-y in March. To help the economy this year, the Government of the PRC announced a 2025 GDP growth target of 5.0% y-o-y, which was equal to the rate of growth achieved in 2024, and a higher budget deficit target of 4.0% in 2025 versus a deficit of 3.0% recorded in 2024. Also in May, the People's Bank of China reduced the 7-day reverse repurchase rate, the 1-year loan prime rate, and the 5-year

loan prime rate by 10 bps each (to 1.40%, 3.00%, and 3.50%, respectively), and the reserve requirement ratio by 50 bps to 9.00%.

Local Currency Bond Market Size and Issuance

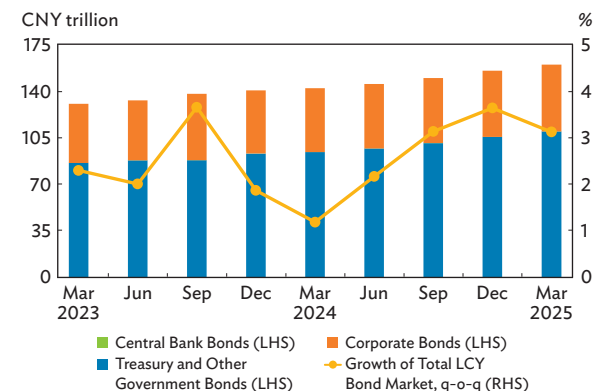
Growth in LCY bonds outstanding in the PRC slowed in Q1 2025, with the market reaching a size of CNY159.7 trillion at the end of March. LCY bonds grew 3.0% quarter-on-quarter (q-o-q) in Q1 2025, down from 3.6% q-o-q in the prior quarter (Figure 2). Both the government and corporate bond segments posted moderating growth in Q1 2025. For government bonds, the rate of expansion slowed to 3.9% q-o-q in Q1 2025 from 4.5% q-o-q in the previous quarter, and for corporate bonds growth slowed to 1.0% q-o-q from 1.8% q-o-q. Government bonds saw a slowdown on increased maturities, while growth in corporate bonds decelerated as companies were cautious with new issuance amid concerns over the economy.

Figure 1: The People's Republic of China's Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

Figure 2: Composition of Local Currency Bonds Outstanding in the People's Republic of China



CNY = Chinese yuan, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.
Source: CEIC Data Company.

The PRC's bond issuance contracted 0.6% q-o-q in Q1 2025, falling to CNY12.0 trillion. The decline in quarterly issuance was driven by the reduced issuance of corporate bonds, which fell 9.9% q-o-q to CNY4.6 trillion (**Figure 3**). Corporate bond issuance declined for the second consecutive quarter amid ongoing economic challenges in this segment of the PRC's LCY bond market. In contrast, government bond issuance grew 6.3% q-o-q to total CNY7.4 trillion. Following the 5 March parliamentary meeting, the Government of the PRC announced that it would issue an additional CNY1.3 trillion in special long-term bonds in 2025 and set a quota of CNY4.4 trillion for local government bond issuance.

Investor Profile

Banks remained the largest holder of Treasury bonds at the end of March. However, there was a decline in the share of bank holdings to 66.7% at the end of March from 70.0% a year earlier (**Figure 4**). Part of the decline was due to central bank efforts, beginning in 2024, to reduce speculative trading. Foreign investors' holdings share declined to 6.2% from 8.7% during the same period on investor concerns over the economy. Despite the decline in banks' holding share, the PRC had the region's second-highest Herfindahl-Hirschman Index score at the end of March.⁹

Sustainable Bond Market

The PRC's sustainable bond market remains mostly composed of green bond instruments and private sector financing. The PRC has the largest sustainable bond market in emerging East Asia, which reached a size of USD367.4 billion and comprised 53.0% of the regional total at the end of March (**Figure 5**). A majority of the PRC's sustainable bonds are green bonds, with a share of 87.2%. The PRC bond market includes very few transition bonds and social bonds, with only 0.4% and 0.9% respective shares of its sustainable bond market. Private corporations are the most common issuer of sustainable bonds in the PRC, accounting for 93.6% of outstanding sustainable bonds, in contrast to its general bond market where the government has a 69.8% share. Finally, the majority of issuances are short term, with 87.1% of outstanding sustainable bonds having a tenor of 5 years or less.

Figure 3: Composition of Local Currency Bond Issuance in the People's Republic of China

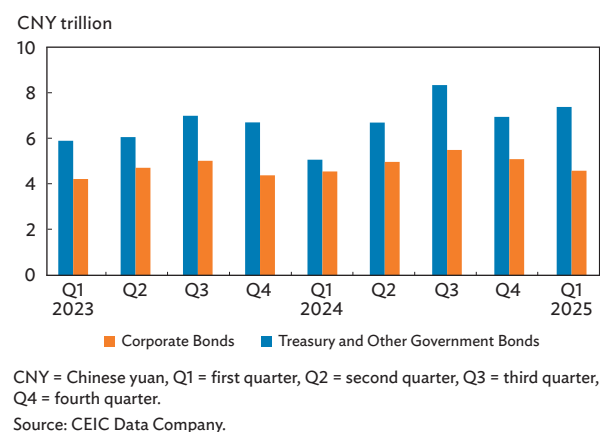


Figure 4: Investor Profile of Treasury Bonds

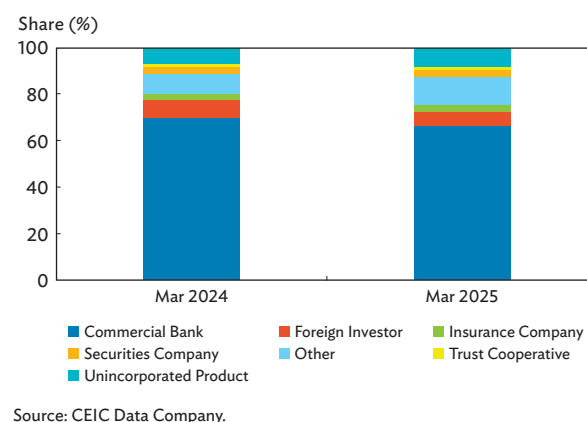
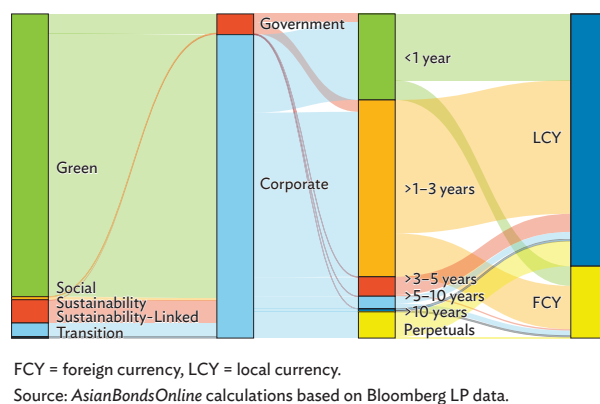


Figure 5: Market Profile of Outstanding Sustainable Bonds in the People's Republic of China at the End of March 2025



⁹ The Herfindahl-Hirschman Index is a common measure of market concentration. The index is used to measure the investor profile diversification of the local currency bond market by summing the squared share of each investor group in the bond market. Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.