INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/38

PEOPLE'S REPUBLIC OF CHINA

February 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE PEOPLE'S REPUBLIC OF CHINA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with the People's Republic of China, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 10, 2024 consideration of the staff report that concluded the Article IV consultation with the People's Republic of China.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 10, 2024, following discussions that ended on November 7, 2023, with the officials of the People's Republic of China on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 19, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the People's Republic of China.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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PRESS RELEASE

PR24/33

IMF Executive Board Concludes 2023 Article IV Consultation with the People's Republic of China

FOR IMMEDIATE RELEASE

Washington, DC – February 2, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the People's Republic of China on January 10, 2024.

China's economic activity rebounded in 2023 following the post-COVID reopening with real GDP estimated to have grown broadly in line with the authorities' growth target of around 5 percent. The recovery was driven by domestic demand, particularly private consumption, and assisted by supportive macroeconomic policies, including further relaxation of monetary policy, tax relief for firms and households, and fiscal spending on disaster relief.[2] Looking ahead, growth is projected to slow to 4.6 percent in 2024 amid the ongoing weakness in the property sector and subdued external demand. Over the medium term, growth is projected to gradually decline further and is projected at about 3½ percent in 2028 amid headwinds from weak productivity and population aging. While inflation fell in 2023 largely on account of lower energy and food prices, it is expected to increase gradually to 1.3 percent in 2024 as the output gap narrows and the base effects of commodity prices recede.

Uncertainty surrounding the outlook is high, particularly given the existing large imbalances and associated vulnerabilities. Deeper-than-expected contraction in the property sector could further weigh on private demand and worsen confidence, amplify local government fiscal strains, and result in disinflationary pressures and adverse macro-financial feedback loops. Greater-than-expected weakening of external demand, tightening of global conditions, and increased geopolitical tensions also pose considerable downside risks. On the upside, decisive policy action, including faster restructuring in the property sector, could boost confidence and lead to a better-than-expected rebound in private investment.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed China's strong post pandemic recovery, while noting that the ongoing adjustment in the property market and strains in local government public finance will continue to weigh on private investment and consumer confidence. Directors concurred that continued macroeconomic support and pro market structural reforms are needed to mitigate downside risks and boost prospects for high quality, green, and balanced growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The projections presented in the Press Release were based on information available as of January 5, 2024. See the IMF country page for latest projections.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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Directors welcomed the authorities' efforts to contain risks from the property market and underscored the need for additional measures in a comprehensive, well sequenced strategy to facilitate a smooth transition of the property sector to a new equilibrium. They called for accelerating exit of nonviable property developers, allocating additional funding for housing completion, assisting viable developers to repair their balance sheets and adapt to a smaller property market, and allowing for greater market-based price adjustment.

Directors emphasized the need to close local government fiscal gaps and contain their debt risks and welcomed the authorities' policy package in this regard. Directors highlighted the importance of progressive tax reforms, public financial management reforms, and improved risk sharing between the local and central government. They noted that reducing the stock of local government debt would require greater use of insolvency tools and enhancements in the financial safety net.

Directors welcomed the authorities' focus on risk prevention and control in the financial system. They recommended strengthening and strictly applying prudential policies and removing forbearance measures to incentivize the recognition of nonperforming assets. They underscored that a strategy to address weak banks and strengthen the legal framework for bank resolution, along with measures to enhance the financial safety net and crisis preparedness capacity, would safeguard macro financial stability. In this context, Directors welcomed the authorities' commitment to strengthen financial regulation and supervision. They also suggested continuing to strengthen the AML/CFT framework.

Directors agreed that macroeconomic policies should support activity in the near term. They recommended a budget neutral reorientation of expenditures toward households to support consumption, and additional monetary easing via interest rates, as well as reforms to the monetary policy framework to enhance transmission. Greater exchange rate flexibility would help absorb external shocks and improve monetary policy transmission.

Directors welcomed the authorities' emphasis on more sustainable drivers of quality growth and their commitment to ensuring a level playing field to attract investment. They recommended lowering barriers to firm entry and exit, accelerating SOE reforms, and relying more on market-based allocation of resources to boost productivity and potential growth. They underscored that expanding the social safety net would durably reduce the need for precautionary savings and support safer and more balanced growth. Strengthening labor market and education policies would also be important to boost productivity growth. Directors welcomed the authorities' strong commitment to achieving carbon neutrality and the efforts they are making toward this end. They looked forward to the continued implementation of their climate policies.

Directors highlighted China's role in advancing multilateral economic cooperation and welcomed its support for sovereign debt restructuring in low income and vulnerable countries and addressing the global climate crisis. Directors emphasized China's key role in strengthening the multilateral trading system. They generally agreed that scaling back the use of industrial policies and trade restrictions would be important to avoid cross border spillovers and help lessen fragmentation pressures.

Directors emphasized that addressing remaining data gaps would help enhance data transparency and facilitate policy making.

It is expected that the next Article IV consultation with the People's Republic of China will be held on the standard 12-month cycle.

China: Selected Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Est.		Projections			
				(Annual percentage change, unless otherwise indicated)							
NATIONAL ACCOUNTS											
Real GDP (base=2015)	6.75	6.0	2.2	8.4	3.0	5.4	4.6	4.0	3.8	3.6	3.4
Total domestic demand	7.42	5.3	1.7	6.8	2.7	6.2	5.2	4.1	3.9	3.7	3.5
Consumption	7.91	6.3	-0.3	9.0	2.0	8.4	5.5	4.3	4.1	4.0	3.7
Fixed investment	7.34	5.3	3.4	3.2	3.4	4.8	4.4	4.0	3.6	3.3	3.2
Net exports (contribution)	-0.49	0.7	0.6	1.8	0.4	-0.5	-0.4	0.1	0.0	0.0	0.0
Total capital formation (percent of GDP)	43.96	43.1	42.9	43.3	43.5	42.3	42.1	41.9	41.7	41.6	41.6
Gross national saving (percent of GDP) 1/	44.14	43.8	44.5	45.3	45.7	43.7	43.4	43.1	42.8	42.5	42.3
Output gap estimate	-0.50	-1.0	-3.6	-1.5	-2.8	-1.4	-0.5	-0.2	-0.1	0.0	0.0
LABOR MARKET											
Urban unemployment rate (year-end) 2/	4.90	5.2	5.2	5.1	5.5	5.2	...	...	...	...	...
PRICES											
Consumer prices (average)	1.93	2.9	2.5	0.9	1.9	0.4	1.3	2.0	2.0	2.0	2.0
Consumer prices (end of period)	1.78	4.5	0.2	1.4	1.8	0.1	1.8	2.0	2.0	2.0	2.0
GDP Deflator		2.1	1.3	3.0	2.2	-1.1	1.5	1.8	1.9	2.0	2.0
FINANCIAL											
7-day repo rate (percent)	4.58	3.0	2.7	2.2	2.3	1.9	...	...	...	...	...
10 year government bond rate (percent)	4.62	3.7	3.2	3.0	3.1	2.8	...	...	...	...	...
MACRO-FINANCIAL											
Total social financing	10.26	10.7	13.3	10.3	9.6	9.3	8.9	7.3	6.9	6.8	6.7
In percent of GDP	247.92	254	278	274	286	300	307	312	315	319	322
Total nonfinancial sector debt 3/	10.79	10.8	13.2	10.4	9.8	9.4	9.2	7.5	7.1	7.0	6.8
In percent of GDP	248.25	254	278	277	284	295	301	305	308	311	312
Domestic credit to the private sector	8.62	8.7	10.8	8.4	8.3	7.7	7.8	5.5	5.1	5.1	5.1
In percent of GDP	161.24	162	173	168	173	179	182	182	180	180	179
Household debt (percent of GDP)	52.30	55.8	61.6	62.1	62.2	63.9	62.8	62.2	62.0	61.9	62.0
Non-financial corporate domestic debt (percent of GDP)	108.94	106	112	106	111	115	119	119	118	118	117
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-4.28	-6.1	-9.7	-6.0	-7.5	-7.5	-7.4	-7.4	-7.6	-7.8	-8.0
Revenue	28.99	28.1	25.7	26.6	25.9	26.5	26.7	26.8	27.0	27.2	27.3
Additional financing from land sales	2.84	2.9	2.5	2.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Expenditure	33.28	34.2	35.4	32.7	33.4	34.0	34.1	34.2	34.6	34.9	35.3
Debt	36.50	38.5	45.4	46.9	50.6	55.3	58.7	62.1	65.7	69.4	73.4
Structural balance	-4.14	-5.8	-8.8	-5.7	-6.7	-7.1	-7.3	-7.3	-7.6	-7.8	-8.0
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	0.17	0.7	1.7	2.0	2.2	1.5	1.3	1.2	1.0	0.9	0.8
Trade balance	2.75	2.7	3.4	3.2	3.7	3.4	3.3	3.5	3.4	3.4	3.3
Services balance	-2.11	-1.8	-1.0	-0.6	-0.5	-1.3	-1.4	-1.6	-1.6	-1.7	-1.8
Net international investment position	15.23	16.0	15.4	12.3	14.2	15.6	16.0	16.2	16.3	16.3	16.2
Gross official reserves (billions of U.S. dollars)	3167.99	3,223	3,357	3,427	3,307	3,299	3,450	3,572	3,642	3,714	3,787
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	91577.43	99,071	102,563	114,528	120,502	125,544	133,244	141,013	149,076	157,533	166,113
Augmented debt (percent of GDP) 6/	80.85	86.3	98.8	100.8	107.7	116.2	122.0	127.5	132.8	137.7	142.6
Augmented net lending/borrowing (percent of GDP) 6/	-9.40	-12.5	-17.0	-12.1	-13.4	-13.6	-13.3	-13.0	-12.8	-12.6	-12.4
Change in Augmented Cyclically-Adjusted Primary Balance 7/	2.07	-3.1	-2.6	3.9	-0.8	-0.1	0.2	0.5	0.4	0.3	0.4

Sources: Bloomberg; CEIC Data Company Limited; IMF International Financial Statistics database; and IMF staff estimates and projections.

1/ 2021 GDP will be revised to match official revisions, once full official data are released.

2/ Surveyed unemployment rate.

3/ Includes government funds.

4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

5/ Expenditure side nominal GDP.

6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

7/ In percent of potential GDP.

INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

December 19, 2023

KEY ISSUES

Context. China has enjoyed decades of impressive growth, which has significantly improved living standards and largely eradicated extreme poverty. The growth has, however, been accompanied by widening imbalances and rising vulnerabilities, as excessive investment in infrastructure and housing has resulted in rising debt levels among property developers, local governments (LG), and local government financing vehicles (LGFVs). The authorities have proactively sought to contain developer leverage. This has contributed to a significant, but needed, adjustment in the property market that continues to weigh on economic activity, including through its impact on LG finances. Amid these structural challenges, the authorities have appropriately announced their goal to transition to high quality growth while tackling risks from the property sector and LG debt.

Outlook and risks. Following the post-COVID reopening rebound in 2023, growth is projected to slow in 2024 amid continued weakness in the property sector and subdued external demand. In the medium term, growth is projected to decline amid headwinds from weak productivity and aging. Inflation is expected to pick up gradually as the output gap closes and the drag from lower commodity prices wanes. Risks are tilted to the downside. Domestic risks include deeper-than-expected contraction in the property sector, which would weigh on private demand, further amplify local government fiscal strains, and result in disinflationary pressures and adverse macro-financial feedback loops. External risks include greater-than-expected weakening of external demand, further tightening of global financial conditions, and rising geopolitical tensions.

Policies. To bolster near-term activity, mitigate risks, and ensure a smooth transition toward higher-quality, safer, and more balanced growth over the medium term, the authorities should implement broad-based structural reforms and provide adequate support to cushion the impact of the adjustment in the property sector. Specifically:

- **Property sector**. In the near term, restructure nonviable property developers and support housing completion. Continue the welcome transition of the sector to a new equilibrium, but allow for greater market-based price adjustment, reform the presale model, and support balance sheet repair for viable developers. Provide households with alternative investment options to reduce investment demand for housing.
- **Fiscal:** Implement a comprehensive, central government-led strategy to reduce the stock of LG debt by restructuring unsustainable LGFVs through insolvency mechanisms, including debt write-downs and public assets sales. Over the medium-term, implement fiscal consolidation based on a reduction of off-budget investment (mostly by LGFVs) and wide-ranging social security and tax reforms, with greater

reliance on personal income taxes and a reduction in (regressive) social security contributions, to control the flow of new debt and reduce inequality. Improve the risk sharing mechanism between the central government (CG) and the LG to close fiscal gaps at the local level and reduce LG dependence on land sales. Support the near-term recovery by increasing transfers to households with higher propensity to consume. Strengthen the social safety net (increasing adequacy and coverage) to durably reduce precautionary savings and support rebalancing.

- **Financial.** Strengthen and strictly apply prudential policies, including by phasing out forbearance measures, to incentivize recognition of nonperforming assets. To mitigate risks from sectors with unsustainable debt, accelerate exit of nonviable firms and banks by greater use of the corporate restructuring and insolvency framework and strengthening the legal framework for bank resolution. Enhance the crisis management framework and financial safety nets and minimize dependence on LGs for resolution funding and risk surveillance.
- **Monetary and exchange rate policies.** Ease monetary policy to support the near-term recovery and reform the monetary policy framework to improve transmission, including by phasing out credit targets and deposit and lending rate guidance. Greater exchange rate flexibility would help absorb external shocks and strengthen monetary policy transmission.
- **Structural reforms**. Pursue comprehensive structural reforms to boost productivity, including through pro-market reforms that remove regulatory barriers to business dynamism, implementing SOE reforms to ensure competitive neutrality, and using labor market and education policies to improve labor allocation and mitigate skill mismatches. Increase the retirement age to slow the decline in the labor force.
- **Industrial policies and trade distortions.** Roll back recent and longstanding policies that have generated negative spillovers and contributed to fragmentation pressures. Minimize distortive elements of industrial policy programs, accelerate SOE reforms, avoid trade and investment restrictions, and build on existing efforts to strengthen the WTO.
- **Climate**. Accelerate efforts to peak emissions as soon as possible and decarbonize thereafter, including through power sector reforms, greater use of market-based electricity prices and contracts, and reform of the intensity-based Emissions Trading System.

Approved By
Thomas Helbling and Kenneth Kang

Discussions took place in Beijing and Tianjin October 26 - November 7, 2023. The team comprised S. Jain-Chandra (head), H. Hoyle, N. Klein, S. Kothari, N. Novta, A. Oeking (all APD), D. Garcia-Macia (FAD), Y. Chen (MCM), F. Zhang (RES), D. Plotnikov, E. Van Heuvelen (SPR), J. Ishikawa (STA) and S. Barnett, P. Jeasakul, and X. Li (Resident Representatives). T. Helbling (APD) joined key meetings. FDMD G. Gopinath held high-level meetings on November 6-7, 2023. Z. Zhang, X. Bai (both OED) joined the official meetings. T. Yan (COM) coordinated media activities. A. Balestieri, J. Li, Q. Shan, V. Ashtakala and D. Hua (RAs) supported the mission.

CONTENTS

CONTEXT: PRESSING CHALLENGES 5

RECENT DEVELOPMENTS: SUBDUED RECOVERY 6

OUTLOOK AND RISKS 15

ENGINEERING A SAFE TRANSITION TOWARDS A SUSTAINABLE PROPERTY MARKET AND LOCAL GOVERNMENT PUBLIC FINANCES 17

A. Policies to Move to a New Equilibrium for the Property Sector 18
B. Policies to Address Rising Local Government Stresses and Ensure Debt Sustainability 21
C. Policies to Contain Banking and Financial Sector Vulnerabilities 25
D. Macroeconomic Policies to Bolster Activity and Support Balance Sheet Repair 30

DEVELOPING NEW ENGINES OF GROWTH 33

A. Policies to Accelerate Income Convergence and Boost Productivity 33
B. Policies to Support Rebalancing, Foster Inclusive Growth, and Decarbonize Efficiently 36

STEPPING UP MULTILATERAL COOPERATION ON TRADE, CLIMATE AND DEBT 40

A. China's Continued Leadership on Global Climate and Debt Issues 40
B. Strengthening Global Trade Integration 41
C. Improving Economic Data 43

STAFF APPRAISAL 44

BOXES

1. Inflation: A Comparative Perspective 47
2. China's Youth Unemployment 48

3. A Downside Scenario with Protracted Property Sector Weakness 50
4. Balance Sheet Deleveraging in China 51
5. Banks' Asset Quality Risks from Property and LGFV Exposures 52
6. The Economic Impact of Rebalancing: Results from Model-based Simulations 53
7. The Potential Impact of China-OECD De-risking Strategies 54

FIGURES

1. Recent Developments—Recovery amid Property Market Adjustment 55
2. Fiscal—Rising Debt Amid Continued Policy Support 56
3. Monetary—Modest Policy Easing Amid Low Inflation 57
4. Credit—Credit Growth Decelerated Amid Slowed Recovery 58
5. Financial Markets—Domestic and External Pressures Weighed on Sentiment 59
6. External—Unfavorable External Environment and Volatile Capital Flows 60
7. Banks—Problem Loans Continue to Weigh on Profitability Pressures 61

TABLES

1. Selected Economic Indicators 62
2. General Government Fiscal Data 63
3. Balance of Payments 64
4. Monetary and Credit Developments 65
5. Non-financial Sector Debt 66
6. Rebalancing Scorecard 67
7. SOE Performance 68
8. External Vulnerability Indicators 69
9. Core Financial Soundness Indicators for Deposit Takers 70

APPENDICES

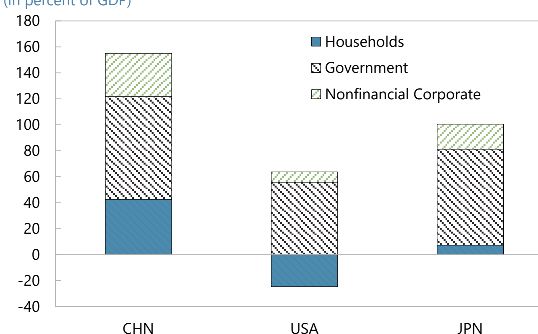
I. External Sector Assessment 71
II. Risk Assessment Matrix 72
III. Debt Sustainability Assessment 75
IV. Implementation of Main Recommendations of the 2022 Article IV Consultation 85
V. Implementation of Main Recommendations from China's 2017 FSAP 95

CONTEXT: PRESSING CHALLENGES

1. Over the past few decades, China's growth far exceeded that of other countries at similar levels of development. Since 2000, average GDP growth exceeded 8 percent per year, living standards increased dramatically, and extreme poverty was largely eradicated. With trade liberalization and market reforms, China has become the world's second largest economy in USD terms and largest in PPP terms. It is also the single largest contributor to global GDP growth and is forecast to account for nearly a third of global growth in 2023.

2. However, China's impressive growth has been accompanied by widening imbalances and rising vulnerabilities. Excessively high household savings, resulting from low private consumption, were used to finance investment in real estate and infrastructure, with the latter yielding diminishing returns over time. They also contributed to rising internal imbalances, including a buildup in leverage among developers, local governments (LGs), and local government financing vehicles (LGFVs). The confluence of these large imbalances and weakening growth prospects, amid slowing productivity and rapid aging, amplifies vulnerabilities and exposes China to significant downside risks.

Selected Economies: Increase in Debt, 2022Q4 vs 2007Q4
(In percent of GDP)



Sources: Institute for International Finance;Haver Analytics; and IMF staff calculations.
Note: For China, LGFVs are included in government debt.

3. The authorities' goal to engineer the needed adjustment in the property market is welcome, and the challenge is to minimize economic costs and contain risks to macro-financial stability. With the property sector accounting for about 20 percent of China's value-added, including upstream activities, the needed adjustment will be costly. Measures to limit property sector leverage have exposed vulnerabilities among developers. This, in turn, has led to a contraction in real estate investment of about 25 percent since 2021, a sharp decline in land sales and housing starts, and slow project completion, which have contributed to weak consumer confidence. It has also put stress on LG budgets, with evidence of liquidity strains amid high debt and LG fiscal gaps.

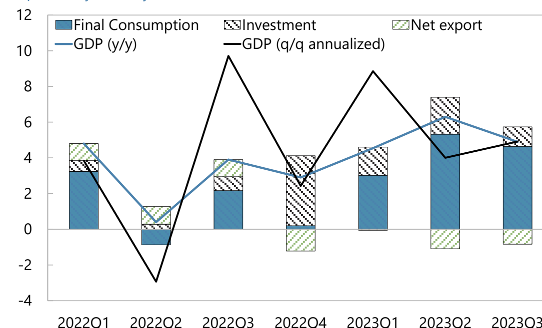
4. Amid these structural challenges, the authorities aim to transition to high quality growth while tackling risks from the property sector, LG debt, and small and medium banks. A new cabinet, appointed in March 2023, is seeking to promote high-quality economic development, including by boosting consumption and confidence, assisting high-tech private companies, ensuring a level playing field for all firms, attracting FDI and expanding trade agreements, and further opening up services sectors. Moreover, the recent Central Financial Work Conference (CFWC), which set medium-term financial priorities, emphasized high-quality financial development in support of the real economy and called for the creation of a long-term mechanism to resolve LG debt risks and improve the balance between local and central government debt. It also prioritized "three major projects", namely social

housing, urban village renovation, and the construction of public facilities for both normal and emergency use.

RECENT DEVELOPMENTS: SUBDUED RECOVERY

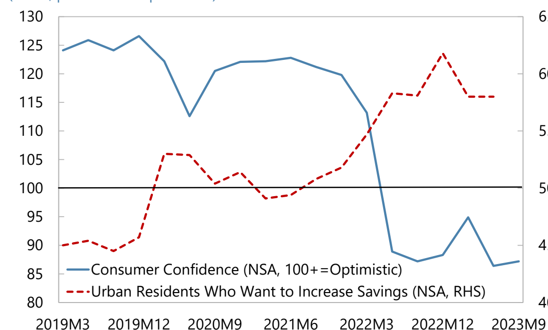
5. After a strong rebound in 2023Q1, the post-COVID recovery momentum slowed and then stabilized. Real GDP grew at 5.2 percent (y/y) through the first three quarters of 2023. The rebound in consumption, contributing 4.4 percentage points to growth, reflected pent up demand from COVID outbreaks and lockdowns in 2022, with the household savings rate declining to pre-pandemic levels in Q3. However, high frequency indicators for Q4 provide mixed signals on the strength of the ongoing recovery. While industrial production and retail sales suggest stabilization, exports and fixed asset investment showed weakness, and consumer confidence remained well below pre-pandemic levels.

Expenditure Contribution to GDP
(In percent, year-on-year)



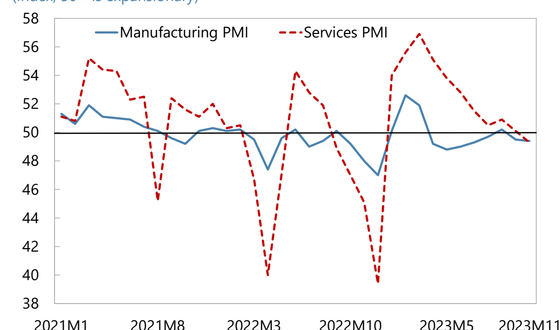
Sources: China National Bureau of Statistics; and IMF staff calculations.

Consumer Confidence and Desire to Save
(Index, percent of respondents)



Sources: Haver Analytics; and IMF staff calculations.

Purchasing Managers' Index
(Index, 50+ is expansionary)

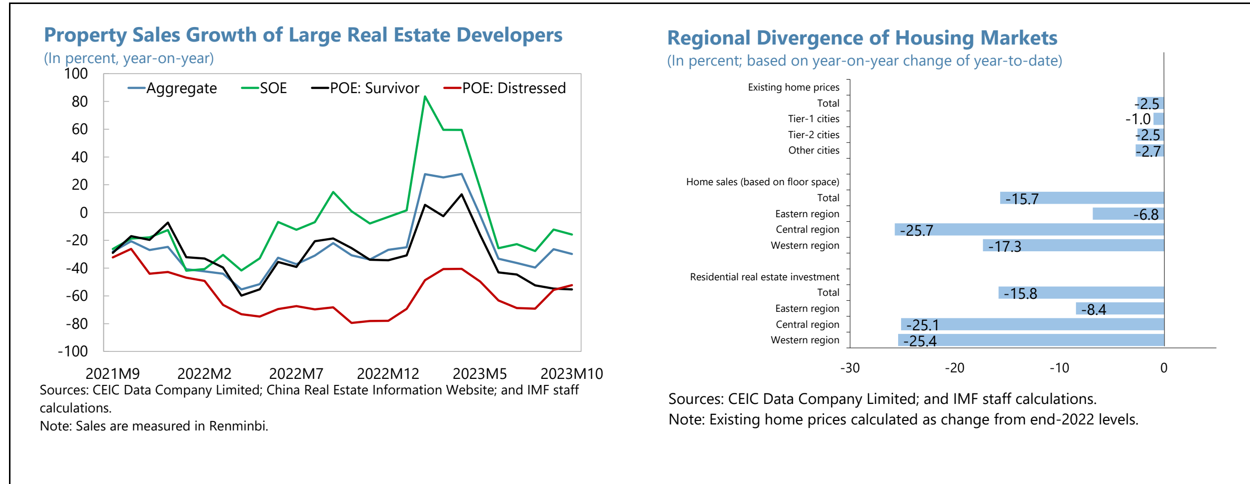


Sources: Haver Analytics; and IMF staff calculations.

6. The property sector has continued to weaken. Residential investment contracted further in the first three quarters of 2023, after a decline of 14 percent in 2022. Notwithstanding supportive policies for developers, including loan forbearance, which was extended to end-2024, and relaxation of home purchase rules (see text table), SOE and non-distressed private developers saw sales growth turn negative by mid-year, with distressed developers' (accounting for

Text Table 1. China: Selected Property Sector Support Measures in 2023
Demand-side Measures
• Relaxation of criteria for determining homebuyer eligibility for preferential first-home interest rates and down payments
• Lowering minimum interest rate on mortgages for second homes
• Reduction of minimum down payment ratio for first and second-home buyers in cities with homebuying restrictions
• Two-year extension of personal income tax refund for those who have bought and sold their property in the same city within the year
• Lowering the interest rate of commercial personal housing loans for existing first homes
Supply-side Measures
• Extend forbearance for loans due in 2024 and exemption from risk classification for financing issued to special loan support projects
• Pilot program for private equity investment in certain types of real estate
• Promotion of the construction of affordable housing
Other Measures
• Increased support for urban village renovation in large cities
Source: IMF staff.

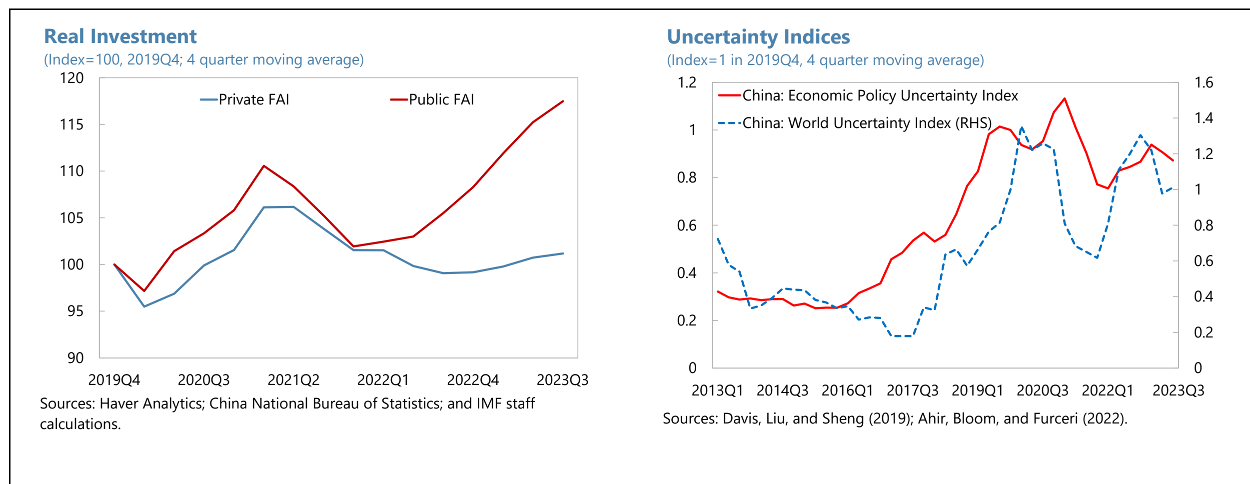
46 percent of pre-crisis sales among bond-issuing developers) sales continuing to contract sharply. Slumping home sales in part reflect the lack of adjustment in home prices, which declined only about 3 percent in 2023 amid guidance to limit house price movements. Prices remain high relative to household incomes and rental yields. The recent default by Country Garden, China's largest developer, has worsened financing conditions for surviving developers and significantly added to the backlog of unfinished pre-sold housing, further weighing on homebuyer sentiment.



Sources: CEIC Data Company Limited; China Real Estate Information Website; and IMF staff calculations.
Note: Sales are measured in Renminbi.

Sources: CEIC Data Company Limited; and IMF staff calculations.
Note: Existing home prices calculated as change from end-2022 levels.

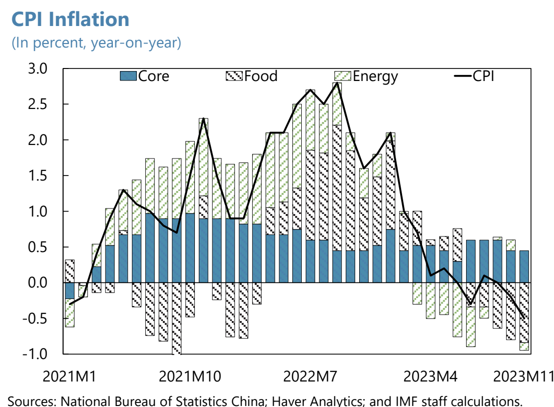
7. **Aggregate investment has been supported by relatively strong public investment and private manufacturing investment, offsetting the weakness in real estate investment.** Public investment has grown at over 10 percent y/y, contributing about 2 percentage points of the 5.2 percent growth in GDP through Q3. Private investment remained broadly stable as relatively strong growth in manufacturing investment in technology, new energy vehicles, and climate-related sectors was offset by decline in residential investment. Regulatory uncertainty has declined from pandemic and trade tension highs but remains elevated compared to historical averages, which could impinge on investor confidence and private sector investment going forward.



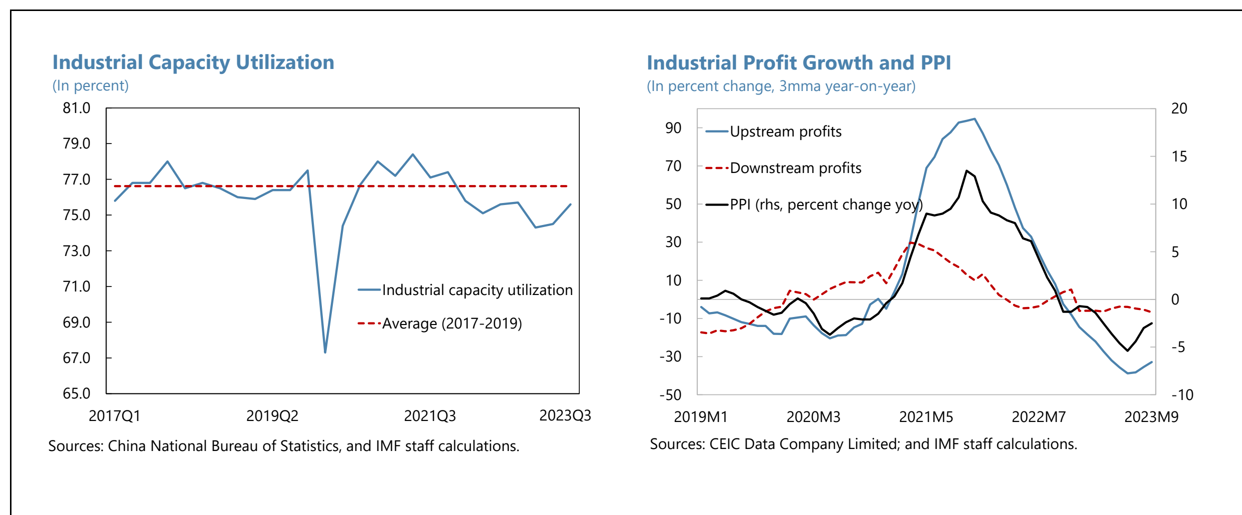
Sources: Haver Analytics; China National Bureau of Statistics; and IMF staff calculations.

Sources: Davis, Liu, and Sheng (2019); Ahir, Bloom, and Furceri (2022).

8. Inflation has fallen with declining commodity prices (Box 1). Declining food and energy prices shifted headline inflation into negative territory in July and October-November. Core inflation has remained in positive territory though at low levels (below 1 percent year-on-year throughout 2023) amid continued economic slack. Falling producer prices, in part due to lower global commodity prices, contributed to a 0.8 percent decline in the GDP deflator through the first three quarters of 2023.



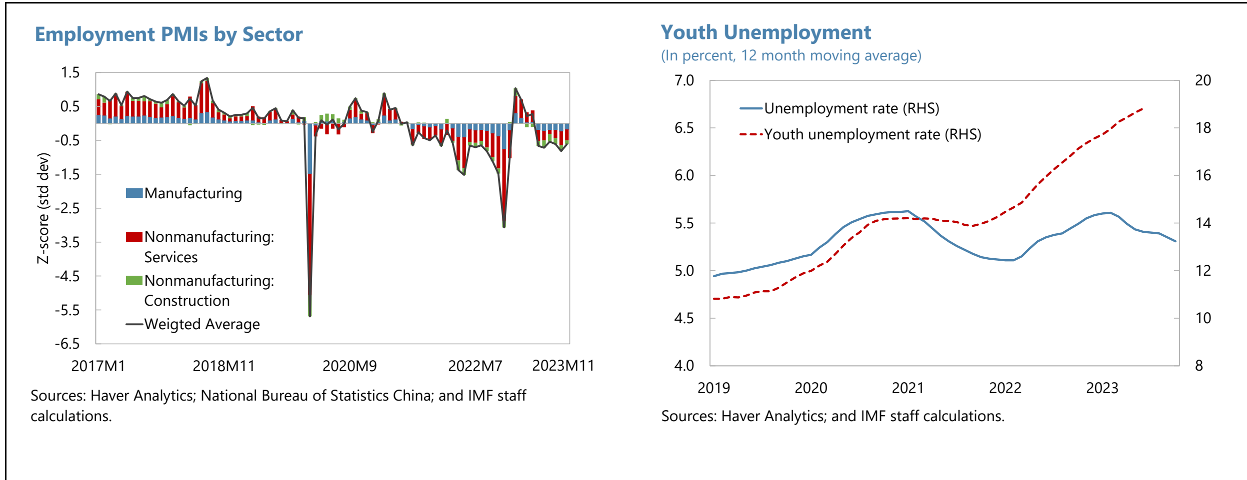
Sources: National Bureau of Statistics China; Haver Analytics; and IMF staff calculations.



Sources: China National Bureau of Statistics, and IMF staff calculations.

Sources: CEIC Data Company Limited; and IMF staff calculations.

9. Labor market conditions have remained weak. The urban unemployment rate has declined to pre-pandemic levels, but other labor market indicators suggest significant slack. PMI employment sub-indices have been in contractionary territory since Q2, with broad-based weakness across sectors. Wage income growth remains subdued compared to pre-pandemic levels. Urban youth unemployment (data on which was suspended in July) was particularly high, due to cyclical, seasonal, and structural factors, including record high graduation rates, sectoral labor market mismatches, and past regulatory tightening in sectors that disproportionately employ the youth (Box 2).

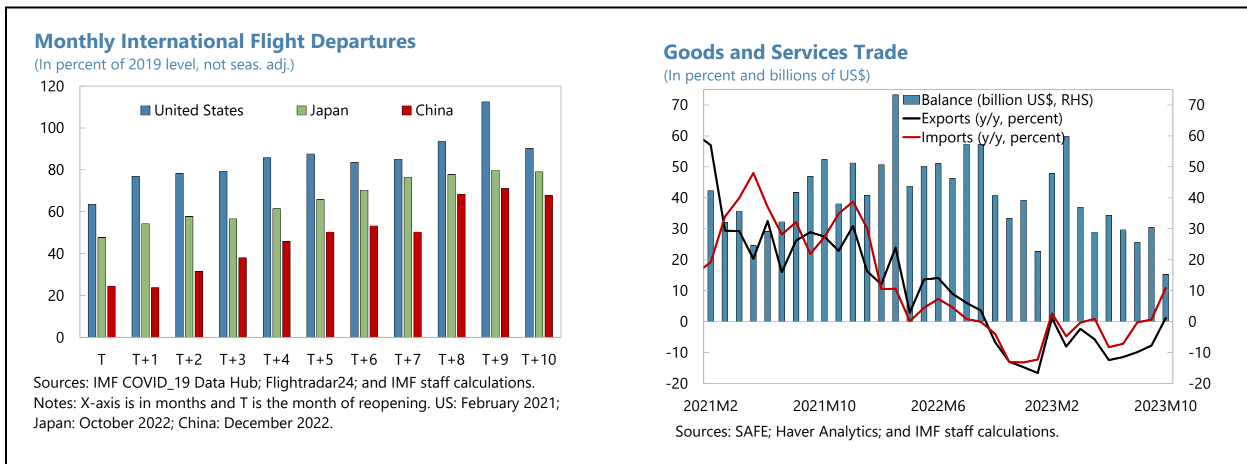


Sources: Haver Analytics; National Bureau of Statistics China; and IMF staff calculations.

Sources: Haver Analytics; and IMF staff calculations.

10. External headwinds increased in 2023.

- *Exports and imports were volatile.* After a temporary rebound due to supply chain normalization in 2023Q1, exports declined amid weak global demand and the unwinding of the COVID-related export boom. Imports evolved in line with domestic demand, contracting in 2023Q2 and rebounding in 2023Q3. The services deficit widened in 2023Q3 with the gradual recovery in outbound tourism, which remained about 24 percent below pre-pandemic levels in September. The current account surplus declined to 1.6 percent of GDP in the first three quarters of 2023 from 2.2 percent in the first three quarters of 2022.



Sources: IMF COVID_19 Data Hub; Flightradar24; and IMF staff calculations.
Notes: X-axis is in months and T is the month of reopening. US: February 2021; Japan: October 2022; China: December 2022.

Sources: SAFE; Haver Analytics; and IMF staff calculations.

- *Capital outflow pressures continued.* Widening interest rate differentials with other major economies, concerns about China's growth prospects, and rising geopolitical risks contributed to portfolio outflows in 2022-23. As of November, equity inflows in 2023 amounted to about US$6 billion, while bond outflows reached US$87 billion. Inward FDI turned negative (-0.3 percent of GDP) in 2023Q3, the lowest on record. Other investment (especially bank loans and currency and deposits), which served as an important channel of investing BOP surpluses in 2020-21[1], experienced net inflows in 2022 and 2023H1, as residents unwound accumulated overseas assets.

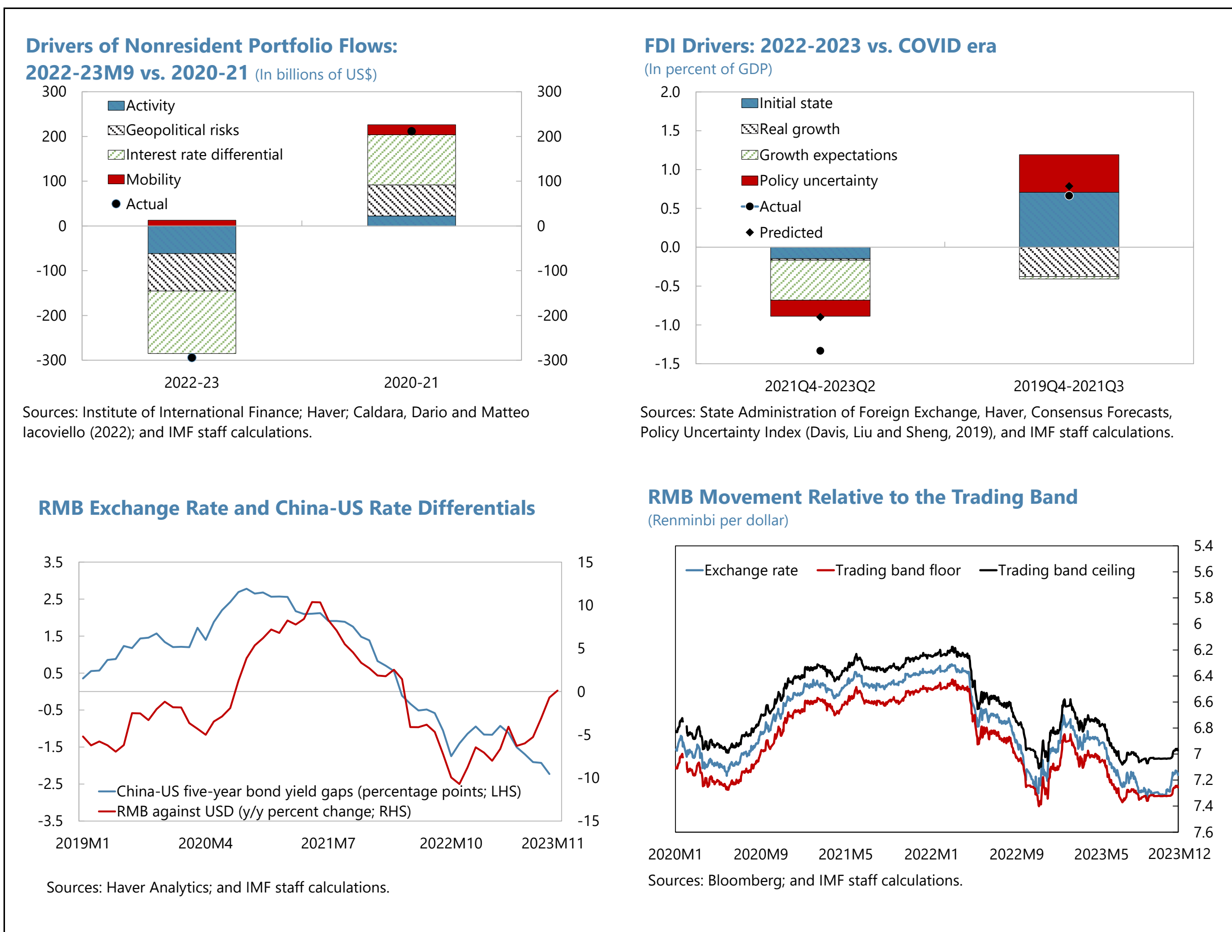
Text Table 2. China: Balance of Payments

(Percent of GDP)

	2020	2021	2022	2023 1/
Current Account	**1.7**	**2.0**	**2.2**	**1.6**
Trade balance	3.4	3.2	3.7	3.5
Service balance	-1.0	-0.6	-0.5	-1.3
Income and transfer balance	-0.7	-0.6	-1.0	-0.6
Capital and Financial Account	**-0.4**	**-0.2**	**-1.2**	...
Direct investment, net	0.7	0.9	0.2	-1.0
Outward DI	*-1.0*	*-1.0*	*-0.8*	-1.1
Inward DI	*1.7*	*1.9*	*1.0*	0.1
Portfolio investment, net	0.6	0.3	-1.6	-0.7
Other investment, net	-1.7	-1.4	0.3	0.5
of which: Currency and deposit, net	-0.4	-0.6	-0.2	0.6
of which: Loans, net	-1.0	-0.7	0.5	0.1
of which: Trade credit, net	-0.2	-0.2	-0.1	-0.2
Errors and omissions	*-1.1*	*-0.8*	*-0.5*	...
Reserve Assets	**-0.2**	**-1.1**	**-0.6**	**0.0**

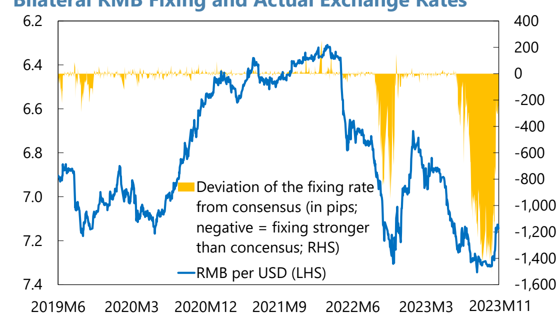
1/ Average over 2023Q1-Q3 for the current account, its components, FDI and reserves. Average over 2023Q1-Q2 for portfolio and other investment.

Source: SAFE; and IMF staff calculations.



[1] See IMF's 2023 External Sector Report.

Bilateral RMB Fixing and Actual Exchange Rates



Sources: Bloomberg; and IMF staff calculations.
Note: Market consensus is a Bloomberg survey of 20 analysts' expected fixing, i.e. center of next day's trading band, mostly based on the previous days' close, multiplied by the estimated overnight change in the USD.

- *The exchange rate depreciated*. Depreciation pressures intensified amid the continued divergence of US-China monetary policy stances and concerns about growth prospects. As of November 2023, the RMB/USD rate has depreciated by around 4.7 percent against the 2022 average. The REER depreciated by around 7.7 percent as of October from the 2022 average, faster than the NEER depreciation (around 3.3 percent) reflecting also lower inflation in China. Amid sustained depreciation pressures, the authorities set the daily RMB fixing at a level significantly stronger than market consensus. Other policy tools employed to limit excessive RMB depreciation include cutting the FX reserve requirements from 6 to 4 percent in September; tightening offshore liquidity conditions; and raising the cross-border financing macroprudential adjustment parameter for financial institutions and enterprises from 1.25 to 1.5 (relaxation of an inflow CFM).[2]

- *FX reserves remain adequate*. Reflecting still sizable current account surplus, since end-2022 FX reserves increased by about US$45 billion through November 2023. At US$3.2 trillion as of November 2023, China's FX reserves level is assessed to be adequate (Appendix I).

11. On a preliminary basis, the external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies (Appendix I). The current account (CA) surplus is expected to decline to 1.5 percent of GDP in 2023 due to the decline in global goods demand, a partial recovery in China's outbound tourism, and a pickup in investment income payments to non-residents. With the cyclically-adjusted CA at 1.2 percent of GDP and the estimated CA norm of 0.8 percent of GDP, the adjusted CA gap is -0.2 percent of GDP, implying a REER gap (using the estimated elasticity of 0.14) of -1.4 percent.[3]

12. The authorities eased monetary policy in 2023 amid disinflation and improved the transmission to support the property sector. The PBC reduced the Reserve Requirement Ratio by 50 bps, cut the 7-day reverse repo rate and the 1-year MLF rate by 20 bps and 25 bps respectively through Q3, and established a mechanism for the refinancing of existing mortgages at lower spreads, supporting the pass-through of policy easing to households. With the small reduction in interest rates, most of the easing was achieved through quantity-based instruments, including structural credit policy tools.

13. Despite some easing, financial conditions remain modestly tight amid lower credit growth.

[2] See 2022 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.

[3] The calculation of the CA gap also considers an adjustment of 0.2 percent of GDP to reflect incomplete post-Covid travel recovery. The Final Assessment for 2023 will be presented in the 2024 External Sector Report.

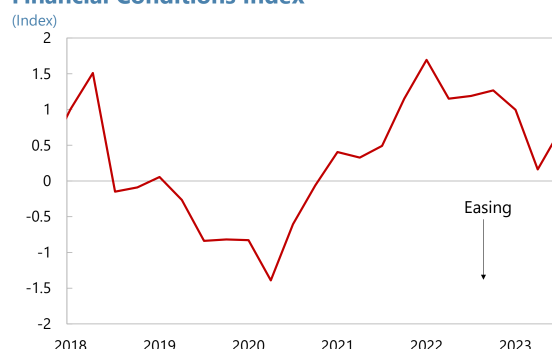
- *Financial conditions eased overall in 2023* due to monetary policy easing. However, they remain tight for distressed property developers and LGFVs that have weak debt servicing capacity, typically in fiscally weak provinces.

- *Bank credit growth remained broadly stable,* despite a slowdown in household borrowing. Total Social Financing grew by 9 percent so far in 2023, largely driven by larger banks' lending to SOEs and financial inclusion loans to micro and small enterprises. Lending is increasingly driven by larger banks, potentially reflecting increasing constraints of smaller banks' lending capacity. Amid the property sector contraction and weak confidence, mortgage lending has moderated significantly, as households increased mortgage prepayments.

- *Nonbank credit (excluding corporate bond financing) declined in 2023,* driven by declines in trust loans and banks' asset-backed securities, due to the property sector contraction and weak investment demand. This was partially offset by expansion of entrusted loans (relending between nonfinancial firms intermediated by financial institutions), whereby firms with preferential access to credit such as SOEs channel funds to financially constrained private firms.

Financial Conditions Index

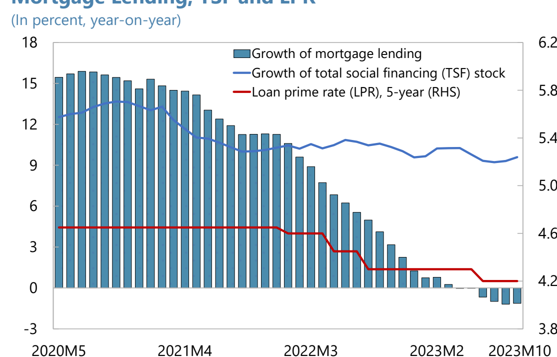
(Index)



Sources: Goldman Sachs; Bloomberg LP; and IMF staff calculations.

Mortgage Lending, TSF and LPR

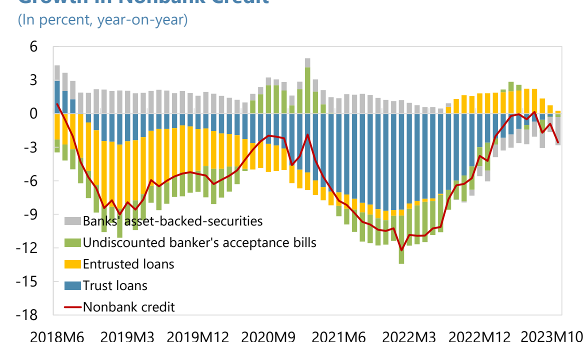
(In percent, year-on-year)



Sources: Bloomberg; CEIC Data Company Limited; and IMF staff calculations.

Growth in Nonbank Credit

(In percent, year-on-year)

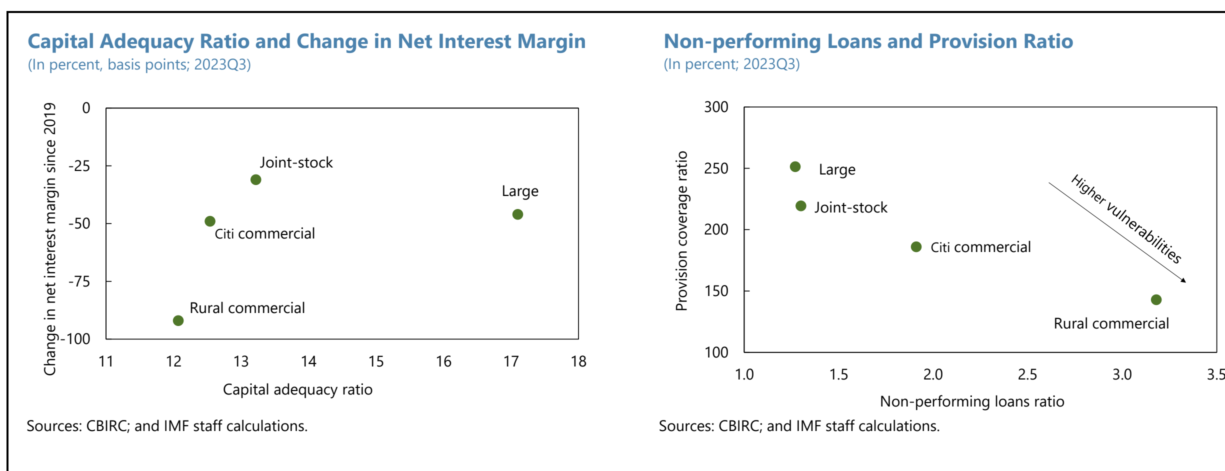


Sources: CEIC Data Company Limited; and IMF staff calculations.
Note: Data include financing to local government financing vehicles.

14. Financial sector vulnerabilities are elevated and have increased in 2023 given rising credit risks and declining bank profitability. Credit risks emanate from the property sector downturn, LG financing strains, and the rapid increase in lending to micro and small enterprises (MSEs).

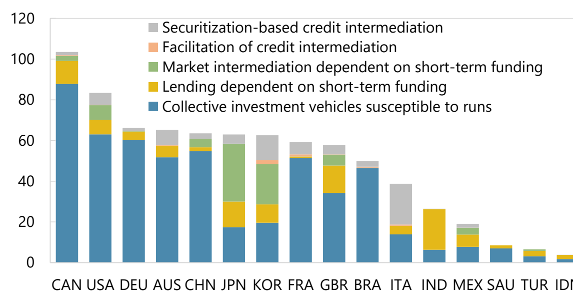
- *Banks are facing weakening profitability* from margin pressures and asset quality risks, especially among smaller banks. Their return on assets fell to a record low of 0.8 percent as of 2023Q3 following a sharp contraction in net interest margins. Monetary policy easing, low mortgage demand, ramp-up in mortgage prepayments, and policy guidance to lower mortgage rates have all contributed to suppressing interest income, while deposit costs have increased as households shifted to term deposits. Banks' underlying asset quality has deteriorated with the property market downturn and pandemic-related losses of private firms in the services sector, even though headline nonperforming

loans (NPL) ratios improved due to extended forbearance. The rapid increase in inclusive loans for micro and small businesses also raises concerns about future asset quality. Risks are concentrated in smaller banks that also have lower capital and loss absorbing buffers. After an extended period of de-risking, financial interlinkages have started to rise again with notable increase in bank claims on other banks and nonbank financial institutions.



- *Vulnerabilities in nonbank financial intermediaries largely stem from asset management products.* Collective investment schemes, which include bank wealth management products, mutual funds and other asset management products, are relatively large by international comparison and account for the majority of 'risky' nonbank credit intermediation in China.[4] While the asset management reform has helped de-risk nonbank credit activity since 2018, asset management products create vulnerabilities, as illustrated by an episode in late 2022 following a rise in government bond yields. In August 2023, a major financial conglomerate suspended repayment and redemption of its wealth management products due to liquidity stress due to property-related exposure, including through intra-group financial linkages.

Selected Economies: "Risky" Nonbank Financial Intermediation, 2021
(In percent of GDP)



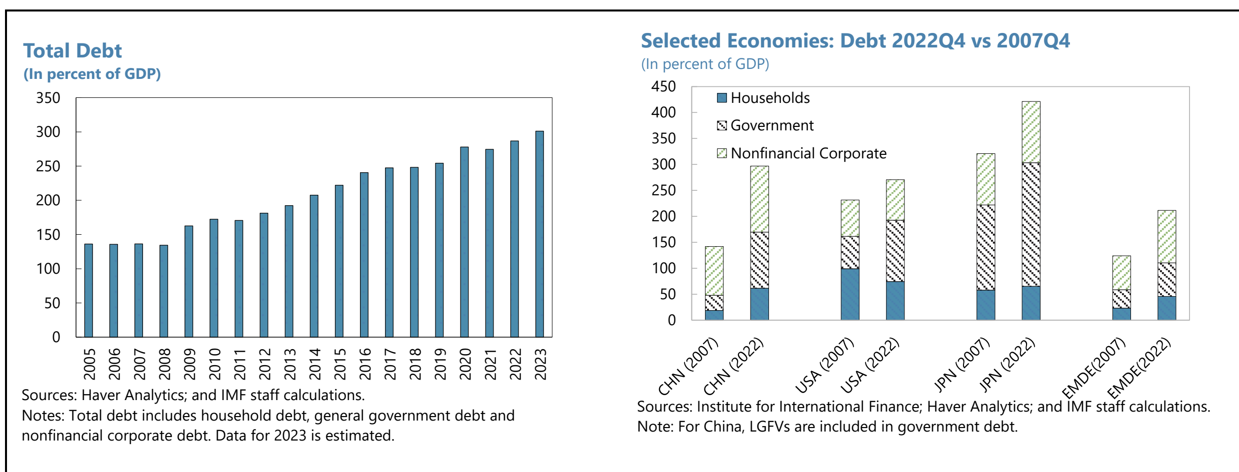
Sources: FSB; IMF's World Economic Outlook database; and IMF staff calculations.
Note: Based on the FSB's narrow definition of nonbank financial intermediation.

15. The authorities continued to provide fiscal support with tax relief and CG-financed investment, resulting in a fiscal stance assessed by staff as neutral in 2023. Fiscal measures in the 2023 budget focused mostly on tax relief for firms, including 0.9 percent of GDP in new measures (Value Added Tax rate cuts for small and micro firms) and 0.5 percent of GDP in extensions of previous measures (e.g., tax deductions for research and development, reduced corporate tax rates for small and medium

[4] 'Risky' nonbank credit intermediation refers to the FSB's narrow definition of nonbank credit intermediation.

enterprises, and lower unemployment insurance contributions). In addition, a 0.8 percent of GDP special CG bond was issued in 2023Q4 to finance LG investment in capacity building against natural disasters, with spending of 0.4 percent of GDP in 2023 and 0.4 percent in 2024. The change in the 2023 augmented[5] cyclically adjusted primary balance is estimated at -0.1 percent of potential GDP (0.3 percent lower than before the CG bond issuance), as the additional spending is partially offset by 0.1 percent of GDP lower-than-expected LGFV investment. Other tax relief announced after the budget will likely have a minor impact (personal income tax deductions for childcare, education, and elderly care expenses) or apply from 2024 (tax breaks for electric vehicle and home purchases).

16. Total debt-to-GDP continued to increase in 2023, following a brief pre-pandemic stabilization. The rise in augmented government debt—which is estimated at 116 percent of GDP in 2023—was largely driven by on-budget LG debt and off-budget debt (+6.2 percentage points in 2023), while on-budget CG debt increased by only 2.3 percentage points relative to 2022. Corporate debt also increased notably in 2023, by 4.7 percentage points of GDP, while household credit (excluding to small businesses) fell slightly, amid weak credit demand due to COVID scarring and the property sector contraction.

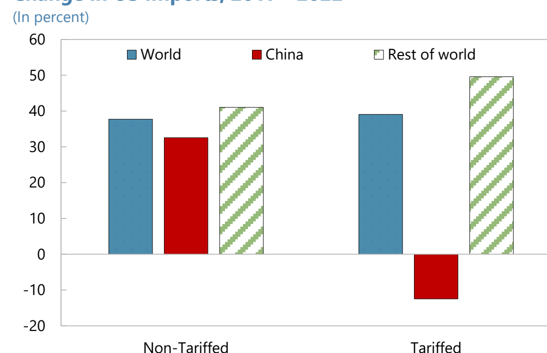


Sources: Haver Analytics; and IMF staff calculations.
Notes: Total debt includes household debt, general government debt and nonfinancial corporate debt. Data for 2023 is estimated.

Sources: Institute for International Finance; Haver Analytics; and IMF staff calculations.
Note: For China, LGFVs are included in government debt.

[5] The augmented deficit and debt consider a broader perimeter of the government including debt of local government financing vehicles and other off-budget entities (see Table 2).

17. In August and December 2023, China imposed export restrictions on metals that are crucial inputs in the semiconductor, telecommunications, and EV industries. Major trading partners have imposed export controls on certain semiconductors and related products to China, adversely affecting its domestic industries. In turn, China imposed restrictions on exports of gallium, germanium, which are used in the production of high-performance chips, and graphite, which is needed for electric vehicle (EV) battery manufacturing. Given that these minerals are produced and refined primarily in China, such restrictions could potentially have spillovers on the production of semiconductors and EVs worldwide. With increasing trade restrictions, Chinese exports to the U.S. have declined and signs of "friend-shoring" are emerging (Alfaro and Chor, 2023; Freund and others, 2023; IMF, 2023).



Source: Freund, Mattoo, Mulabdic and Ruta, 2023.

OUTLOOK AND RISKS

18. Growth is expected to slow in 2024 due to the ongoing property sector adjustment. In the baseline, real estate investment is projected to contract further in 2024 amid continuing financial stress among property developers, slowing fundamental demand for housing, and the inventory overhang. Macro-financial spillovers from the property sector are expected to remain contained due to the stepped-up policy support, widespread use of forbearance, and relatively slow adjustment in housing and land prices. In this context, the outlook is as follows:

- *In 2023, GDP is estimated to have grown by 5.4 percent*, up from 3 percent in 2022.

- *In 2024, growth is projected to slow to 4.6 percent* as property sector strains continue to weigh on private demand and confidence. Consumption growth in 2024 is expected to moderate from the reopening-induced rebound in 2023, while public investment is expected to remain strong, including due to higher spending on disaster reconstruction and prevention. External demand—although improving—is assumed to remain weak, with a

Text Table 3. China: Selected Economic Indicators

	2023	2024	2025	2026	2027	2028
Real GDP Growth (%)	5.4	4.6	4.0	3.8	3.6	3.4
Output Gap (%)	-1.4	-0.5	-0.2	-0.1	0.0	0.0
Inflation (% average)	0.4	1.3	2.0	2.0	2.0	2.0
Core Inflation (% average)	0.6	1.4	2.0	2.0	2.0	2.0
Current Account (% of GDP)	1.5	1.3	1.2	1.0	0.9	0.8
Augmented Debt (% of GDP) 1/	116.2	122.0	127.5	132.8	137.7	142.6

Sources: Authorities; Haver Analytics; CEIC Data Company Limited; and IMF staff estimates and projections.
1/ Augmented Debt includes debt of LGFVs and other off-budget government funds.

negative growth contribution from net exports. Despite the projected slowdown, the output gap is expected to narrow, as GDP growth remains above potential growth.

- *Core inflation is projected to increase gradually to 1.4 percent in 2024* as the output gap narrows. Headline and PPI inflation are also expected to increase in 2024, as the drag from lower commodity prices recedes (see Box 1).
- *The current account surplus is projected to remain broadly stable at 1.3 percent of GDP in 2024* as a partial exports recovery is expected to be offset by a gradual increase of outbound travel and net repatriation of investment income to pre-pandemic levels.
- *Over the medium-term, growth is projected to decline* further amid long-standing structural headwinds from a shrinking population and slower productivity growth. In the absence of significant structural reforms to spur productivity growth and rebalance the economy, growth is projected to decline gradually to about 3½ percent by 2028 (IMF, 2022).

19. Risks to growth and inflation are tilted to the downside.

- **Downside risks.** Private investment could be weaker-than-expected due to continued delays in developer restructuring and limited home price adjustments. Expectations of future home price declines could further reduce property demand, thereby delaying the clearing of the inventory overhang, adding to LG budget strains, and weighing on confidence and private demand more broadly. Staff estimate that, in such an adverse scenario which entails a deeper and more prolonged contraction in the property sector, GDP in 2025 could be 1.8 percent lower compared to the baseline (see Box 3). Unintended fiscal tightening could take place if LGs face more severe financing constraints. While balance sheet stresses so far remain limited to the property sector and some LGs (Box 4), shocks to growth and earnings amid high debt levels could result in an adverse macro-financial feedback loop, with broader balance sheet stresses and weaker lending capacity, including at smaller local financial institutions. Moreover, such shocks could potentially lead to large fiscal costs, weaker domestic demand, and stronger disinflationary pressures. Weaker-than-expected external growth and continued tightening in global financial conditions pose risks to exports and capital flows, which could further be exacerbated by rising geopolitical tensions and further re-adjustment of supply chains.
- **Upside risks.** Decisive policy action that boosts consumer confidence could support a faster-than-expected private consumption growth and a rise in core inflation. Stronger-than-expected policy support and faster restructuring in the property sector could lead to a better-than-expected rebound in private investment.

Authorities' Views

20. The authorities highlighted the strong post-pandemic recovery and were confident that their growth target of about 5 percent in 2023 is within reach. They emphasized the high quality of

growth, driven by consumption and the service sector. While agreeing that declining real estate investment had hindered the recovery, they stressed the significant drag on growth from net exports amid a difficult external environment, including slowing global growth and rising protectionism. They viewed the labor market recovery to be progressing well, emphasizing the decline in the urban surveyed unemployment rate and urban surveyed unemployment rate of the population with non-local agricultural household registration.

21. While acknowledging domestic and external headwinds, the authorities remain confident of a continuing economic recovery in 2024 and robust growth in the medium term. They expect the real estate sector to stabilize, reducing the drag on investment. Furthermore, aided by policy support and a continued recovery in consumption, the authorities expected growth to remain resilient in 2024. They were also more optimistic about medium-term growth prospects, highlighting the potential role of new emerging sectors, (including high-tech manufacturing, new energy vehicles, and environmental goods) in replacing real estate as the driver of growth going forward.

22. The authorities highlighted external factors as key risks to the outlook rather than domestic factors. External risks remain a significant concern for the authorities, including risks from a slowdown in advanced economies, as well as from rising geopolitical tensions and fragmentation pressures. While expressing confidence about the real estate prospects, the authorities agreed that there is some potential downside risk from further stress in the property sector and spillovers to local government finances. They did not see risks of broad-based deleveraging and a balance sheet recession.

23. The authorities agreed with staff's external sector assessment. They viewed China's external position as broadly in line with fundamentals and saw no need for a significant adjustment in the CA surplus or the exchange rate level. On trade, they acknowledged the slowdown following the reopening but emphasized the more recent sequential recovery that they expect to continue. They agreed that interest rate differentials, geoeconomic fragmentation, and perception of a domestic slowdown have contributed to the recent capital outflows, but as China's economic recovery proceeds, they expect capital flows to normalize soon.

ENGINEERING A SAFE TRANSITION TOWARDS A SUSTAINABLE PROPERTY MARKET AND LOCAL GOVERNMENT PUBLIC FINANCES

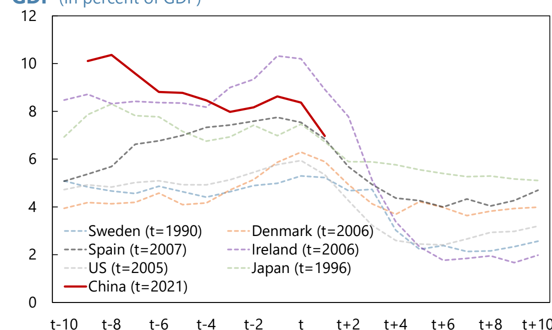
Key Issues. *Over the last few years, the authorities have made substantial efforts to slow the buildup of leverage in the property sector, monitor LGs' "hidden debt", and de-risk the financial sector. However, general government debt is projected to continue to grow, the needed property sector adjustment continues, and financial sector risks have increased. The priority is to help the property market transition to a more sustainable size, by accelerating the exit of nonviable property developers and repairing the balance sheets of viable developers. Measures are also needed to ensure sustainable LG public finances, and should include fiscal framework reforms as well as greater use of insolvency*

mechanisms to facilitate debt write-downs and assets sales for unsustainable LGFVs. The CFWC's areas of focus—on containing risks from the property sector, LGs, and banks—are therefore welcome.

A. Policies to Move to a New Equilibrium for the Property Sector

24. The large correction in the property market, following government efforts to contain leverage in 2020-21, was warranted and needs to continue. In the 2010s, residential investment as a share of GDP in China was close to or above peak levels of past property booms elsewhere. On the supply side, LGs' need for land sale revenues to finance public investment to achieve growth targets fueled the property market, raising developer leverage. On the demand side, a growing middle class, massive household savings, and urbanization led to strong demand for housing. Insufficient investment opportunities for households, capital account restrictions, and expectations of rising house prices contributed to strong investment-driven demand by wealthier households and further stretched house price affordability. China's property market, however, experienced a crisis in H2 2021 and 2022 after the failure of a large developer imperiled the completion of millions of pre-sold units, leading to a sharp contraction in presales, a key form of construction financing for the sector, with knock-on effects on homebuyer confidence.

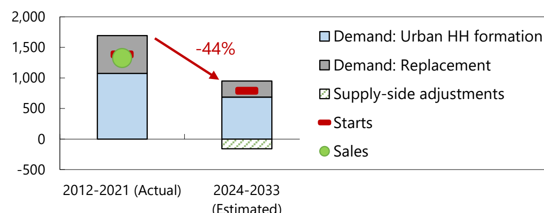
Selected Countries: Residential Real Estate Investment to GDP (In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

25. Fundamental demand for new housing is expected to decline by almost 50 percent over the next 10 years. These estimates are based on net urban household formation trends, and other housing stock replacement projections. This decline will add to the difficulties of clearing excess inventories and secondary market supply, prolonging the adjustment into the medium term and weighing on growth.[6] Overall, the decline in fundamental demand for new housing could range from about 35 to 55 percent, although in some regions, the adjustment could be much sharper,

Estimated Annual Average Fundamental Housing Demand and New Starts
(Millions of square meters)



Sources: CEIC Data Companly Limited; and IMF staff calculations.
Notes: Demand estimates for 2024-2033 show midpoint of projected range. Starts for 2024-2023 reflect projected demand and supply-side adjustments, as described in a forthcoming Selected Issues Paper on China's Property Sector Transition. Sales are not forecasted for 2024-2033.

[6] Housing starts are projected to remain below fundamental demand during the next 10 years as part of the demand is met by the completion of currently unfinished housing, excess inventories of existing finished housing, and secondary markets sales of vacant housing purchased for investment purposes.

given weaker local economic prospects and larger excess supply (see accompanying Selected Issues Paper (SIP) on the property sector).

26. The authorities have introduced numerous welcome measures to smooth the property market correction, but they have not yet reduced risks of deeper and prolonged adjustment. The authorities boosted lending to complete unfinished housing, expanded eligibility for first-time homebuyer benefits, lowered down payment requirements, and facilitated refinancing of existing mortgages. However, other measures in place such as forbearance and guidance to limit price adjustment may disincentivize and delay restructuring of insolvent developers, slow the reduction of the housing inventory overhang, and discourage new investment, making the adjustment more costly in the end. Furthermore, in recent months distressed developers have contributed to the buildup of arrears and created negative spillovers to LG finances.

27. To facilitate a smoother and less costly transition to a new equilibrium in the property market, a comprehensive policy package, based on a market-driven approach and greater reliance on price-based adjustment, is needed. It should include measures to:

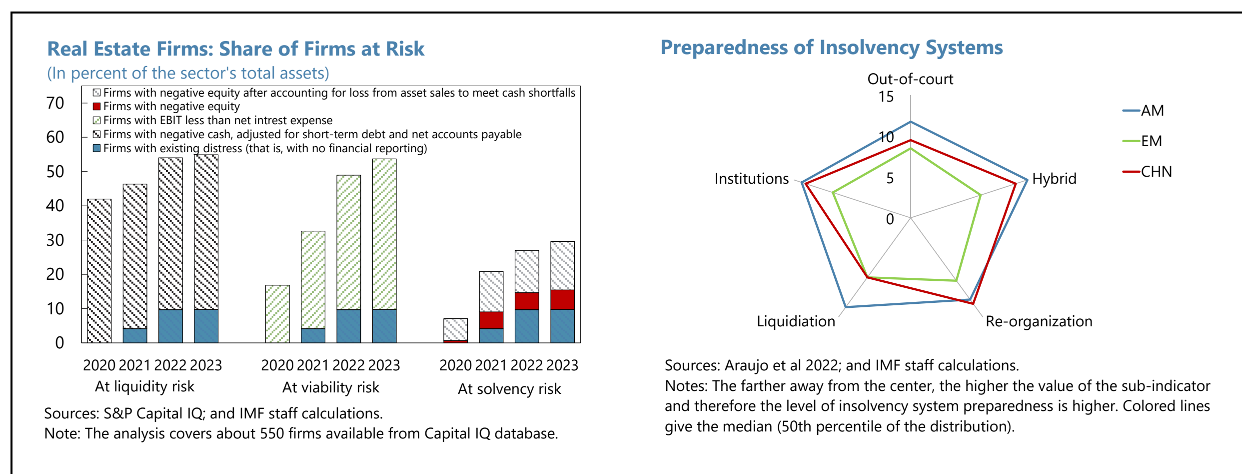
- *Accelerate the exit of nonviable property developers*. Supervisors should require banks to be conservative in assessing developer viability and collateral values, recognize developer losses, and initiate insolvency proceedings, as necessary. The existing corporate restructuring and insolvency regime should be used more, with strengthened liquidation proceedings and out-of-court settlements (Araujo et al, 2022).

- *Provide additional CG funding for housing completion.* As large backlogs of unfinished pre-sold housing remain a key factor delaying market-based restructuring, more CG resources should be allocated to finishing commercially nonviable projects, which should be taken over at zero cost from developers in insolvency proceedings to avoid moral hazard. The scheme would either complete taken-over projects or provide partial compensation to affected homebuyers, whichever is less costly (as described in Box 1, IMF 2022). Staff estimate that the cost of such a program could be around 5 percent of GDP but would avoid significantly larger losses for homebuyers and the economy more broadly.[7] CG funding is preferable to LG funding, to avoid jeopardizing provision of local public services or raising the risk of LG debt distress.

- *Assist viable developers repair balance sheets to adapt to a smaller property market*. Viable firms should speed up use of mergers, asset disposals, equity raising, and other tools (including debt restructuring) to boost capital and liquidity buffers. Government-backstopped completion

[7] The estimated cost of completing distressed developers' pre-sold housing is subject to significant uncertainty. It is based on methodologies presented in Box 1 of the 2022 China Article IV Consultation Staff Report. The actual cost to the taxpayer could be significantly lower because the calculations do not take into account potential funding from asset sales or upside risk to the assumed share of commercially viable projects.

guarantees, backed by conservative underwriting and subject to strict governance standards, could also help restore homebuyer and creditor confidence (Box 1, IMF 2022).



Sources: S&P Capital IQ; and IMF staff calculations.
Note: The analysis covers about 550 firms available from Capital IQ database.

Sources: Araujo et al 2022; and IMF staff calculations.
Notes: The farther away from the center, the higher the value of the sub-indicator and therefore the level of insolvency system preparedness is higher. Colored lines give the median (50th percentile of the distribution).

- *Reform the presale model, remove impediments to housing price adjustment, and expand housing access.* Developers' use of presale receipts as general funding played a key role in the buildup of vulnerabilities and should be prohibited. Stricter escrow rules and third-party completion insurance should be established to protect presale homebuyers. LGFV purchases of land and guidance to limit price adjustments should be avoided, as these can prolong the downturn, rendering it more costly, while also perpetuating housing affordability problems. Support for public and rental housing construction programs would help meet fundamental demand for shelter while providing alternative revenue streams for developers.

- *Encourage alternative investment options for households*. To reduce investment-driven demand for housing, medium-term policy measures should include a new nationwide property tax and introduce alternative saving options such as "third pillar" pensions and a voluntary supplementary medical insurance plan. Other fiscal policies to reduce the need for precautionary savings (further details in para 59) would also help.

Authorities' Views

28. The authorities stated that wide-ranging property support measures have helped to stabilize the real estate market. They reported that financial regulators have guided financial institutions to meet the reasonable financing demand of developers, lowered interest rates and eased conditions on mortgage loans, and promoted bank lending for completion of unfinished pre-sold housing. Banks and asset management companies have been guided to participate in the resolution of developer risks by supporting mergers and acquisitions. Amid major changes in supply and demand conditions, the authorities argued that these policies have helped the real estate market adjustment. In the medium and long term, they expect that continued urbanization and

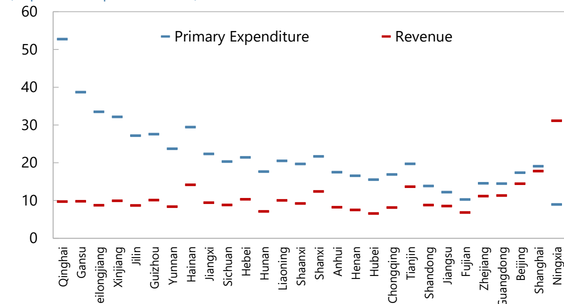
demand for upgraded housing will sustain significant demand for new housing construction, providing support for the long-term stable development of the real estate market.

B. Policies to Address Rising Local Government Stresses and Ensure Debt Sustainability

29. Financially weaker LGs are facing increasing financing strains. In all but the richest provinces, LG augmented debt is well above the 60 percent of GDP benchmark used by the authorities to identify risk. Many LGs have large on-budget fiscal gaps (before CG transfers), with budgetary primary expenditure exceeding revenue by more than 10 percent of provincial GDP. COVID-related expenditures and reduced land sales revenues have exacerbated pre-existing local fiscal gaps. LGFVs have been used to raising off-budget financing for public investment projects, but their own business models are in most cases unsustainable, with negative cash flows from operations. This is making it difficult for some LGs and LGFVs to service their debt. Financially weak provinces experienced sizable increases in LGFV bond spreads between 2019 and 2023Q2, although spreads have declined somewhat after news of support for some indebted LGs followed the July Politburo meeting.

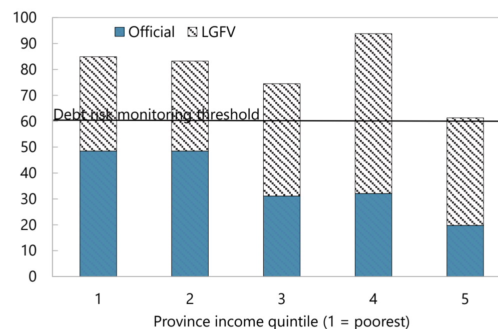
30. In this context, the authorities' shift to prioritizing LG debt restraint over high growth targets is welcome. Recent calls to address LG debt risks comprehensively by both the Politburo and the CFWC are important steps in the right direction. Measures to reduce the stock of debt and associated risks are still being formulated. They may include public asset sales, restructuring of bank loans to LGFVs, clearing arrears, and some refinancing of LGFV debt with official LG debt. Tighter controls of future LGFV borrowing may also be enforced in high-risk regions.

Fiscal Gaps by Province, 2021
(In percent of province GDP)



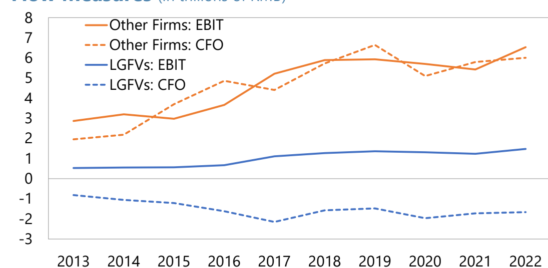
Sources: CEIC Data Company Limited; and IMF staff calculations.
Notes: General budget primary expenditure and revenue. The general budget fiscal gaps are financed with CG transfers, net land sale revenue, and LG official borrowing. Excluding Tibet.

Local Debt by Province, 2022
(In percent of pronvince GDP)



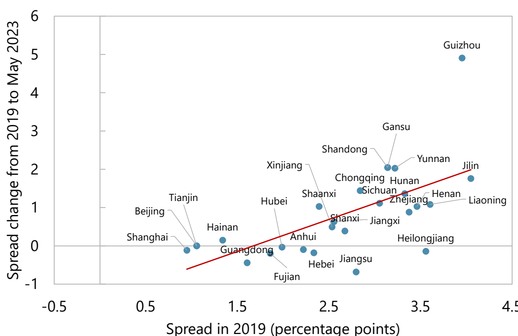
Sources: Capital IQ; CEIC Data Company Limited; and IMF staff calculations.

Chinese Nonfinancial Firms Earnings vs Operating Cash Flow Measures (In trillions of RMB)



Sources: S&P Capital IQ; Wind; Bloomberg; CEIC Data Company Limited; and IMF staff calculations.
Notes: CFO = Cash Flow from Operations; EBIT = Earnings Before Interest and Taxes. CFO are adjusted to include capitalized interest expenditure.

AA LGFV Credit Spreads, by Province



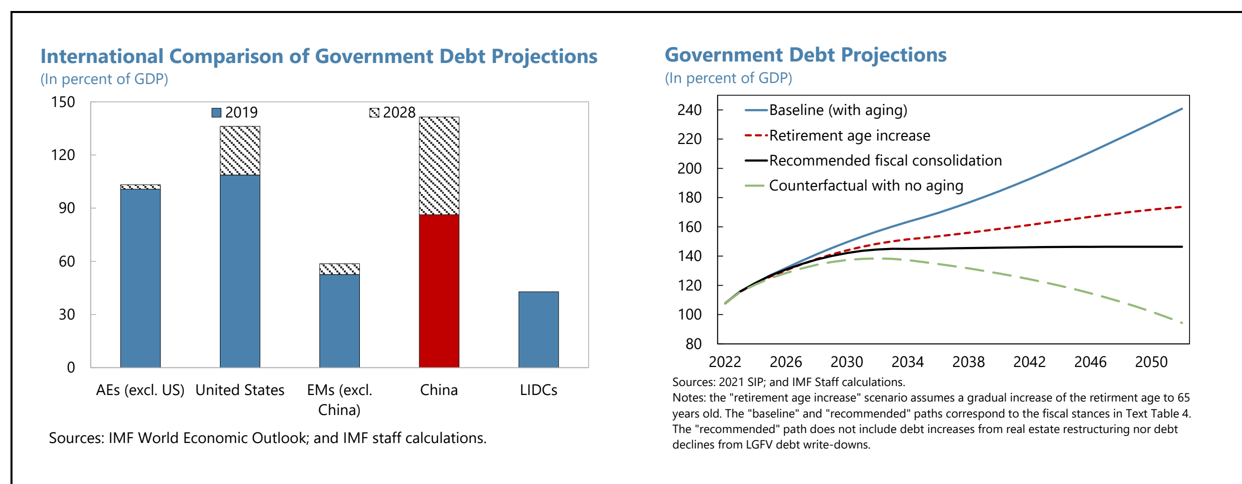
Sources: WIND; and IMF staff calculations.
Note: Data as of 2023Q2.

Text Table 4. China: Fiscal Stance

(change in the CAPB)	2024	2025-28
Baseline	0.2	0.4
Recommended	0.2	0.7
Difference (positive=tighter)	0.0	0.3

31. The rapid government debt accumulation since 2008 should not continue and sustained fiscal consolidation is needed in the medium term. The debt build-up was mainly driven by LG off-budget debt (+40 percentage points of GDP) and on-budget debt (+28 percentage points), with CG debt remaining broadly stable (+4 percentage points). In the baseline, the debt-to-GDP ratio is projected to continue increasing rapidly in the medium-term even with some decline in LG off-budget investment due to increasingly tight financing constraints. This is due to growing pension spending (projected to increase by about 0.4 percentage points of GDP per year given population aging). While China still has some fiscal space and can finance GG debt at favorable rates due to ample domestic savings, the risks from further increases in government debt ratios will be progressively more difficult to manage. This underscores the need for fiscal policy to stabilize general government debt in about 10 years, which would require an annual reduction in the (augmented) general government cyclically-adjusted

primary balance of about 0.7 percentage points every year from 2025 to 2035, based on a medium-term plan with specific measures. Even so, the (augmented) general government debt would stabilize only at 145-150 percent of GDP (Appendix III). If downside risks, such as a deeper-than-expected adjustment in the property market, materialized and resulted in faster accumulation of general government debt, more ambitious long-term fiscal consolidation would be called for.



International Comparison of Government Debt Projections
(In percent of GDP)

Sources: IMF World Economic Outlook; and IMF staff calculations.

Government Debt Projections
(In percent of GDP)

Sources: 2021 SIP; and IMF Staff calculations.
Notes: the "retirement age increase" scenario assumes a gradual increase of the retirment age to 65 years old. The "baseline" and "recommended" paths correspond to the fiscal stances in Text Table 4. The "recommended" path does not include debt increases from real estate restructuring nor debt declines from LGFV debt write-downs.

32. Fiscal consolidation should be based on a reduction of off-budget investment (mostly by LGFVs) and wide-ranging tax and social security reforms. Tax reforms should include: an increase in corporate income taxation in line with international tax reforms (Pillar II); a progressive increase in personal income taxes, with lower thresholds and higher rates, coupled with a reduction in social security contributions; higher capital income taxes; a new nationwide property tax; higher excise taxes; a reduction in the number of Value Added Tax (VAT) rates and exemptions (see text table of fiscal measures and accompanying revenue SIP); as well as leveraging digitalization to enhance tax administration. Gradually increasing the retirement age to 65 years would be important to reduce the fiscal pressures from aging. These measures would be sufficient to stabilize general government debt by 2035 and fund a necessary expansion of the social security system, thus supporting rebalancing and inclusive growth.

33. To reduce debt risks and avoid undue pressure on weaker LGs, the CG should also implement coordinated fiscal framework reforms and balance sheet restructuring. These would be particularly beneficial, in the context of the needed fiscal consolidation, to avoid unintended tightening at the LG level as budget constraints harden. Policies should include:

- *Closing LG fiscal gaps and controlling the flow of debt.* The proposed tax reforms would reduce LG reliance on land sales, as about half of the revenue raised would directly accrue to LGs (see accompanying LG SIP). In addition, the share of revenue allocated from the CG to the LG should be increased as needed, to be commensurate with LGs' expenditure mandates and thus reduce existing vertical fiscal imbalances. Moreover, transfers to LGs could automatically respond to

local economic conditions, attenuating the need for LGs to resort to off-budget financing (IMF 2020). Finally, public financial management reforms should increase transparency around off-budget debt (see ¶73), enhance oversight of LGs, clarify LG expenditure mandates, improve financial reporting systems, and phase out provinces' growth targets, which encourage excessive investment financing by growing indebtedness at the local level.

- *Reducing the stock of LGFV debt.* To avoid prolonged debt overhang constraining LGs, the CG should adopt a comprehensive strategy to facilitate restructuring of unsustainable LGFV debt, including by undertaking preparations to mitigate adverse spillovers to the broader financial system (see ¶37-39). A comprehensive audit should classify LGFVs according to their fiscal functions. The CG should provide temporary transfers to LGs, where needed, to support the continuity of LG services. The fiscal risk monitoring system for LGs should be improved, including data collection and transparency on off-budget entities. After debt restructuring is complete the activity and debt of LGFVs with fiscal functions should be included in LG budgets.

Text Table 5. China: Fiscal Measures

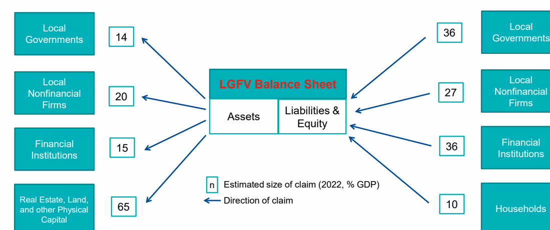
Category	Implementation Horizon	Measure Details	Impact on CAPB (% GDP by year 5)	Benefits
		Expenditures		
Public Investment	ST	reduce off-budget investment	2.5	allocative efficiency, rebalancing
Pensions	ST	increase Resident Pension Plan replacement rate	-0.1	boost consumption, rebalancing
	MT	set retirement age at 65 gradually	0.8	labor force participation, rebalancing
Third Pillar Pension	MT	expand voluntary pensions saving program	>0	reduce investment-driven demand for housing
Medical Insurance	ST	increase expense coverage	-0.8	rebalancing, health
	MT	establish voluntary supplementary insurance plan	~0	rebalancing, health
Unemployment Insurance	ST	improve adequacy	-1.5	boost consumption, equity
	MT	improve coverage		rebalancing, equity, cyclical stabilization
Social Assistance	ST	increase adequacy of Dibao program	-0.6	boost consumption, equity
	MT	introduce national child assistance	-0.25	rebalancing, equity, demographics
Other	MT	abolish Hukou registration system	<0	labor mobility, equity, rebalancing
		advance unification of social security system	~0	LG fiscal gaps
		Tax Revenues		
Personal Income Tax	MT	lower PIT thresholds, increase PIT rates	2.7	equity, cyclical stabilization
Social Security		reduce social security contributions	-1.3	
Capital Income Tax	ST	raise tax rate to 25%, reduce mortgage deductibility	0.3	equity, efficiency, rebalancing, LG fiscal gaps
Wealth Taxation	MT	introduce property tax	0.9	
Corporate Tax	MT	streamline incentive regime, introduce minimum tax in line with Pillar 2, introduce excess profit tax	0.4	efficiency, cyclical stabilization
VAT	MT	withdraw Covid measures	1	efficiency, simplicity, cyclical stabilization
		reduce number of rates and exemptions	0.4	
Excise Taxes	MT	increase specific rates on tobacco, alcohol, and fuel	0.4	health, LG fiscal gaps
Carbon Pricing	MT	expand ETS pricing	0.6	decarbonization, health, rebalancing
Total CAPB impact			***5.5***	

Sources: 2023 SIP, 2021 SIP; and Staff calculations.
Notes: CAPB=cyclically-adjusted primary balance. ST=short term (2024); MT=medium term (over 2025-2028). The CAPB impact of measures is approximate and based on international comparisons. The total impact of measures on the CAPB is 1.9 percentage points of GDP higher than the recommended fiscal consolidation given the negative effect of structural macroeconomic factors (aging and declining potential growth). The size of social expenditure measures is limited by the overall fiscal envelope.

34. The CG's comprehensive LGFV debt restructuring strategy should facilitate debt write-downs and asset sales through the use of insolvency frameworks. Some private sector loss-sharing achieved via insolvency mechanisms appears the most effective way to repair balance sheets, particularly if restructured LGFVs' assets are used to offset some of the losses. Staff's analysis suggests that for each 1-percentage-point-of-GDP reduction in LGFV debt, the CG and LG would each absorb 0.3 percentage points of GDP of the losses (through their shares in SOEs), while other sectors would absorb 0.4 percentage points (accompanying LG Selected Issues Paper). It would also free up fiscal space at the (augmented) general government level to absorb aging-related costs and implement much-needed upgrades for social safety nets. Once financial safety nets and crisis frameworks are strengthened, requiring bank investors to absorb related losses and add new capital would also reduce moral hazard, supporting efforts to control the flow of debt in the future. By contrast, large-scale refinancing by provincial governments is likely to endanger debt sustainability in some regions and could lead to unintended fiscal tightening, with only temporary benefits for financial stability.

Authorities' Views

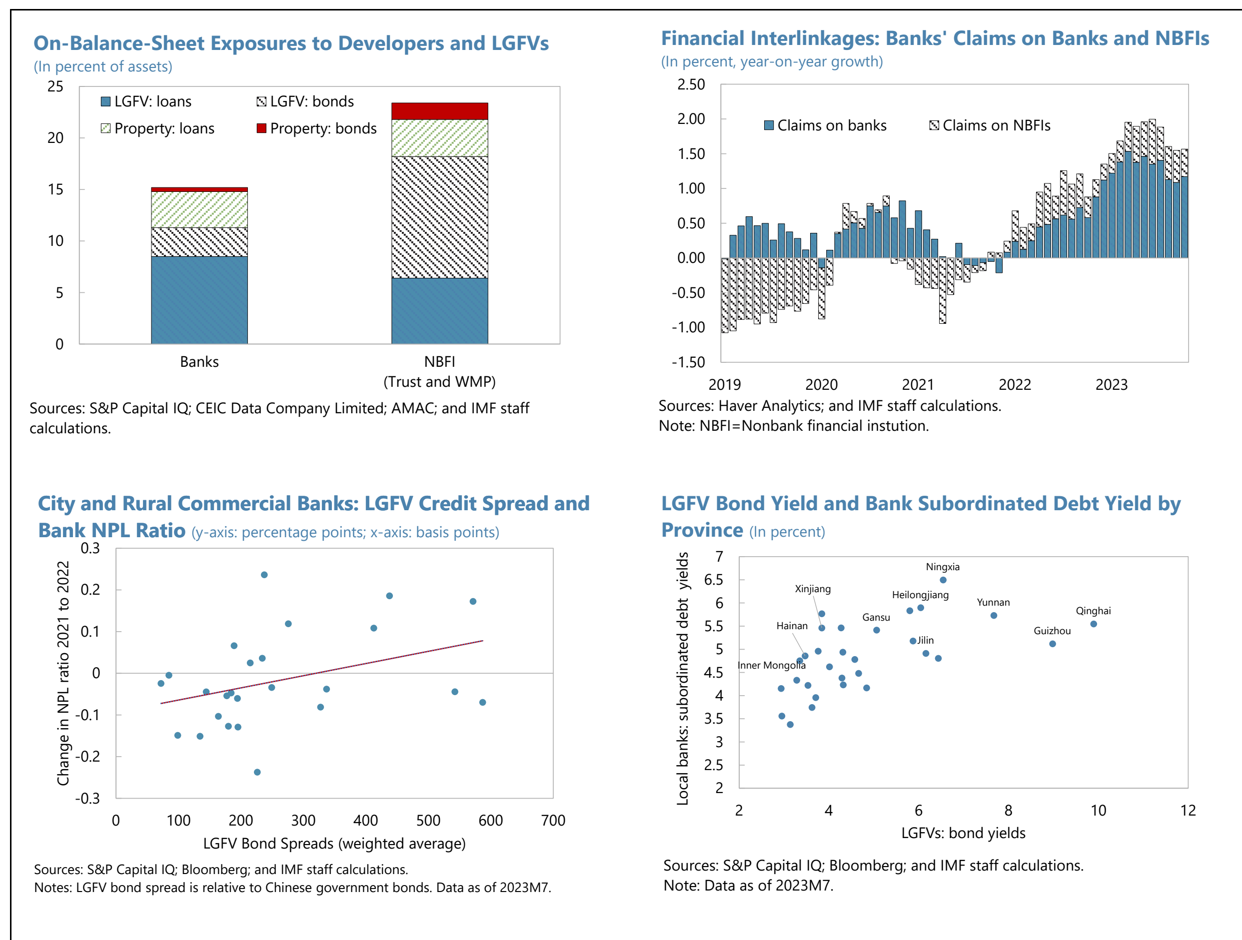
35. The authorities are developing a policy package to prevent and resolve LG debt risks. They stated that their guiding principle is that provincial governments are responsible for their own debts and should mobilize their own resources, including assets sales, to address debt risks. They plan to strengthen the control of debt financing of LGFVs, and strictly prohibit illegal borrowing for local governments in disguised forms. LGs that continue illegal borrowing and financing would be investigated and held accountable. The authorities maintained that continued high GDP growth in the future would ultimately resolve the stock. LGFVs facing liquidity pressures may negotiate with financial institutions to ensure the continuation of financing, in accordance with market principles and the law. Meanwhile, the CG will continue to increase transfers to LGs to promote the equalization of basic public services across regions, while making the approval of investment projects more selective. The authorities do not classify LGFV or government funds debt as part of general government debt and stated that debt from these sources should not be included in its entirety in the Debt Sustainability Assessment. They assess general government debt to be at the lower-middle level internationally.



C. Policies to Contain Banking and Financial Sector Vulnerabilities

36. Financial stability risks are elevated and still rising, as financial institutions have lower capital buffers and face growing asset quality risks. The renewed weakness in the property sector could lead to further asset quality deterioration for both banks and NBFIs, adding to risks from

pandemic-related and inclusive loans. Currently, vulnerabilities are concentrated in smaller banks. However, in the event of a longer and deeper-than-expected property sector downturn with large-scale defaults by LGFVs, developers, and buyers of unfinished pre-sold property, capital adequacy ratios at many smaller banks and some domestic systemically important banks could fall below the regulatory minimum (Box 5).



Sources: S&P Capital IQ; CEIC Data Company Limited; AMAC; and IMF staff calculations.

Sources: Haver Analytics; and IMF staff calculations.
Note: NBFI=Nonbank financial instution.

Sources: S&P Capital IQ; Bloomberg; and IMF staff calculations.
Notes: LGFV bond spread is relative to Chinese government bonds. Data as of 2023M7.

Sources: S&P Capital IQ; Bloomberg; and IMF staff calculations.
Note: Data as of 2023M7.

37. Financial sector policies should mitigate these rising asset quality risks while avoiding unintended tightening of financial conditions in the near term. The recent regulatory upgrades for bank capital (in effect in January 2024), NPL recognition standards (in December 2025), and consolidation of supervisory responsibilities are welcome, as they will likely enhance financial oversight and financial stability in the medium term. However, these regulatory changes should be carefully sequenced and clearly communicated to avoid excessive tightening of financial conditions during the phase-in period, especially in smaller banks.

38. Stricter macroprudential policies and a strengthened framework for bank resolution would improve financial system resilience and mitigate future risks, including those from the

restructuring of LGFVs (see text table on financial sector policies). Key policy recommendations include:

- *Strengthen and strictly apply prudential policies*. Prudential policies should be strengthened and strictly enforced, including phasing out forbearance measures, to ensure adequate risk recognition and mitigation. Limiting exposures to unsustainable debt, supported by imposing higher risk-weights, Pillar II add-ons or concentration limits to these exposures, and containing liquidity mismatches among asset management products are also important. Strict application of prudential policies would help ensure that banks adopt proactive capital and risk management practices and establish sufficiently large buffers to accommodate potential losses. The housing macroprudential measures should avoid policy interventions that distort market signals in favor of a risk-focused approach.

- *Adopt a comprehensive strategy to address weak banks*. Banks facing difficulties in meeting prudential requirements should be required to submit credible restoration plans under heightened supervision and corrective actions. Recapitalization efforts should prioritize build-up of common equity and the use of public funds for recapitalization should be a last resort and only come after burden sharing by existing investors. Nonviable banks should be resolved in a timely manner, with stakeholders sharing losses in line with the established hierarchy of claims.

- *Strengthen the legal framework for bank resolution*. This will require a clearly identified bank resolution authority with strong operational autonomy, standardized procedures, and adequate

Text Table 6. China: Financial Policy Measures

Category	Horizon	Measure details	Benefits
Property Policies	ST	Remove forbearance for property related borrowers; guide lenders to recognize property-related credit risks and initiate restructuring for troubled but viable borrowers. Policy interventions that distort market signals should be avoided in favor of a risk-focused macroprudential approach.	Foster smoother adjustment in property sector; avoid future asset quality risks.
Financial Oversight	ST	Align and extend the phased-in periods of the new risk weight rule (by Jan 2024) and risk classification rule (by Dec 2025). Ensure timely and smooth transition under the institutional reform.	Avoid unintended tightening in financial conditions.
Macroprudential Policies	ST/MT	Align bank supervision and regulation to limit exposures to sectors with unsustainable debt. Enhance risk surveillance by addressing data gaps and upgrading risk monitoring toolkits.	Facilitate orderly deleveraging, avoid future asset quality risks, and improve resource allocation.
Restructuring	ST/MT	Strengthen legal framework for bank resolution, upgrade and incentivize greater use of the corporate restructuring framework, and accelerate exit of nonviable banks and firms; enforce consistent application across state-owned and private entities.	
Financial Stability	ST/MT	Finalize financial stability law; enhance crisis management framework and financial safety nets; minimize dependence on local governments for resolution funding and risk surveillance.	Limit moral hazard; improve policy coordination; safeguard financial stability.

Sources: IMF staff
Notes: ST=short term; MT=medium term.

resources, including administrative capacity and committed resolution funding, supported by further efforts to strengthen operational capabilities.

39. Additional measures could help contain future systemic risks and safeguard financial stability.[8]

- *The systemic risk oversight framework should be strengthened*. Enhanced risk surveillance in both the bank and nonbank sectors, by addressing data gaps and upgrading risk monitoring toolkit, would strengthen the ability to manage cyclical and cross-sectoral risks, to avoid future asset quality risks.
- *Financial activities with similar features and risks should be subject to the same regulations* to limit regulatory arbitrage, especially in the asset management industry. Financial institutions licensed by local authorities should be subject to the same regulations as those regulated by the central authorities.
- *The crisis management framework should be strengthened, including by improving communication.* In time of stress, well-designed system-wide liquidity provision and emergency liquidity assistance to viable financial institutions facing liquidity shortfalls can help ensure smooth functioning of core funding markets and manage contagion risks. The priority is to upgrade the authorities' crisis preparedness capacity and strengthen the financial safety net, including through the enhancement and adoption of the Financial Stability Law.

40. China should continue strengthening the effectiveness of the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework, including through robust supervision of the banking, and digital payments sectors. The focus on the supervision of the banking sector (including smaller banks) should continue, including measures to ensure consistency in supervision across all banks, in line with a risk-based approach. Given the prominence of digital payment platforms in China and the recent penalties issued against several digital payment entities for regulatory breaches (including failures to comply with AML/CFT requirements), the authorities should continue efforts to ensure robust supervision of the sector and conduct inspections to verify the effective remediation of identified AML/CFT system and control deficiencies. While some progress has been made to update the legal framework for beneficial ownership,[9] concrete steps are needed to operationalize the planned beneficial ownership system, so that competent authorities and institutions have timely access to adequate, accurate and up to date

[8] Financial sector policies will also be addressed in detail in the ongoing Financial Sector Assessment Program (FSAP).

[9] Revisions were made to the following laws and regulations, the Constitution, the Civil Code, the Company Law, the Foreign Investment Law and the Implementation Requirements of the Regulation on the Registration of Market Entities. FATF, Follow-Up Report China 2022.

information. While certain legal revisions[10] were made to support the implementation of United Nations-based targeted financial sanctions (TFS) requirements related to proliferation financing, further efforts are required to establish general legal requirements to implement TFS without delay and to prohibit legal persons and entities from making funds available to designated entities, and efforts to strengthen the overall AML/CFT legal framework should continue. While the use of crypto assets is prohibited in China, efforts to monitor and investigate its illicit cross-border use should continue.

Authorities' Views

41. The authorities acknowledged financial stability challenges but assessed overall risk as controllable. They noted increased profitability pressures in the banking sector, including due to lower interest rate margins, but viewed asset quality risks as generally contained. The NPL ratio for pandemic-sensitive sectors, including SMEs, had stabilized at a low level. They reported that the banking sector has reduced their exposures to property developers in recent years and that no individual developer would have a systemic impact given their dispersed financial liabilities. They stated that asset quality of mortgages remains healthy, in part helped by the concerted efforts to deliver unfinished pre-sold houses. They noted that banks' health continued to improve, and that they will continue to promote reforms to resolve high-risk institutions through capital injections, asset disposal, and restructuring. They stated that risks in the trust and asset management industries have dropped considerably in recent years, but that stronger efforts are needed to address increasingly hidden and complex cross-financial business risks and to close regulatory arbitrage.

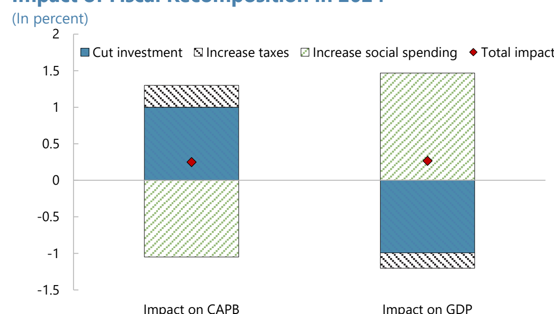
42. The authorities broadly agreed with staff about the need to contain systemic risk and improve financial system resilience. They emphasized that risk prevention and control are the key themes of financial work, as highlighted by the recently concluded CFWC. They noted that the introduction Financial Stability Law will help strengthen the legal framework and institutional arrangements to prevent and resolve systemic financial risk and argued that the resolution of risk events should be in accordance with rule of law and market mechanisms. They argued that local governments should take an important role in handling troubled local financial institutions and regional financial risks.

[10] For example, the establishment of mechanisms for identifying targets for designation based on the designation criteria set out in the relevant United Nations Security Council resolutions and procedures to de-list and unfreeze the funds or other assets of persons and entities. FATF, Follow-Up Report China 2022.

D. Macroeconomic Policies to Bolster Activity and Support Balance Sheet Repair

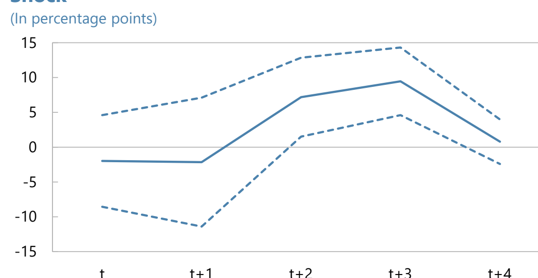
43. A budget-neutral fiscal package, which includes a reorientation of expenditures toward households, would better support growth amid the property sector adjustment and the needed LG fiscal reforms. The broadly neutral fiscal stance in 2023 was appropriate and should continue in 2024, albeit with lower public investment and reorientation towards higher social spending, which would provide a stronger lift to growth due to higher fiscal multipliers (IMF, 2022). In 2024, a deficit-neutral package comprising of higher social spending (1.1 percentage points of GDP), financed by lower off-budget investment and higher tax revenue (-1 and 0.3 percentage points of GDP, respectively) would appropriately support growth without increasing debt risks (chart).[11] Social protection can be structurally strengthened by raising the adequacy of non-urban pensions, unemployment benefits, social assistance, and expanding medical benefits, which would reduce the need for precautionary savings. Capital taxation (with higher rates and fewer deductions) could deliver the needed tax revenue (see text table of fiscal measures and accompanying revenue SIP). Unintended tightening due to LG financing constraints should be offset with temporary CG transfers where needed.

Impact of Fiscal Recomposition in 2024
(In percent)



Sources: 2023 SIP; 2021 SIP; and IMF staff calculations.
Notes: CAPB=cyclically-adjusted primary balance. Impact on GDP is based on multipliers as estimated in IMF (2021) Selected Issues Paper.

Small Firms' Investment Impulse Response to Interest Rate Shock
(In percentage points)



Sources: Capital IQ; CEIC Data Company Limited; WIND; Bloomberg; and IMF staff calculations.
Notes: Each time period t is one half-year. Interest rate shocks are unexpected 25 basis point decreases to the 1-year interest rate swap rate on days of monetary policy announcements. See IMF (2022) Selected Issues Paper for more details.

44. Additional monetary easing via interest rates, accompanied by policy framework adjustments, would support growth and investment, particularly among smaller firms. The easing of monetary policy in 2023, including two interest rate cuts, is welcome. Looking ahead, further reductions in the 7-day repo policy rate, and the associated decline in other interest rates, would help support private investment, especially among small firms, ease the debt servicing burden, and smooth the process of restructuring and capital reallocation. Reforms to the monetary policy toolkit would also help increase the effectiveness of, and scope for, policy support. Easing lending rate guidance policies, phasing out the deposit benchmark rate and deposit guidance

[11] Recommendations to restructure real estate developers and LGFVs would involve below-the-line operations and thus would not have a direct effect on the fiscal stance.

policies, and removing credit growth targets would help improve monetary policy transmission to bank funding costs and thus reduce the negative impact on bank profitability of policy easing (see text table of monetary policy measures).

45. Such macroeconomic policies should be complemented by greater exchange rate flexibility, which would help absorb external shocks and strengthen monetary policy transmission. Against the backdrop of monetary policy divergence vis-à-vis advanced economies and sustained depreciation pressures, this would help counter disinflation pressures. Capital flow measures should not be used to actively manage the capital flow cycle and substitute for warranted macroeconomic adjustment and greater exchange rate flexibility. In the event of a large shock to capital flows that poses significant risks to macroeconomic and financial stability, including if markets turn disorderly, temporary foreign exchange intervention or tightening of outflow CFMs could be considered.

46. If downside risks materialize (Box 3), more accommodative macro policies will be warranted to reduce deflation risks and ensure financial stability. Providing greater support to the property sector would be essential if the downside surprises are driven by greater-than-expected real estate investment weakness. Expansionary fiscal policy, including funding of unfinished housing and support for vulnerable households, would be warranted. Additional monetary easing, especially through lower interest rates, would be needed to cushion the impact on activity.

Text Table 7. China: Monetary Policy Measures

Category	Horizon	Measure Details	Benefits
Reduce Interest Rates	ST	Additional reductions to the PBC's 7-day reverse repo rate	Support the recovery in the ST and offset impact from interest rate reforms in ST and MT
Deposit Rate Guidance Policies	ST	Gradually phase out the benchmark deposit rate and deposit rate guidance policies, allowing deposit rates to be market-determined	Improved transmission from short-term policy rates to bank deposit rates, limiting impact on bank net interest margins. Higher deposit rates increase household income
Aggregate Credit Policies	ST	Gradually phase out policy of ensuring aggregate credit growth is broadly in line with target nominal GDP growth	Eases bank funding demand, reduces credit misallocation, allows prudent deleveraging
Bank Lending Rate Guidance	ST	Phase out policies incentivizing lower loan rates to certain sectors, e.g. micro and small enterprises (MSEs)	Eases distortions and risks to banks in MSE lending, and may raise access to credit for non-priority risky borrowers
One Key Policy Interest Rate	MT	PBC should guide the short-term interbank rate, let longer-term rates be market-determined	Help establish yield curve, improve price discovery, strengthen central bank communications
Targeted Credit Policies	MT	Gradually phase out policy targets for lending to certain borrower segments, i.e. private firms or MSEs	Improve credit allocation, reduce conflict with underwriting and governance

Sources: IMF Staff. See also IMF (2020) Selected Issues Paper for more details.

47. In the event of the materialization of significant adverse macro-financial spillovers, early interventions would help to safeguard financial stability. Smaller banks in lower tier cities and fiscally weaker regions are most vulnerable as they already face worsening asset quality and higher funding costs, reflecting their existing weaknesses in financial soundness and governance. Stronger prudential policies with intensified supervision, restructuring of property developers, and contingency planning with emergency liquidity assistance should be a priority. This would help

prevent contagion to the financial system and negative macro-financial feedback loops that could potentially lead to unwarranted insolvencies.

Authorities' Views

48. The authorities viewed the fiscal stance in 2023 as proactive. They noted that continued fiscal support has contributed to economic growth in 2023H2 and viewed the targeted tax cuts for SMEs and R&D in the budget are part of the broader strategy to transition to higher-quality growth driven by manufacturing and innovation. They stated that the three increased personal income tax special additional deductions including care expenses for children under the age of 3, child education and elderly care effective since January 2023 have alleviated the tax burden, especially on households below the middle-income level, and noted that people's livelihood expenditure has been prioritized. They saw the additional 1 trillion RMB government bond issued in 2023Q4 as necessary to finance capacity building against natural disasters and also conducive to expanding domestic demand and consolidating the positive trend of economic recovery.

49. The authorities plan to maintain a proactive fiscal policy in 2024 to support the recovery. They continue to see public investment as playing an important role in bolstering growth but saw scope to reduce infrastructure investment by LGFVs going forward. They reported that after years of tax reform, a modern tax system suitable for their development stage has been basically established. Their view is that at present and in the future, the tax system needs to maintain basic stability and undergo structural reforms to improve its efficiency, fully leverage the positive role of taxation in building a new development pattern, promoting high-quality development, regulating income distribution, and promoting common prosperity, rather than directly increasing fiscal revenue. In the face of rising social spending pressures from aging, they plan to gradually increase the retirement age, strengthen cost control in government administration and healthcare, and increase transfers to local governments. They noted that the implementation of nationwide pooling of basic old-age insurance for enterprise employees funds will mitigate risks and the adequacy of basic old-age insurance funds will be improved.

50. The PBC highlighted that it will continue to steadily support the real economy and deepen interest rate reform. The authorities noted that open market operations, structural credit policies, and other lending tools will be used to provide liquidity and maintain a steady pace of credit growth with a view to promote high-quality growth. In particular, policy tools will be used to increase support for small and micro enterprises, including in the areas of scientific and technical innovation and green development. Banks will be guided to enhance market-oriented interest rate determination and the central bank's policy interest rate framework will be further refined. The authorities explained that while the exchange rate is mainly market-determined, the PBC intervenes only to prevent over-shooting in the short term, which could lead to self-reinforcing market expectations. They saw the recent RMB depreciation pressures as temporary and argued that they

are set to reverse in the coming months as the rate hiking cycle in advanced economies comes to an end and the Chinese economy continues to recover.

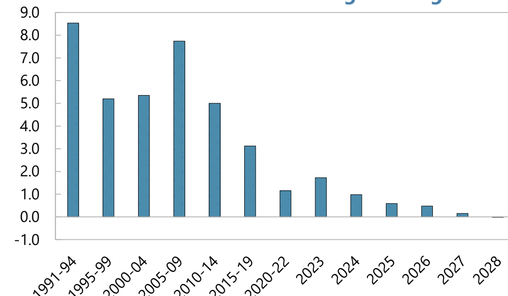
DEVELOPING NEW ENGINES OF GROWTH

Key Issues. *Against the backdrop of large imbalances and slowing growth potential, reforms are urgently needed to raise productivity and foster balanced, inclusive, and green growth, while containing risks of debt overhang. This will require sustained implementation of pro-market structural reforms, fiscal reforms to boost consumption and enable rebalancing, policies to encourage expansion of the service sector, and measures to support decarbonization. The authorities' priorities for the next 5 years recognize many of these challenges and they have taken steps to address them, including by developing and scaling up low-carbon technologies.*

A. Policies to Accelerate Income Convergence and Boost Productivity

51. Trade liberalization and market reforms unleashed three decades of economic overperformance in China, but new engines of growth are needed. Between 1990 and 2019, China's growth was 5.5 percentage points higher than other countries at similar levels of economic development. Greater openness to trade and exceptionally high investment fueled domestic growth in China and generated significant positive spillovers for countries with deeper trade links with China, including many Asian countries (IMF, 2023). However, with declining capital productivity, the growth benefits of high investment have also declined (IMF, 2021; IMF, 2020). In the absence of comprehensive structural reforms to lift productivity, China's growth is projected to decline to the global average, conditional on income level, by 2028.

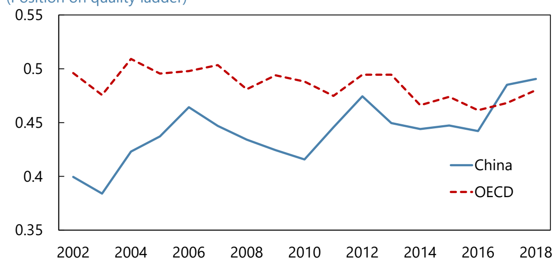
Residuals from Unconditional Convergence Regression



Sources: IMF World Economic Outlook; and IMF staff calculations.
Notes: For 1991 to 2019, plots the residual for China for a standard unconditional convergence growth regression where real GDP growth rate is regressed on lagged pc GDP PPP (log). For 2020 to 2028, computes out of sample residuals based on latest WEO projections for GDP growth.

52. Going forward, green innovation could provide a new engine of growth. China has been a global leader in green innovation, with the quality of China's environmental goods gradually converging to OECD levels (IMF, 2023). In a cross-country setting, green innovation has, on average, had a positive impact on activity in the short- to medium-term. Productivity benefits of green

Quality of Environmental Goods
(Position on quality ladder)



Sources: USA Trade Online; and IMF staff calculations.
Notes: Length of quality ladder for a product is the difference between the highest and lowest estimated quality for the product. Position on quality ladders of a country for a product is the difference between the countries estimated quality and the lowest quality, divided by the length of the quality ladder. Line plots the average quality for environmental goods (as per the IMF Climate Dashboard) weighted by US imports. See 2023 October APD REO Chapter 3 and Online Annex for details on methodology.

innovation could take place over the longer term, as production processes restructure in the green transition (Hasna and others, 2023).

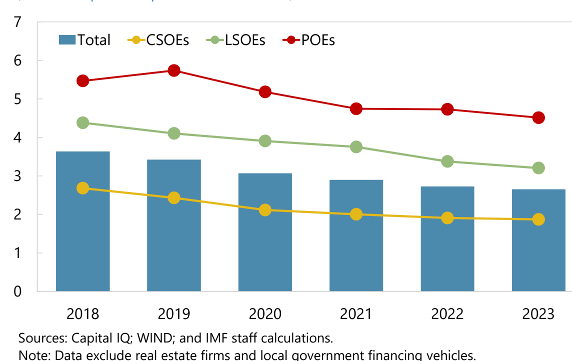
53. However, continued state intervention and use of industrial policies are contributing to resource misallocation and creating significant domestic challenges. China continues to provide wide-ranging support to "priority" sectors, to develop homegrown technologies and enhance self-reliance. These policies include preferential access to credit, research funding, collaboration with state entities, and innovation tax breaks and incentives for strategic manufacturing and science and technology firms and sectors (NDRC, 2023; State Council Information Office, 2023; PBC, 2023, State Council, 2023). Such ongoing policy actions have the potential to contribute to excess capacity in targeted sectors (Caixin, 2023), distort resource allocation, and create an uneven playing field vis-à-vis private enterprises.[12]

54. Comprehensive reforms could boost productivity growth and stave off the structural headwinds. They should be appropriately sequenced to maximize benefits and avoid disruption. The priorities include:

- *Pro-market reforms* to allow greater firm entry and exit could improve business dynamism and foster innovation, within both manufacturing and services (Cerdeiro and Ruane, 2022). Reducing barriers to interprovincial trade and better market integration at the national level would boost competition and productivity.

- *SOE reform and scaling back of industrial policies,* such as support and implicit guarantees to SOEs, eliminating cost advantages and preferential access to credit provided to SOEs, improving transparency and SOE governance, and fostering the orderly exit of unprofitable SOEs. These reforms would foster competitive neutrality between SOEs and privately-owned enterprises, and help close the productivity gap between them.

Nonfinancial Firms: Average Funding Costs
(Interest expense in percent of total debt)

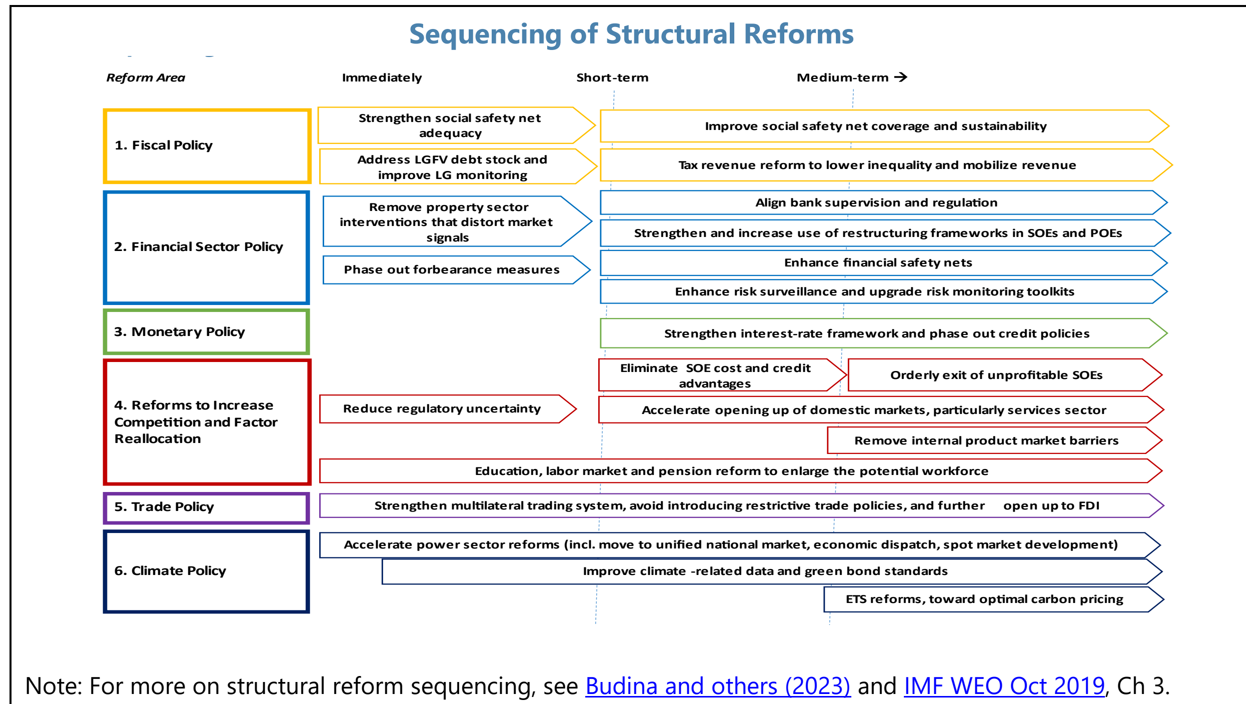


Sources: Capital IQ; WIND; and IMF staff calculations.
Note: Data exclude real estate firms and local government financing vehicles.

- *Monetary and financial sector policies* aimed at phasing out credit targets as well as strengthening and increasing the use of insolvency and restructuring frameworks would support a more efficient allocation of resources and increase business dynamism and productivity.

[12] Lower interest rates for SOEs can explain around half of the capital productivity gap between SOEs and private firms (Jurzyk and Ruane, 2021). Industrial subsidies in China were estimated at more than 1.7 percent of GDP in 2019, far exceeding levels spent in other economies (DiPippo and others, 2022).

- *Labor market and education policies*. Policies should increase the responsiveness of the education system to skills demand and boost human capital. Job search-and-matching assistance, hiring and start-up incentives, retraining programs, and expanded employment services, including for recent graduates, could help. Rebalancing would expand the service sector, which is the main sector absorbing new graduates (Box 2).



Note: For more on structural reform sequencing, see Budina and others (2023) and IMF WEO Oct 2019, Ch 3.

- *Pension reforms* to gradually increase the retirement age to 65 for both men and women (from 60 and 50-55, respectively) would help slow the decline in the labor force (IMF, 2021, see text table on fiscal measures) and could support rebalancing towards consumption via lower savings rates.

55. Productivity-enhancing structural reforms could have significant positive growth spillovers.[13] Model-based estimates suggest that an upside reform scenario where China reignites convergence could raise domestic GDP by 21 percent in the long term, with the rest of the world seeing a growth boost of 2 percent. The gains are likely to be especially large in China's close trading partners and those with strong GVC links with China, with south-east Asian countries seeing a growth boost of up to 4 percent.

[13] See (IMF, 2022) for policies that can deliver the upside scenario for China, which would increase growth by about 1 percentage point per year relative to the baseline. See Chapter 3 of the October 2023 *Regional Economic Outlook* for Asia and the Pacific for details on the spillover estimates.

Authorities' Views

56. The authorities stressed that ongoing reforms and a renewed focus on the development of high-tech sectors will drive economic growth and productivity. One of their ongoing reform priorities is ensuring fair competition and removing local protectionism by strengthening supervision and law enforcement, removing administrative monopolies, and accelerating the development of a large unified national market. They stressed the SOEs' positive reform progress and noted that they play an important economic role while shouldering significant social responsibility. They also emphasized the equal treatment of all enterprises irrespective of ownership, and ongoing efforts to create a level playing field for all types of market players. They mentioned ongoing considerations of a gradual extension of the retirement age. They viewed continued growth in investment and innovation in high-tech and green developments as a main driver of productivity over the next years.

B. Policies to Support Rebalancing, Foster Inclusive Growth, and Decarbonize Efficiently

57. Rebalancing would support the transition to higher-quality and safer growth (Box 6). China made important progress with external and internal rebalancing pre-COVID and after reopening, reducing the current account surplus, increasing the consumption-to-GDP ratio and expanding the service sector. However, China's household savings rate remains extremely high by international standards. Measures to expand the social safety net, which would reduce the need for precautionary savings by households, are essential for rebalancing.

China: Rebalancing Scorecard Relative to Pre-Pandemic

External		Internal			Environment		Income Distribution	
Current acc.	Net exports contrib.	Cons/ Inv	Industry/ Services	Credit	Energy	Air pollution	Labor income ratio	Income inequality

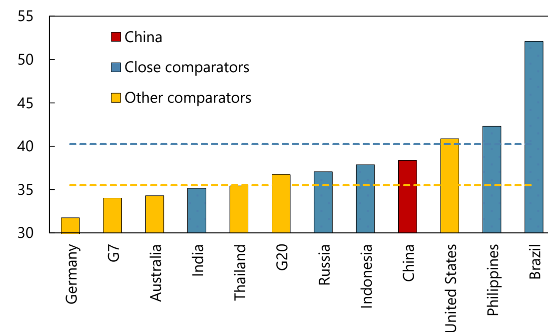
Notes: The color coding is based on the change in each indicator relative to 2019. Color coding: red if the changes go in the opposite direction of rebalancing; yellow if some progress was observed; and green if there was substantial progress in rebalancing. For indicators that are ratios, changes are measured in simple differences and are considered substantial if larger than 0.5 percentage points. For indicators that are indices and for the credit indicators, changes are measured in annual percent change and are considered substantial if larger than 5 percent. See Zhang, L. (2016), "Rebalancing in China—Progress and Prospects," IMF Working Paper No. 16/183 for the framework.

1/ Reported values for 2023 are for 2023 YTD (through Q3), not full year projections.

58. Income inequality, one of the indicators of rebalancing (Zhang, 2016), has broadly stayed at the elevated pre-pandemic levels, and the labor income ratio worsened. Even though China largely eradicated poverty, inequality has risen over the last two decades during the high-growth period and is generally higher than in comparable countries. Structural changes, such as urbanization and aging have contributed to the rise in inequality (Jain-Chandra and others, 2018), and continued policy initiatives are needed to reduce inequality. A gradual expansion of the service sector is expected to increase the share of labor income in GDP, thanks to the higher labor intensity of the service sector relative to the industrial sector.

59. Structural reform priorities to support rebalancing and inclusive growth should include:

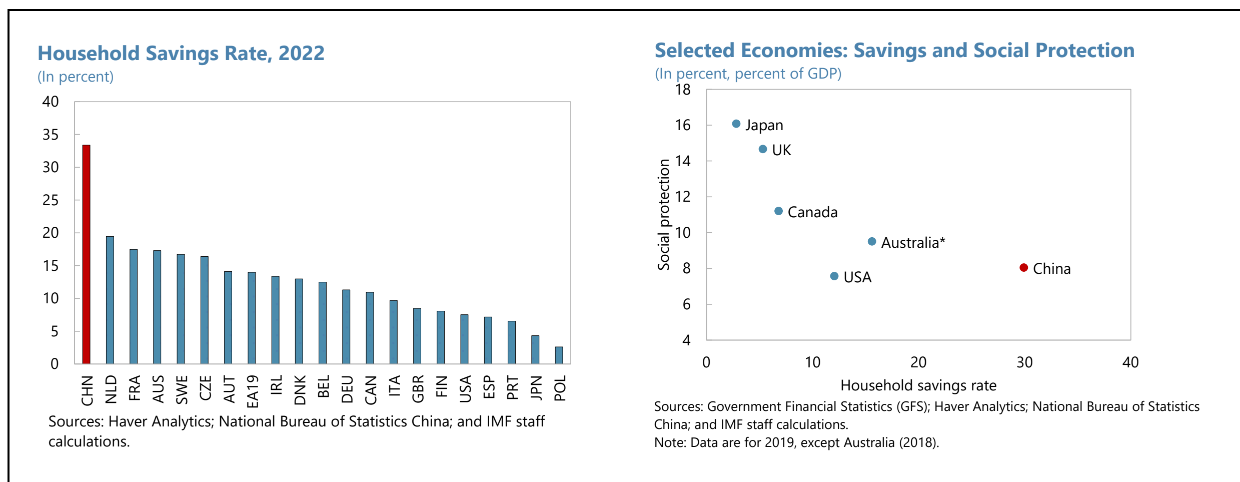
- *Expenditure reforms* to lower the need for precautionary savings by durably strengthening the social safety net, increasing both its adequacy and coverage. In addition to short-term measures to increase adequacy parameters and introduce supplementary insurance plans outlined above (para 43), medium-term reforms should include expanding the coverage of unemployment insurance, introducing a national child assistance program, accelerating *Hukou*[14] reform, and advancing the unification of the social security system (see fiscal text table).[15]



Sources: The World Bank Group; and IMF staff calculations.

[14] Hukou reforms are an important way to expand the social safety net, by allowing migrant workers and their families to access public services and benefits available to urban residents. In 2023, Zhejiang province announced Hukou reforms, allowing household registrations based on the regular residence of the household, including leased residence in cities. Benefits are to be recognized and accessible throughout the province for the whole household, including dependent children and parents. A nationwide expansion of these reforms would be welcome.

[15] Over the medium term, these additional expenditures should be more than offset by public investment cuts and tax reform, given elevated debt vulnerabilities.

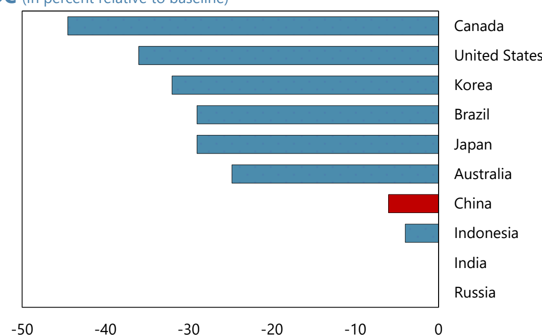


- *Tax policy reforms* to reduce inequality and excess household saving. Reforms should include a progressive increase in personal income taxes, with lower thresholds and higher rates, coupled with a reduction in (regressive) social security contributions, as well as strengthening capital income taxation and introducing a recurring property tax (see fiscal text table).

- *Monetary and financial sector reforms* to phase out growth targets that incentivize unsustainable public investment, as well as credit policies.

60. China has already made welcome progress towards meeting its climate goals. China is on track to peak carbon emissions before 2030 and is committed to carbon neutrality by 2060. It has the world's largest installed capacity of renewable energy and is set to overachieve its Nationally Determined Contribution (NDC) target of renewable capacity and raising non-fossil share in energy consumption by 2030.[16] In addition, China introduced a nationwide Emissions Trading System (ETS) in 2021, released a National Climate Change Adaptation Strategy in 2022, published a plan to control methane emissions in 2023, and is undertaking important power sector reforms.

Selected Economies: Emission Reduction Needed to Achieve NDC (In percent relative to baseline)

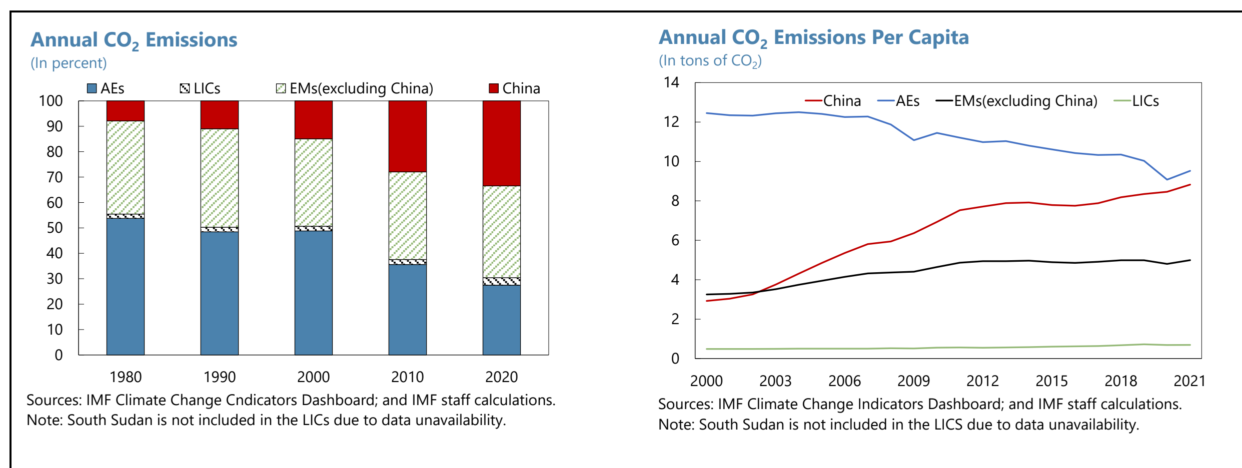


Sources: Climate Policy Assessment Tool (CPAT) 2023; and IMF staff calculations.

61. However, China is still the single largest emitter of CO_2 and thus the speed of its decarbonization is crucial in addressing the global climate crisis. China accounts for about one

[16] China's NDC includes lowering carbon intensity by over 65 percent in 2030 relative to the 2005 level (shown in chart relative to other countries' NDCs), and increasing forest stock volume by around 6 billion cubic meters relative to the 2030 level.

third of global annual emissions, and almost 15 percent of cumulative global emissions. China's per capita emissions are still increasing, although China is still below high-income countries' average per capita emissions. Peaking emissions as early as possible in China would not only help limit the global rise in temperatures but also allow a less steep decarbonization path for China toward 2060. China's goal to fully decarbonize its economy in about 30 years implies the fastest decarbonization path of any major economy.



Sources: IMF Climate Change Cndicators Dashboard; and IMF staff calculations.
Note: South Sudan is not included in the LICs due to data unavailability.

Sources: IMF Climate Change Indicators Dashboard; and IMF staff calculations.
Note: South Sudan is not included in the LICS due to data unavailability.

62. The efficiency of China's decarbonization could be improved through faster rebalancing, accelerated power sector reforms, and ETS reforms. Faster rebalancing would support greener growth, with each percentage point increase in consumption to GDP associated with about one percent decline in emissions (IMF 2021). Power sector reforms, including a unified national power market, greater use of expanded ultra-high voltage transmission grid and fully transitioning to an economic dispatch could further help manage peak electricity demand, reduce emissions and a heavy reliance on coal in some parts of China. Finally, expanding China's ETS coverage to the industrial sector, introducing partial auctioning of ETS permits, or moving to a quantity-based (cap-and-trade) ETS, would allow China to reach its climate goals in a more cost-effective way (Goulder and others, 2022; IEA, 2022). Overall, implementation of these measures could help China achieve its 2060 net zero target with a less steep decarbonization path at a later stage or help achieve the same emissions reduction in a less costly manner.

Authorities' Views

63. The authorities emphasized their progress in reaching climate goals and noted that consumption was the main contributor to growth in 2023. They noted that coal will gradually transition to a supportive role in the power system as its share in power generation declines. They described the principle of an energy-saving dispatch, in which electricity from renewables is prioritized, the newly added electricity demand is mainly supplied by non-fossil fuels, and coal-fired power is gradually transitioning towards being the backup power with generation flexibly adjusted

according to that of renewables. They did not see the need for structural fiscal reforms to further support rebalancing, beyond their existing redistribution goals. They emphasized improvements in the social protection system in recent years, including gradual relaxation of Hukou restrictions at the local level and progress in national pooling of the enterprises employees' basic old-age insurance funds.

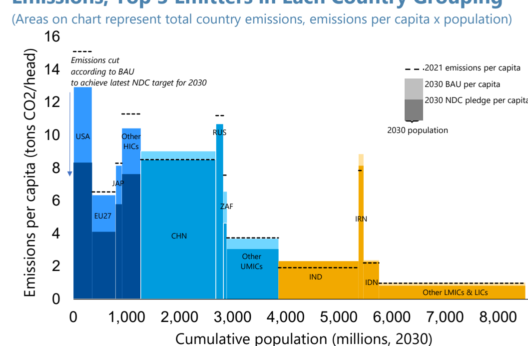
STEPPING UP MULTILATERAL COOPERATION ON TRADE, CLIMATE AND DEBT

A. China's Continued Leadership on Global Climate and Debt Issues

64. China's continued and growing leadership to address the global climate crisis is vital for China and the world. The current nationally determined contributions (NDCs) for all countries for 2030 are insufficient to limit global warming to 1.5-2^{0}C. Hence, greater ambition and cooperation is needed from all major CO2 emitters, including China. Further efforts to equitably limit global warming to 1.5-2^{0}C (IMF, 2022) are strongly in China's own interest, given the risks posed by sea level increases, droughts, and heatwaves, as well as domestic health benefits from reduced reliance on coal (IMF, 2022). Moreover, while cooperation with the EU regarding green finance regulations resulted in the Common Ground Taxonomy in 2021 and adoption of stricter China Green Bonds Principles in 2022, further efforts and cooperation are needed to support and stimulate green investment within and across countries. China's continued commitment to greening the Belt and Road Initiative is welcome (Nedopil, 2023).

Emissions, Top 3 Emitters in Each Country Grouping

(Areas on chart represent total country emissions, emissions per capita x population)



Souces: Climate Policy Assessment Tool (CPAT); and IMF staff calculations.
Note: Emissions refer to fossil fuel CO2 emissions.

65. As a major creditor country, China plays a crucial leadership role as well as financing role in supporting debt restructuring in low-income and vulnerable countries. China's critical support and participation in recent or ongoing debt restructurings, including its leadership as co-chair of several Official Creditor Committees under the G20 Common Framework is welcome. China is also an active participant at the Global Sovereign Debt Roundtable (GSDR), helping advance the mutual understanding of key stakeholders on issues relating to the sovereign debt restructuring architecture. Continuing progress on the Common Framework and through the GSDR would help ensure effective, predictable, and timely debt resolution processes for vulnerable countries. China's generous contributions to the Poverty Reduction and Growth Trust and Resilience and Sustainability Trust (RST) are welcome and essential to maintain a well-resourced global financial safety net. China contributed more than 20 percent of its 2021 SDR allocation to the RST, the single largest contribution.

Authorities' Views

66. The authorities emphasized that the global response to climate change should follow the principle of "common but differentiated responsibilities" established by the United Nations Framework Convention on Climate Change and Paris Convention. They stated that developed countries have the responsibility to take the lead in significantly reducing emissions and providing financial support to developing countries. They expressed confidence in reaching their carbon peak goal before 2030. However, they found that some countries have experienced climate policy fluctuations or insufficient implementation and urged all countries to do their part in reducing emissions further. They noted China's role in greening the Belt and Road Initiative, helping other countries reduce emissions.

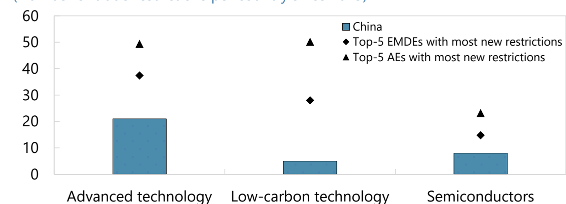
67. The authorities emphasized their important role in supporting debt restructuring in low-income and vulnerable countries, underlining the need for continued collaboration with key creditors. They urged relevant international organizations to reform and optimize the framework and parameter settings for debt sustainability analysis. They stated that multilateral development institutions should be responsible for their own debt disposal in accordance with the principle of "joint action and fair burden".

B. Strengthening Global Trade Integration

68. China's use of industrial policies and state intervention are also contributing to trade distortions, generating spillovers to the trading system. In addition to domestic challenges, widespread state intervention undermines the level-playing field internationally. Industrial policy measures, including domestic subsidies and trade restrictions, are becoming more frequent among G20 economies. While such interventions can be justified in the presence of clear market failures, they also risk triggering retaliatory responses by trading partners, leading to a slippery slope that fragments global supply chains.[17]

New Trade Restrictions in Selected Product Categories

(Number of trade restrictions per country since 2023)



Sources: Global Trade Alert, Sept 2023; Evenett, Fernando, Jakubik, Ruta (2023), and IMF staff calculations.
Notes: The Global Trade Alert (GTA) database provides information about policy changes that are likely to alter the relative treatment of foreign commercial interests. The data are compiled by a team of trade policy experts that are not affiliated with a government or international organization. The database tracks new policy changes, so it has no information on the existing stock of policies. Inclusion of a policy change in the database requires supporting documentation (e.g., the text of a decree or of an official budget speech). For a state intervention to warrant a new entry in the GTA database, it must meet several conditions, some of which introduce the use of judgement in borderline cases." For this chart, EU and EEU-wide measures are calculated as if they were deployed by all of their members. If a restriction covers several product categories, it is counted in each of them.

69. Geoeconomic fragmentation costs can be large for China and the world. Staff analysis shows that "re-shoring" production toward domestic producers and "friend-shoring" away from geopolitical rivals towards allies, can lower GDP growth by about 6 percent in China and 1.8 percent

[17] Recent data suggest that when the US, China, or the European Union put in place a new subsidy measure, there is a 74 percent probability that one of the others will implement a subsidy for the same product within 12 months (Evenett, Jakubik, Martin, Ruta, 2023).

globally (Box 7). Moreover, fragmentation in commodity markets could severely delay the global green transition and inflict large potential costs for China (IMF, 2023).

70. Scaling back industrial policies, accelerating SOE reform, and relying more on market forces, would both help contain domestic distortionary effects and reduce their spillover effects. The dominance of the public sector in "strategic key industries" should be balanced by further market liberalization, particularly in services, and ensuring that competition policy is applied equally to state- and privately-owned firms. Protectionist provisions that discriminate between domestic and foreign producers should be removed, and export controls, including those on critical minerals, should be phased out and not be used to provide competitive advantage to domestic industries.

71. In the face of these pressures, China should continue its efforts to strengthen the multilateral system—and especially the WTO—which has brought significant economic benefits both to China and the rest of the world. China's leadership with plurilateral initiatives at the WTO, including on investment facilitation, is welcome, as well as working with other countries to restore a well-functioning dispute settlement mechanism by 2024. China could demonstrate its commitment to an open and rules-based trading system and help reduce fragmentation pressures by scaling back distortions to trade and investment from domestic industrial policies and trade restrictions, which create domestic challenges and global spillovers. A common multilateral approach—consistent with the WTO rules—on the appropriate use and design of subsidies[18], underpinned by thorough analysis of the cumulative effects of various countries' subsidy packages on climate and economic effects, would be critical to minimize geoeconomic fragmentation risks (IMF, OECD, World Bank, and WTO, 2022).

72. Greater trade integration, increased services trade and greater opening up to FDI should be pursued, in line with authorities' objectives. After applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership agreement (CPTPP) and Digital Economy Partnership Agreement (DEPA), China has piloted some of the CPTPP rules in eligible free trade zones since 2022. The authorities are also planning to further reduce the negative list of foreign investment access (on top of a shortened version implemented since 2022). Adopting the high-standard provisions of the CPTPP and DEPA will facilitate China's economic and trade integration, including through opening up of service sectors, especially those with high productivity growth.

[18] As acknowledged by IMF, OECD, World Bank, and WTO, 2022, no general or easy definition of subsidies exists as different definitions are used in different contexts. For purposes of the joint international organizations study a subsidy refers to "a transfer from the government (including indirectly) to an entity that is 'unrequited,' i.e., without an equivalent contribution in return."

Authorities' Views

73. The authorities noted the challenging global landscape and weakening global trade and stressed their continued commitment to globalization. They expressed their concern about growing fragmentation pressures and the associated risks to global trade. They stated that since the beginning of this year, China's foreign trade has shown strong resilience in the face of multiple challenges such as weak external demand and geopolitical risks, and its overall performance has been better than expected. They were confident about the development of foreign trade in the future. They emphasized that they disagreed with the notion that China's longstanding industrial policies create international spillovers. They expressed strong commitment to WTO reform and called for advancing negotiations to ensure the WTO adapts to changes in the global economy and restores a binding, two-tier dispute settlement mechanism. They reported progress towards joining the CPTPP after completing an in-depth study of all the provisions.

C. Improving Economic Data

74. Further efforts are needed to address significant remaining data gaps. While data are broadly adequate for surveillance, significant data gaps remain (see Informational Annex). Long-standing data gaps include quarterly GDP by expenditure component (nominal, real, and seasonally adjusted); general government data with a breakdown of expenditure by economic type (current and capital expenditure); and data on off-budget entities (including LGFVs) that meet the statistical criteria for inclusion within the perimeter of the general government. Greater transparency in recording methods in public sector's foreign assets would help explain the widening divergence between changes in official foreign assets and accumulated changes in FX reserves recorded in the BOP. Greater transparency on foreign exchange interventions would also facilitate multilateral surveillance through more comprehensive monitoring of the international monetary system. Enhanced data sharing and standardization of data on critical minerals are also needed, especially to support a better understanding of the effect of trade policies on green investment.

Authorities' Views

75. The authorities noted continued progress with data provision. In external sector statistics, the authorities stressed recent actions to further improve the coverage of reporting entities of the Declaration of External Financial Asset, Liability, and Transactions and the coverage of foreign-related businesses in BOP statistics. In addition, they clarified that differences in the data compilation methodologies for BOP and Customs trade data are the main reason for the widening divergence in trade surplus between the two datasets. On youth unemployment data, they stressed ongoing efforts to improve survey design, aiming to collect more accurate data and better align with international standards. They welcomed the cooperation between the IMF and the National Bureau of Statistics to improve national accounts methodologies with a focus on the digital economy and expressed willingness to work with the Fund to further refine the perimeter of general government.

STAFF APPRAISAL

76. After a post-COVID rebound in 2023, China's growth is expected to slow due to cyclical and structural factors. The Chinese economy is estimated to have grown broadly in line with the authorities' growth target in 2023, but the ongoing adjustment in the property market—while needed and welcome—is likely to continue to weigh on private investment and consumer confidence. Absent significant structural reforms, growth is projected to decelerate further in the medium term amid long-standing structural headwinds of population aging and slower productivity growth. On a preliminary basis, the external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

77. Risks are tilted to the downside. On the domestic side, delays in developer restructuring could lead to weaker-than-expected investment while deteriorating consumer confidence and an increase in precautionary savings could lead to weaker-than-expected consumption. Unintended fiscal tightening could take place if LGs face increasing financing constraints. External risks include weaker-than-expected external growth and continued tightening in global financial conditions, which, together with rising geopolitical tensions, could weigh on exports and capital flows. Upside risks include stronger-than-expected policy support, and faster restructuring in the property sector.

78. A comprehensive CG-led strategy to contain the risks from the ongoing property sector adjustment and manage LGs debt is urgently needed. A package of policy measures aimed at facilitating a smooth transition of the property market to a new equilibrium along with reforms to ensure the sustainability of local government finances would help reduce policy uncertainty, lift confidence, and boost near-term prospects. Such a strategy should also encompass policies to contain financial sector risks and safeguard macro-financial stability, while supporting near-term growth.

79. Further measures are needed to facilitate a faster and less costly transition of the property market to a more sustainable size. These should include steps to accelerate exit of nonviable property developers, allocate additional CG funding for housing completion, assist viable developers to repair balance sheets and adapt to a smaller property market, and reform the pre-sale model. Existing measures such as forbearance and guidance to limit price adjustment could make the adjustment more costly and should be removed. Encouraging alternative investment options for households would reduce the investment-driven demand for housing and support a more sustainable size of the property market.

80. Balance sheet restructuring and fiscal framework reforms will help to contain LG debt risks and close existing LG fiscal gaps. Such reforms include a progressive increase in personal income taxes coupled with a reduction in social security contributions, greater capital taxation, a nationwide property tax, a reduction in the number of VAT rates and exemptions, and higher excise taxes. Public financial management reforms should clarify LG expenditure mandates, integrate

financial management and reporting systems, and fully phase out provincial growth targets. Improved risk sharing between the CG and LG would further help close LG fiscal gaps. Reducing the stock of LGFV debt would require greater use of insolvency tools to write down debt and facilitate asset sales, with enhancements in the financial safety net.

81. With financial stability risks elevated and rising, financial sector policies should mitigate asset quality risks and safeguard macro-financial stability. The planned regulatory upgrades are welcome. However, they need to be carefully sequenced and clearly communicated to mitigate future risks and avoid excessive tightening of financial conditions. Strict application of prudential policies, and a strategy to address weak banks coupled with a strengthened legal framework for bank resolution, would improve financial system resilience. To contain future systemic risks and safeguard financial stability, additional policies to improve systemic risk oversight, enhance crisis preparedness capacity, and strengthen the financial safety net are needed.

82. A budget-neutral fiscal package, which includes a reorientation of expenditures toward households, would support growth as the economy adjusts to a smaller property sector and slower growth of LG debt. In 2024, a deficit-neutral package comprising of higher social spending, financed by lower off-budget investment and higher tax revenue would appropriately support growth without increasing debt risks. The focus should be on strengthening the social protection by raising the adequacy of non-urban pensions, unemployment benefits, social assistance, and expanding medical benefits, which would reduce the need for precautionary savings. Over the medium term, sustained fiscal consolidation driven by lower off-budget investment and higher tax revenues is needed to stabilize the general government debt-to-GDP ratio.

83. Accommodative monetary policy, with policy framework adjustments, would bolster activity, while greater exchange rate flexibility would help absorb external shocks. Additional easing via interest rates would further support growth and investment as well as counter disinflationary pressures. Reforms to the monetary policy toolkit, including easing lending rate guidance policies, phasing out the deposit benchmark rate and deposit guidance policies, and removing credit growth targets, would increase the effectiveness of, and scope for, monetary policy support. Against the backdrop of monetary policy divergence vis-à-vis advanced economies and sustained depreciation pressures, greater exchange rate flexibility would help counter disinflation pressures and further strengthen monetary policy transmission.

84. Broad-based structural and pro-market reforms aimed at boosting productivity, supporting rebalancing and decarbonization would support new engines of growth. Pro-market reforms that allow greater firm entry and exit and reduce barriers to interprovincial trade would help raise productivity, as well as SOE reforms and phasing out credit targets to improve the allocation of capital. Labor market and education policies should improve the allocation of labor, and increasing the retirement age would slow the decline in the labor force. Expanding the social safety net and implementing progressive tax reforms are important to support rebalancing and thus ensure

a safer growth model with lower emissions. Steps to accelerate power sector reforms, expand the grid system, move to economic electricity dispatch, and reform the ETS are also needed to support decarbonization.

85. China could demonstrate its commitment to an open and rules-based trading system and help reduce fragmentation pressures by scaling back the use of industrial policies and trade restrictions. Such policies contribute to investment and trade distortions, creating domestic challenges, and generating spillovers to the trading system. Accelerating SOE reform, ensuring that competition policy is applied equally to state- and privately-owned firms, are also critical. Protectionist provisions that discriminate between domestic and foreign producers should be removed and export restrictions, including those on critical minerals, should be phased out.

86. China should continue to play a leading role in addressing global challenges. China's role in supporting sovereign debt restructuring in low-income and vulnerable countries is welcome and continued progress is needed for timely debt relief. As further multilateral efforts and cooperation are needed to support green investment and address the global climate crisis, China's continued and growing leadership in this area remains vital.

87. China should address remaining macroeconomic data gaps. While data are broadly adequate for surveillance, significant data gaps remain. Addressing these gaps and improving data quality would further enhance data transparency and support policy making.

88. It is proposed that the next Article IV consultation with China take place on the standard 12-month cycle.

Box 1. Inflation: A Comparative Perspective[1]

While inflation surged in the rest of the world upon reopening, price pressures have remained subdued in China. Limited passthrough of global energy and food prices and the ongoing real estate contraction have significantly contributed to lower inflation in China, with greater economic slack playing a smaller role.

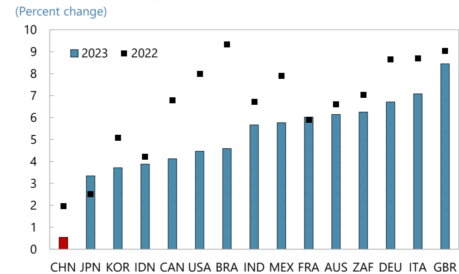
Inflation in China has remained subdued, in sharp contrast to its peers. Average world inflation surged to over 7 percent in 2022, and while inflation pressures have started easing globally in 2023, inflation remains well above target for most countries. In comparison, price pressures have remained muted in China, with headline inflation being the lowest among G20 countries.

Various factors have contributed to lower inflationary pressures in China in 2022 and 2023.

- *Greater economic slack:* China's output gap is significantly more negative compared to peers, reflecting the late reopening and weak recovery. While greater slack has contributed to lower core inflation, it likely explains only a small share of the inflation differential between China and other countries.[2]
- *Food and energy prices:* While higher energy and food prices following the war in Ukraine added significantly to global inflation pressures, the passthrough in China was limited, in part reflecting administered prices. Lower energy and food prices alone explain about 3 to 4 percentage points of the inflation differential between China and OECD countries.
- *Divergence in housing markets:* Housing has added 0.6 percentage points to inflation in OECD countries, reflecting rising house prices and rents following pandemic-era stimulus. In China, the property sector downturn has resulted in housing and rent contributing slightly negatively to inflation.

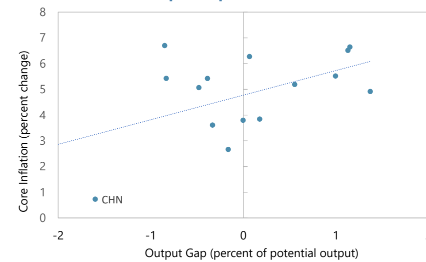
The inflation differential between China and other countries is expected to close gradually. While global inflation is expected to decline on the back of tighter monetary policy, in China, inflation is expected to tick up as the economy continues to recover and the recent drag from low energy and food prices fades.

Headline Inflation, G20 Countries
(Percent change)



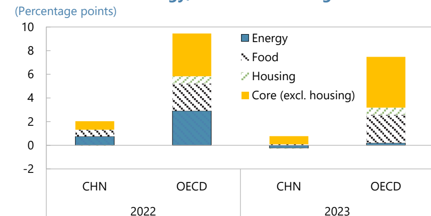
Source: IMF GDS Database.
Note: 2023 based on data upto the latest month available for each country.

Core Inflation vs Output Gap, G20 Countries, 2023



Sources: IMF World Economic Outlook Database.
Note: Based on full year forecast for core inflation and output gap.

Contribution of Energy, Food and Housing to Inflation
(Percentage points)



Sources: OECD; China National Bureau of Statistics; and IMF staff calculations.
Notes: 2023 based on data upto the latest month available. "Advanced Economies" is a simple average across countries in the OECD dataset. Contribution of energy, food and housing combines the inflation of each category with its weight in the CPI basket. Coverage of "housing" category may differ across countries due to differences in methodology. "Core (excl. housing)" is a residual, with all compoents adding up to headline inflation.

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[1] Prepared by Siddharth Kothari and Fan Zhang.

[2] Phillip's Curve estimates of core inflation on output gap suggest that a 1.5 percentage points lower output gap in China compared to the world (2023 estimate) would account for about a 0.25 percentage points difference in core inflation. China's more limited pandemic-era excess savings and asynchronous reopening also potentially contributed to lower aggregate and sectoral demand-supply mismatches, limiting pressures on core inflation.

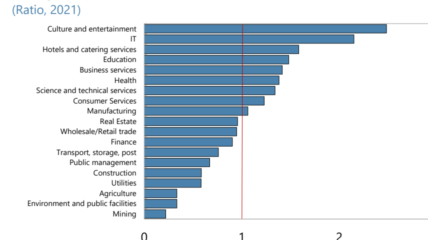
Box 2. China's Youth Unemployment[1]

High youth unemployment in China is driven by cyclical, structural, and seasonal factors. While some of these factors may resolve in the near term, a meaningful and durable reduction will require an improvement in the overall economic situation, rebalancing of the economy, and implementation of specific policies to address mismatches. Overall, youth unemployment is expected to remain elevated for some time.

China's youth unemployment rate has been increasing since 2019, reaching record highs in mid-2023, driven by several factors. The urban youth unemployment rate reached 21.3 percent in June 2023, up from around 10 percent in 2018. The rate has increased more strongly than the overall unemployment rate which peaked at 6.2 percent and returned to pre-pandemic levels after post-COVID reopening. Overall, youth (ages 16-24) account for a small share of the total urban labor force of around 500 million, less than 7 percent overall and unemployed youth account for around 1½ percent. While labor market statistics are incomplete—and data on youth unemployment has been suspended since July 2023—this box suggests several reasons for high youth unemployment.

First, cyclical economic weakness has impacted labor markets, with young workers particularly vulnerable. High-frequency labor market indicators suggest a renewed weakening after the initial reopening bounce-back, with the overall labor market likely experiencing greater slack than the headline unemployment rate suggests. In addition, as observed in many other economies, the youth unemployment rate in China has been much more responsive to economic growth than unemployment rates for other age groups, making young workers particularly vulnerable to the slowing growth.

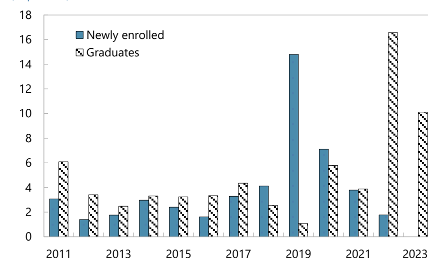
Sectoral Employment Share of Age Group 16-24 to Age Group 25+
(Ratio, 2021)



Sources: MOHRSS; and IMF staff calculations.
Notes: A ratio of >1 implies a large employment share in a sector for the 16-24 age group compared to the 25+ age group, a ratio of <1 a smaller share.

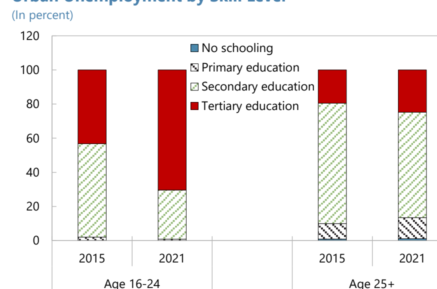
Second, youth unemployment has been concentrated among the highly educated and in sectors that have been impacted by the pandemic and by regulatory tightening. Recent years have seen a record number of higher education enrollment, jumping by around 30 percent between 2018 and 2022. The services sector has been the main sector absorbing college graduates. Compared to other age groups, youth employment has thus been overrepresented in sectors such as culture and entertainment, hotels and catering services—which were strongly hit by pandemic restrictions and have yet to fully recover—as well as in education and IT—which were impacted by regulatory tightening in 2021. As employment in these sectors has likely suffered, youth would have been disproportionately affected. Given slowing growth going forward, this concentration of highly educated youth also raises concerns about skill mismatches. Amid a weak services sector and lack of rebalancing, the sharp increase in highly educated labor supply has likely not been met by a similar increase in labor demand for such workers.

Growth Rate of Students in Higher Education Institutions
(In percent)



Sources: China Ministry of Education; news reports; and IMF staff calculations.

Urban Unemployment by Skill Level
(In percent)



Sources: China Ministry of Education; and IMF staff calculations.

Finally, a record number of graduates during a period of economic slack may have temporarily pushed the youth unemployment rate even higher. The number of graduates jumped by around 17 percent in 2022 and is

Box 2. China's Youth Unemployment[1] (Concluded)

estimated to have further increased by 10 percent in 2023, driven by postponed graduations during the pandemic on top of the first larger cohorts starting to graduate. Paired with the cyclical weakness, this strong seasonal supply could have increased youth unemployment further, at least temporarily following the summer graduation period.

Addressing youth unemployment is an important policy goal. Policies to lower youth unemployment should be market-oriented and could include supporting the economic recovery, restoring confidence, and expanding employment services for recent graduates. Efforts to rebalance the economy towards consumption and services by strengthening the social safety net will encourage employment in sectors absorbing young graduates, including in high-end services.

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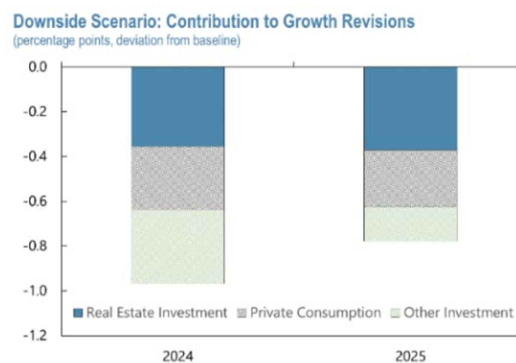
[1] Prepared by Anne Oeking.

Box 3. A Downside Scenario with Protracted Property Sector Weakness[1]

After signs of stabilization in early 2023, the property sector is showing renewed stress. In a plausible downside scenario, a larger-than-expected property sector downturn can significantly impact economic activity in China.

There is considerable uncertainty around the outlook for the property sector. Baseline projections assume significant weakness in real estate investment through the first half of 2024 followed by stabilization in 2024H2, with real estate investment continuing to contract gradually thereafter reflecting declining fundamental demand. However, the extent and duration of the property sector contraction will depend on various factors, including the level of inventory overhang, pace of developer restructuring, the extent of housing price adjustment, and relatedly—homebuyer expectations for the future direction of house prices. In particular, the property sector contraction could be deeper and longer if ongoing delays in developer restructuring and home price adjustment entrench expectations for persistent house price declines, further reducing sales and prolonging the reduction of excess inventories.

A more severe property sector downturn than assumed in the baseline poses significant downside risks to China's economic outlook. Assuming no policy response, continued sizeable declines in real estate investment through 2025 could result in GDP growth being -1 and -0.8 percentage points lower than the baseline in 2024 and 2025, respectively.[2] About half of the decline in growth would be due to the direct contribution of lower real estate investment, where the peak-to-trough decline is assumed to be 10 percentage points larger compared to the baseline, and with continued declines in real estate investment beyond 2025 reflecting declining fundamental demand (see accompanying property sector SIP). Spillovers from the property sector weakness would also result in weaker private consumption and investment on account of subdued consumer and business confidence and tighter financial conditions, further detracting from growth. Weaker economic activity would also result in core inflation being about 0.5 percentage points lower than in the baseline in 2025.



Sources: IMF staff calculations.

Even more accommodative macro-policies will be needed if the downside scenario begins to materialize. Given the potentially large macro effects from a larger-than-expected property sector downturn, pre-emptive policy action that promote a safe transition for the property sector should be a priority (see main text). If downside risks materialize, further supporting the property sector and being prepared for early interventions to deal with spillovers to the financial system would be a priority. Monetary easing, especially through lower interest rates, would be needed to cushion the negative impact on economic activity and inflation. While fiscal space is more limited, in the event of downside risks materializing, expansionary fiscal policy, including to fund unfinished housing, would be warranted. If external pressures rise significantly, the exchange rate should be allowed to absorb the shock.

[1] Prepared by Siddharth Kothari and Fan Zhang.

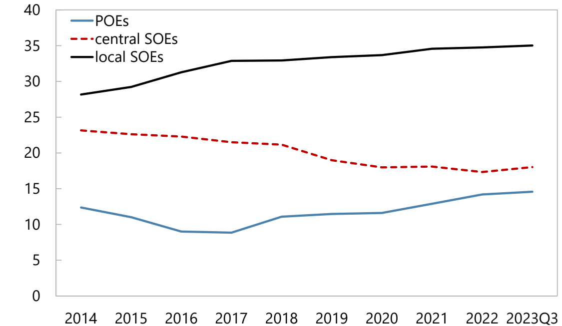
[2] Property sector weakness may also result in fiscal tightening due to LG financing stress. The scenario assumes that any such tightening is offset, but no additional fiscal impulse is provided. The scenario also assumes a tightening of financial conditions, but no significant financial sector contagion.

Box 4. Balance Sheet Deleveraging in China[1]

High and increasing debt levels in China, coupled with a subdued post-pandemic recovery, have raised concerns that financially healthy firms and households are repaying debt or saving rather than investing and spending, posing headwinds to growth. Evidence suggests this deleveraging behavior is not widespread in China, with pressures instead coming from the troubled property sector and worsening financial challenges for LGs and highly indebted LGFVs. Further increases in leverage, particularly among weak segments of the economy, raises the risk of future balance sheet repairs.

Debt in China has continued to rise and surpasses levels observed in other emerging market economies. Debt levels have been elevated in international comparison across all sectors: the general government, households, and nonfinancial corporates. While some deleveraging took place before the pandemic, aggregate debt-to-GDP ratios have further increased since then. Against these high levels of debt, could deleveraging to repair balance sheets among nonfinancial corporates and households explain some of the ongoing domestic demand weakness in China?

Median Leverage
(Debt-to-asset ratio in percent)



Sources: Capital IQ; WIND; Bloomberg; and IMF staff calculations.

Firm level data shows nonfinancial corporate sector leverage has further increased since the start of the pandemic, while non-property private investment continues to grow steadily. The increase in leverage is driven by private firms and local SOEs, including LGFVs—where leverage ratios have continued to rise from already elevated levels. Overall, firms that have reduced their debt levels and lowered investment seem to be mostly those with falling profits—suggesting cyclical weakness as a main driver more so than balance sheet slowdowns. In the aggregate, private investment other than real estate, especially in manufacturing, continues to grow.

The accumulation of household debt has been slowing in the aggregate since the pandemic while household saving ratios rose and returned to pre-pandemic levels only recently. Rather than balance sheet repairs, the driving factors seem to be a precautionary savings motive amid volatile income during the pandemic in the face of an incomplete social safety net, and spillovers from the weak property sector on the debt side. Individual residential mortgage growth has turned negative due to lower housing sales and surging prepayments amidst falling interest rates.

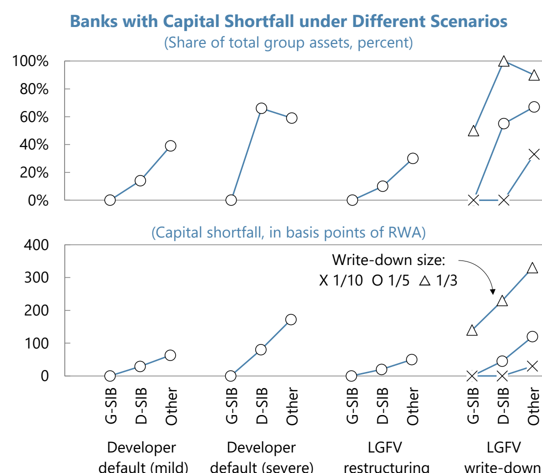
Even in the absence of widespread balance sheet deleveraging, policies should address key pressure points, particularly in the property sector and among LGFVs. Overall, developments in both the nonfinancial corporate sector and among households suggest factors other than widespread deleveraging are posing headwinds to growth, including spillovers from the property sector, concerns around highly indebted LGFVs, weak confidence and pandemic scarring. Going forward, risks of broader deleveraging by healthy firms remains a concern, particularly in the context of weaker growth and lower earnings and/or intensifying disinflation. Policy should focus on supporting the recovery in the short-term, addressing the property sector downturn and limiting its spillovers, while rebalancing the economy and lifting potential growth in the medium- to long-term.

[1] Prepared by Henry Hoyle and Anne Oeking.

Box 5. Banks' Asset Quality Risks from Property and LGFV Exposures[1]

The ongoing housing market downturn poses rising asset quality risks to Chinese banks. Despite continuing developer defaults on bonds, the asset quality risk is not yet fully recognized amid the extended regulatory forbearance. The property sector downturn has also depressed LG land sale revenues, thereby limiting their ability to backstop their off-balance sheet financing through LGFVs.

While manageable in the aggregate, credit risks from developer loans are significant at smaller banks. In a mildly severe scenario – assuming 30 percent of loans from distressed property developer and 10 percent of the mortgages from the associated unfinished pre-sold properties become nonperforming – the NPL ratio on property loans could rise from 4.5 to 10 percent. Under this scenario, about 40 percent of smaller banks by assets and some domestic systemically important banks (D-SIBs), will fail to meet the minimum capital requirement. In a severe scenario, where the NPL ratio on property loan rises to 20 percent, over half of smaller banks and D-SIBs by assets would have capital shortfall in the amount of 160 and 80 basis points in CAR, respectively. In both scenarios, global systemically important banks (G-SIBs) have enough capital buffers to absorb the potential credit losses.



Reprofiling LGFV debt would require banks to absorb moderate initial losses but would not address LGFV's viability problems. About two thirds of the total LGFV debt is in the form of bank loans. One third of the LGFVs are commercially nonviable, with interest coverage ratio below 1 for the last three years. In a hypothetical scenario where all bank loans from commercially nonviable LGFVs are reprofiled as in the recent experience in Guizhou province[2] the banking sector would absorb impairment charges of RMB3 trillion, equivalent to an aggregate 1.4 percentage points reduction in CAR. However, this scenario does not address the fundamental viability problem of LGFVs and could erode investor confidence in the banking system.

Debt write-down will be needed to restore LGFV debt sustainability, accompanied by complementary measures to ensure financial stability. In hypothetical scenarios where some portion of the LGFV debt is written down and the losses are absorbed across LGFVs' stakeholders based on the established hierarchy of claims (see accompanying LG SIP), the credit losses to the banking system could be substantial. Larger shortfalls would fall on D-SIBs and smaller banks, particularly those from fiscally weaker regions, while half of G-SIBs would exhaust capital conservation buffer.

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[1] Prepared by Yingyuan Chen.

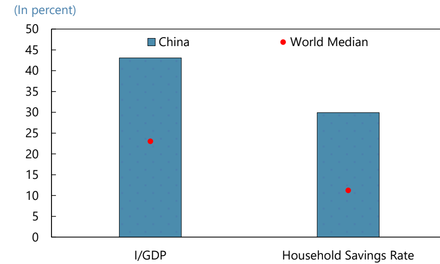
[2] Maturity was extended to 20 years with no principal payments during the first 10 years, and a significant reduction in interest rates.

Box 6. The Economic Impact of Rebalancing: Results from Model-based Simulations[1]

Model simulations suggest that budget-neutral fiscal reforms that reduce public investment and improve social protection can raise GDP in the short term, while rendering growth more sustainable in the long term.

China's economy remains heavily reliant on investment, financed by high household savings. China has one of the highest investment-to-GDP ratios in the world, with public investment—which accounts for about 45 percent of total investment—playing a significant role. High levels of precautionary savings, in part due to gaps in the social protection system, have helped finance the high levels of investment.

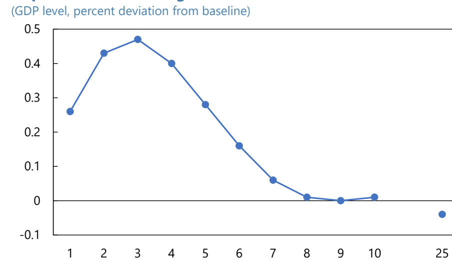
Investment and Household Savings Rate, 2019
(In percent)



Sources: IMF World Economic Outlook; and IMF staff calculation.
Note: Household savings rate is calculated based on selected economies of which data is available in 2019

Model-based analysis can help assess the potential impact of fiscal reforms that promote rebalancing. The IMF's GIMF (Global Integrated Monetary and Fiscal model), a multi-country DSGE model, is used to simulate a scenario where public investment in China is reduced by an additional 0.5 percentage points of GDP per year for 15 years (almost halving public investment). The decline in public investment is assumed to not have an impact on overall productivity on the assumption that the marginal productivity of "lost" public investment would have been close to zero. Lower public investment is offset by an increase in social protection for households, represented by lump-sum transfers to all households in GIMF, with the fiscal impulse being neutral.[2]

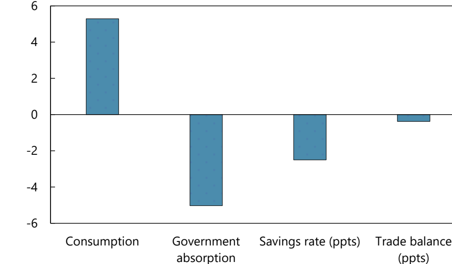
Impact of Rebalancing Scenario on GDP
(GDP level, percent deviation from baseline)



Source: IMF staff calculations.
Notes: Based on similations from the GIMF model. See online annex of October 2023 APD Regional Economic Outlook, Chapter 3 for details.

Simulations suggest that rebalancing can raise GDP growth in the short and medium term. The boost in consumption from higher transfers is larger than the decline in public investment, with GDP (at its peak) rising by 0.5 percent relative to baseline 3 years after the start of rebalancing. The larger effective multiplier on transfers relative to public investment reflects the lower import-intensity of consumption and, in the short term, the presence of forward-looking households who increase their consumption to reflect the higher level of wealth from the increasing stream of transfer over the next 15 years. The decline in investment import demand leads to exchange rate appreciation pressures, with the trade balance declining by 0.4 percent of GDP after 3 years. In the long run, rebalancing is GDP neutral.[3]

Impact of Rebalancing Scenario on Selected Variables after 3 Years (Percent deviation or percentage points deviation from baselines)



Source: IMF staff calculations.

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[1] Prepared by Diego Cerdeiro, Siddharth Kothari (APD) and Dirk Muir (RES).

[2] For details on GIMF, see Kumhof and others (2010) and Anderson and others (2013).

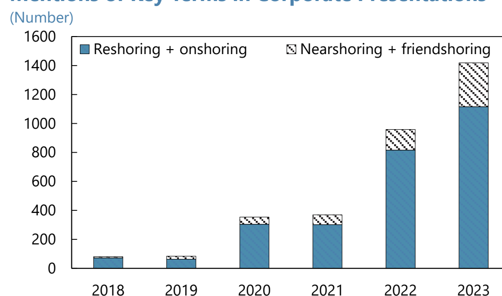
[3] If lower public investment were to reduce overall productivity, rebalancing would reduce GDP in the long term.

Box 7. The Potential Impact of China-OECD De-risking Strategies[1]

While extreme geoeconomic fragmentation continues to be a tail risk, there is growing concern around the effect of less-severe, yet potentially significant, trade disintegration, including "friend-shoring" and "re-shoring".

This box presents estimates of the effects of 'de-risking' strategies between China and the OECD. De-risking is defined as countries changing how they source goods and services along two dimensions. A "friend-shoring" dimension measures how much countries want to change between different foreign sources, while minimizing the change to overall dependence on foreign sourcing. A "re-shoring" dimension measures how much more countries seek to rely on domestic sourcing versus foreign sourcing. We use a macroeconomic model with global value chains and introduce non-tariff barriers between China and the OECD, and between these two sets of economies and the rest of the world, so as to dial back the reliance between them and vis-à-vis the rest of the world to the levels observed in 2000 (see Chapter 3 in the October 2023 Regional Economic Outlook for Asia and the Pacific for further details).

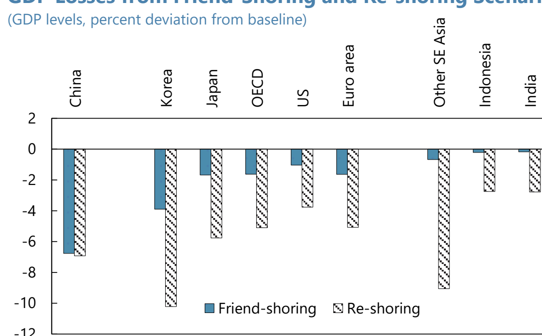
Mentions of Key Terms in Corporate Presentations
(Number)



Sources: Bloomberg; and document search and analytics tool.
Notes: The figure shows the number of times specific terms are mentioned in transcripts from corporate presentations. For 2023, numbers are rescaled to account for the fact that data are available only thorugh July 2023.

Losses from de-risking strategies can be significant. In the friend-shoring scenario, global GDP declines by 1.8 percent, with the economic losses being largest for China at more than 6 percent. GDP losses are also large for OECD countries, with the extent of losses depending on the countries' dependence on Chinese inputs which become more costly. For the rest of the world, the economic effects are small, with two offsetting forces as play. Higher NTBs between China and the OECD result in trade being diverted to other countries, increasing demand for their exports which rise above the baseline in the short term. However, the large economic losses in China and the OECD notably lower their demand from the rest of the world, dampening the positive effects from trade diversion. In the re-shoring scenario, global output losses are of about 4.5 percent in the long term. China experiences a 6.8 percent loss, while for OECD countries losses range from 3.8 percent to up to 10.3 percent of GDP—with larger losses for more open economies with stronger China linkages. For the rest of the world, the positive trade diversion effects of the friend-shoring scenario are no longer present as they also face higher NTBs from China and the OECD. While, by definition, smaller than potential losses from extreme fragmentation these estimates underscore how de-risking can still present a nontrivial drag on growth in Asia and beyond.

GDP Losses from Friend-Shoring and Re-shoring Scenarios
(GDP levels, percent deviation from baseline)



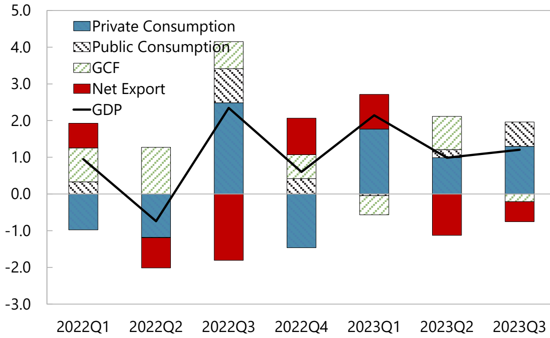
Sources: EORA GVC, and IMF staff calculations.

[1] Prepared by Diego Cerdeiro and Siddharth Kothari.

Figure 1. China: Recent Developments—Recovery Amid the Ongoing Property Market Adjustment

After a reopening boost in Q1, growth slowed and then stabilized as expected…

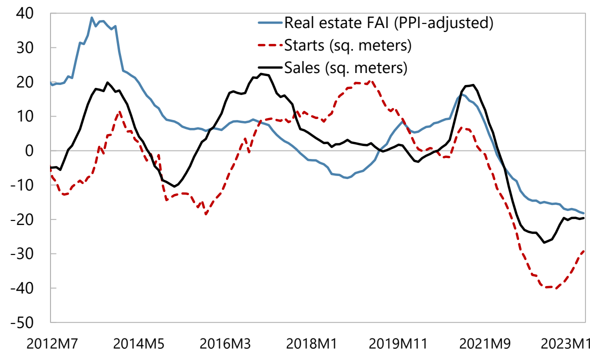
Slowing Momentum
(In percent, change quarter-on-quarter)



Source: IMF staff calculations and estimates.

…with property sector weakness weighing on investment.

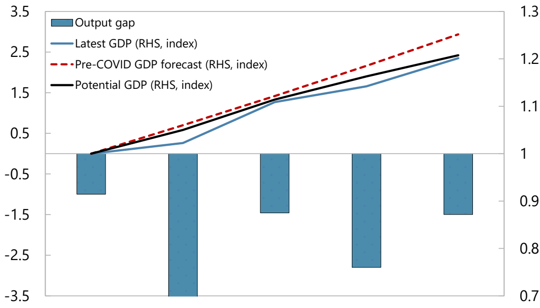
Property Sector Remains Weak
(In percent,12M moving sum, year-on-year change)



Sources: CEIC Data Company Limited; and IMF staff calculations.

Despite the recovery, there remains significant slack in the economy….

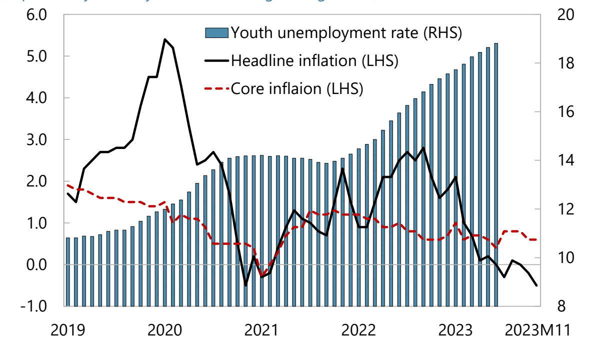
Negative Output Gap Amid an Incomplete Recovery
(In percent of potential output, LHS; index 2019=1; RHS)



Source: IMF staff calculations and estimates.

…as also evident from subdued core inflation, while headline inflation declined amid falling food and commodity prices

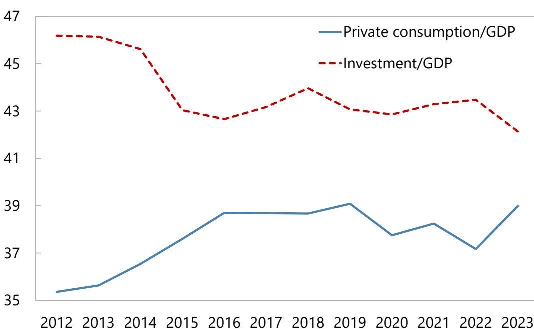
Subdued Inflation, High Youth Unemployment
(In percent, year-on-year; 12M moving average, RHS)



Sources: Haver Analytics; China National Bureau of Statistics; and IMF staff calculations.

The pandemic set back progress on rebalancing, with reopening providing a turning point both on the demand…

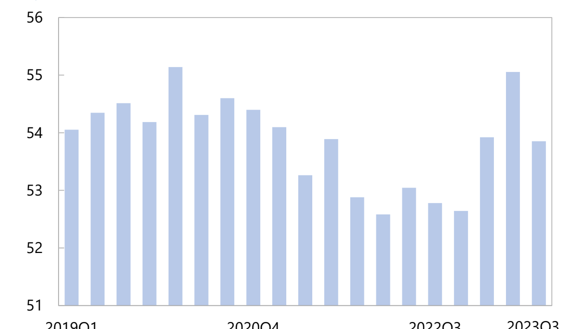
Rebalancing Progress
(In percent)



Sources: China National Bureau of Statistics; and IMF staff calculations.

… and the supply side, as reflected in the tertiary sector share.

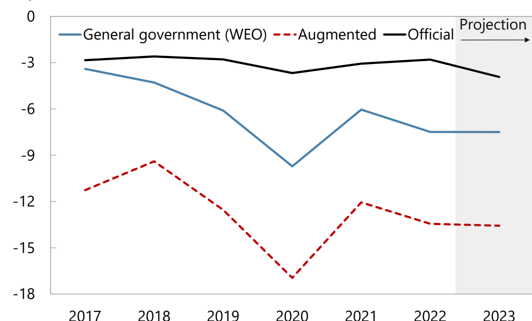
Tertiary Sector GDP Share
(In percent)



Sources: China National Bureau of Statistics; and IMF staff calculations.

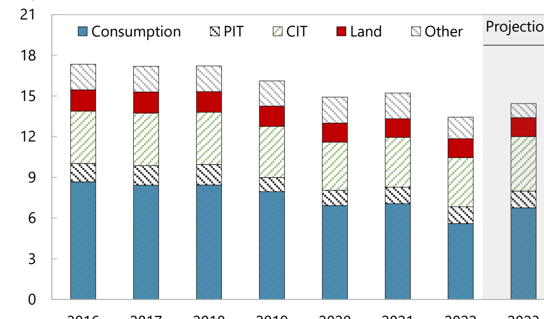
Figure 2. China: Fiscal—Rising Debt Amid Continued Policy Support

The authorities avoided a fiscal cliff in 2023…



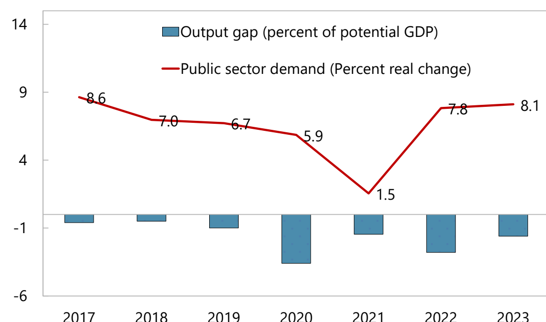
Sources: Authorities; and IMF staff calculations.
Note: See Table 2 in staff report for definitions of government balances.

… by partially extending pandemic tax relief…



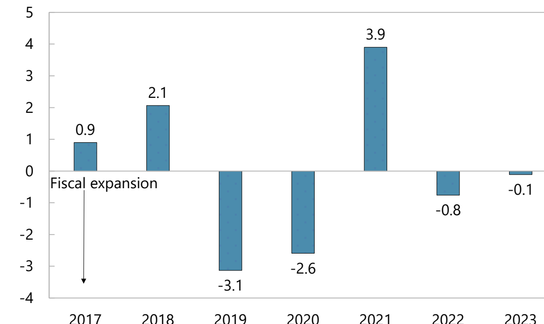
Sources: Authorities; CEIC Data Company Limited; and IMF staff calculations.

… and continuing to rely on public investment to support growth.



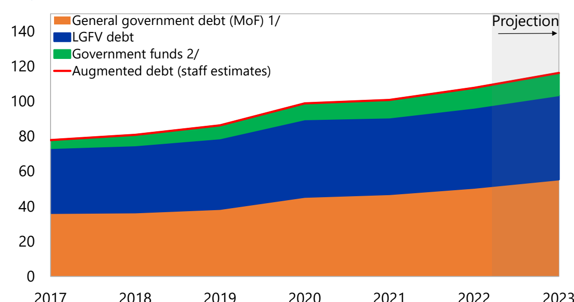
Sources: IMF World Economic Outlook; and IMF staff calculations.

The fiscal stance was broadly neutral in 2023.



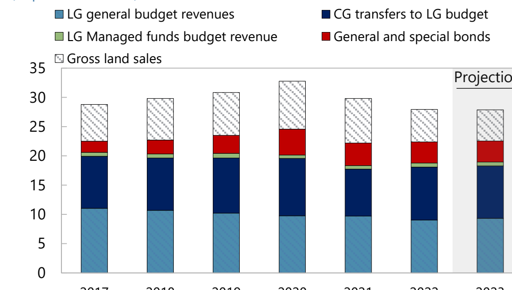
Sources: CEIC Data Company Limited; and IMF staff calculations.

Debt continued to increase at a rapid pace given large deficits…



Sources: Ministry of Finance (MoF); and IMF staff calculations.
1/ Data through 2021, 2022 estimated, 2023 projection.
2/ Government guided funds and special construction funds (social capital portion only).

… and the real estate adjustment is weighing on LG revenue, increasing stress.

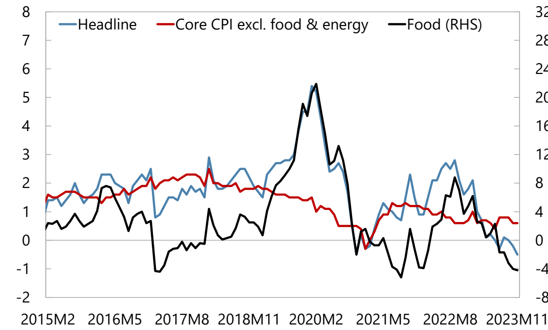


Sources: CEIC Data Company Limited; Ministry of Finance 2022 budget; and IMF staff calculations.
1/ Local government general budget and local government managed fund budget. Excludes off-budget financing.

Figure 3. China: Monetary—Modest Policy Easing Amid Low Inflation

Consumer price inflation has been subdued reflecting falling food and commodity prices and economic slack …

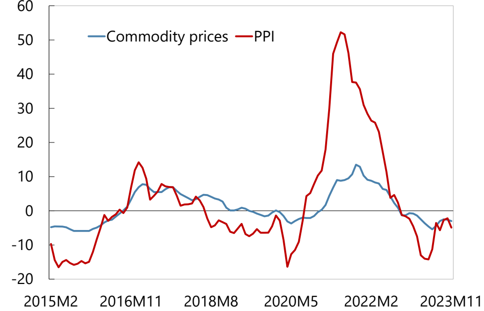
CPI Inflation
(In percent, year-on-year)



Sources: CEIC Data Company Limited; and IMF staff calculations.

…while producer prices have declined throughout 2023.

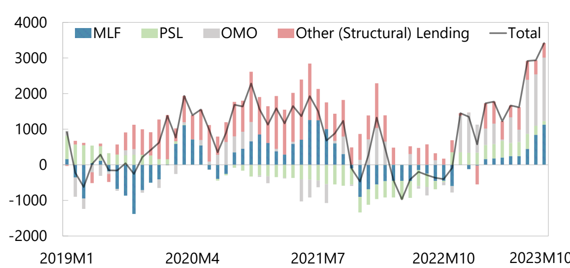
Producer Price Index
(In percent, year-on-year change)



Sources: CEIC Data Company Limited; and IMF staff calculations.

The PBC has stepped up the use of its balance sheet to support easy liquidity conditions…

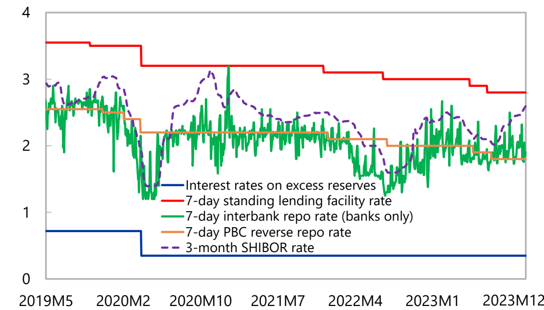
PBC Reverse Repo and Lending Facilities: 12-month Changes
(In RMB billions)



Sources: CEIC Data Company Limited; and IMF staff calculations.
Notes: MLF = Mediuterm Lending Facility. PSL = Pledged Supplementary Lending Facility. OMO = Open Market Operation.

…while cutting policy interest rates only modestly…

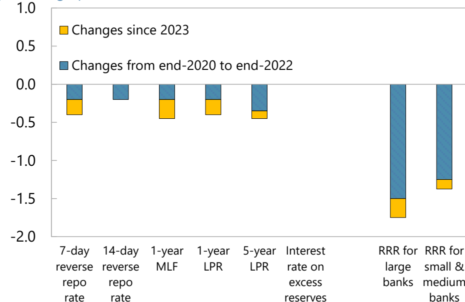
Interest Rate Corridor and Short-Term Market Rates
(In percent)



Sources: CEIC Data Company Limited; and IMF staff calculations.
Notes: SHIBOR = Shanghai Interbank Offered Rate; PBC = People's Bank of China.

…and making small adjustments to banks' required reserve ratios.

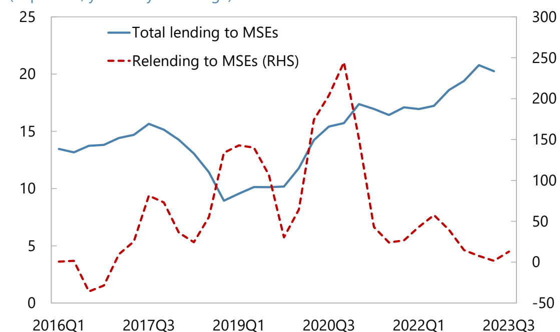
Policy Rate Changes Since COVID-19 Outbreak
(In percentage points)



Sources: CEIC Data Company Limited; Haver Analytics; and IMF staff calculations.
Notes: MLF = medium-term lending facility; LPR = loan prime rate; RRR = reserve requirement ratio. RRR changes for small and medium banks are an average.

Quantity-based easing has involved credit growth targets for small firms.

Lending to Micro- and Small-Sized Enterprises (MSEs)
(In percent, year-on-year change)



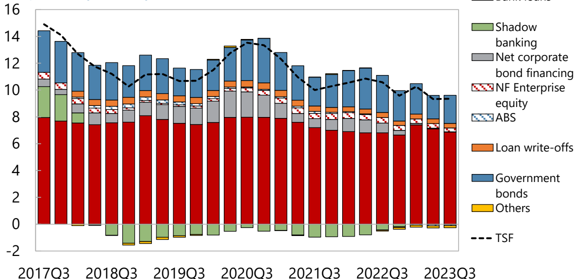
Sources: CEIC Data Company Limited; and IMF staff calculations.

Figure 4. China: Credit—Credit Growth Decelerated Amid a Slowing Recovery

TSF growth softened modestly in the H1 2023, despite interest rate cuts and accommodative credit policies.

Contribution to TSF Stock Growth

(In percent, year-on-year)

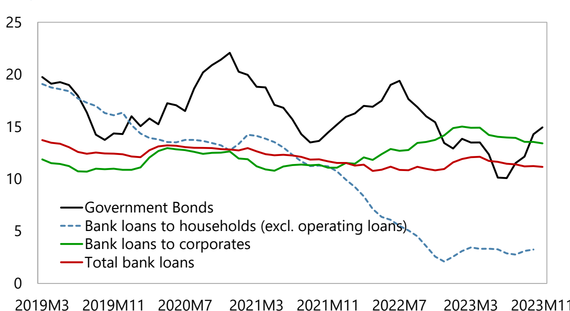


Sources: Haver Analytics; and IMF staff calculations.
Notes: Since January 2017, ABS, loan write-offs, and local government special purpose bonds are included. Since December 2019, local government special purpose bonds are expanded to government bonds (including all central and local government bonds) traced back to 2017.

The slowdown was led by government bond issuance and retail (non-operating) household credit.

Growth Rates of Selected Types of Credit

(In percent)

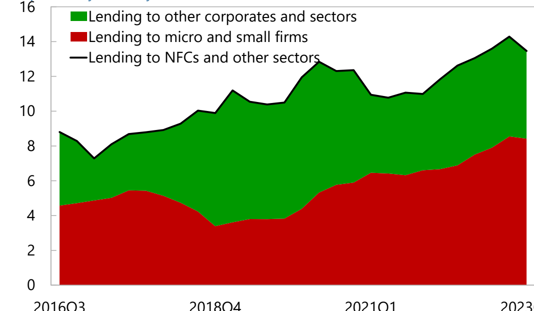


Sources: Haver Analytics; and IMF staff calculations.

Policy-mandated lending to small firms continued to be a major source of corporate lending growth.

Contributions to Growth of Non-financial Corporate (NFC) Loans

(In percent; year-on-year)

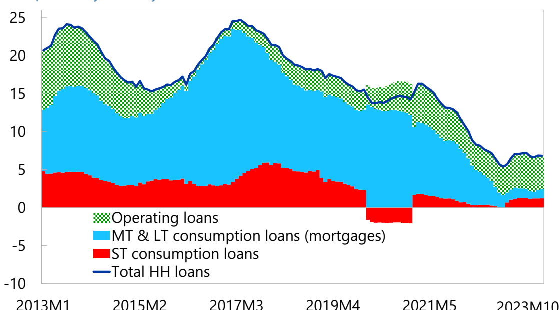


Sources: Haver Analytics; CEIC Data Company Limited; and IMF staff calculations.

Mortgage credit growth steadily decelerated while the small firm lending push supported loan growth.

Contribution to Growth of Household Loans

(In percent, year-on-year)

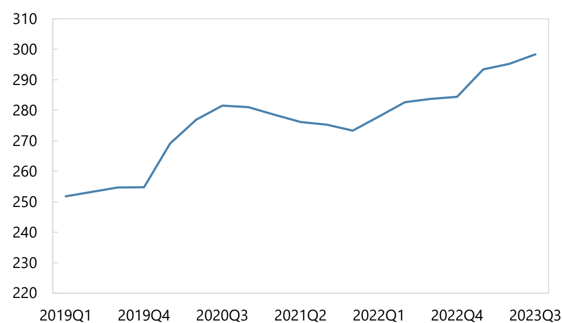


Sources: Haver Analytics; and IMF staff calculations.

Slowing nominal GDP growth is, however, pushing up the TSF-to-GDP ratio.

TSF Stock to GDP

(In percent of GDP)

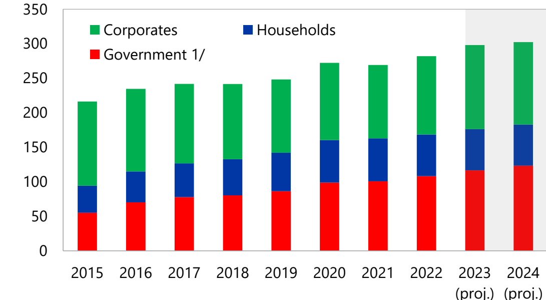


Sources: CEIC Data Company Limited; and IMF staff calculations.

Overall debt to GDP is expected to rise in 2023 and 2024 on higher corporate and government debt.

Domestic Non-financial Sector Debt

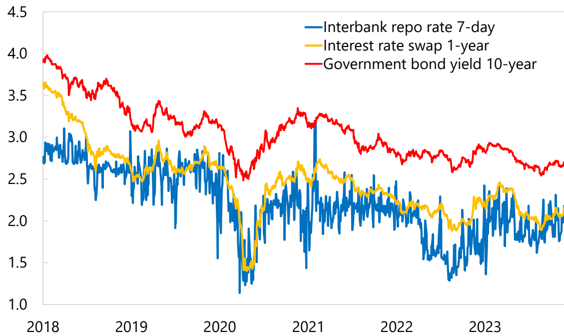
(In percent of GDP)



Sources: CEIC Data Company Limited; Haver Analytics; and IMF staff estimates.
1/ Government debt includes debt of central and local governments, government funds, and LGFVs.

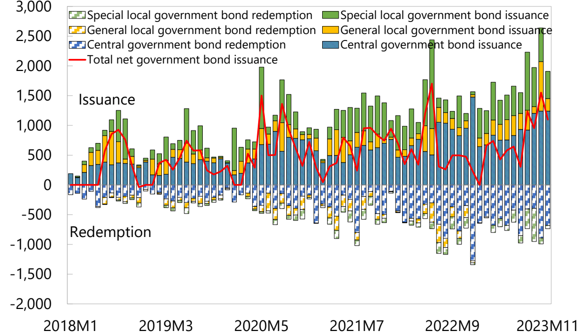
Figure 5. China: Financial Markets—Domestic and External Pressures Weighed on Sentiment

Government bond yields and money market rates have declined on continuing monetary policy easing.



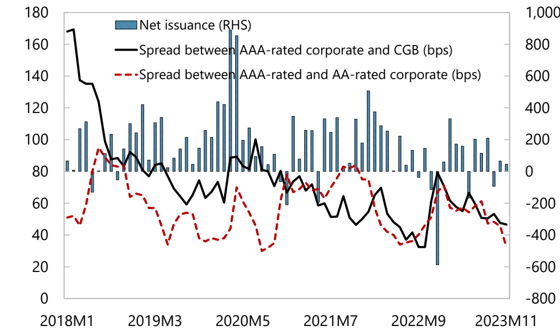
Sources: Bloomberg; and IMF staff calculations.

Government bond issuance picked up in H2 led by central and special local government bonds.



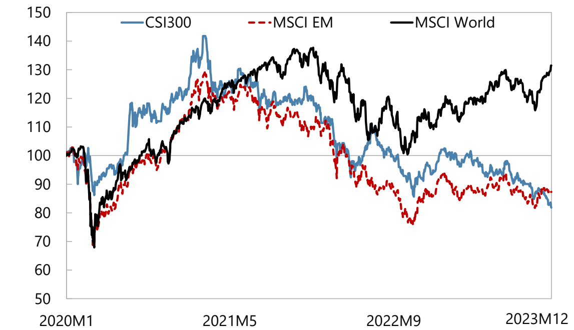
Sources: WIND; and IMF staff calculations.

Corporate net issuance weakened despite easing financial conditions.



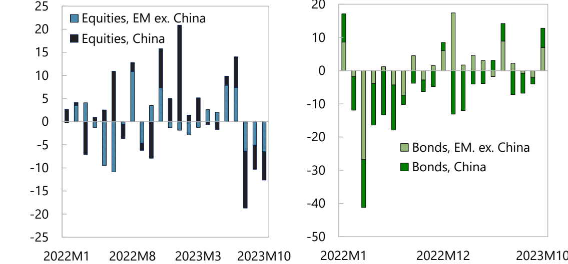
Sources: Bloomberg; WIND; and IMF staff calculations.

Chinese stocks underperformed other countries, erasing the post-pandemic gains.



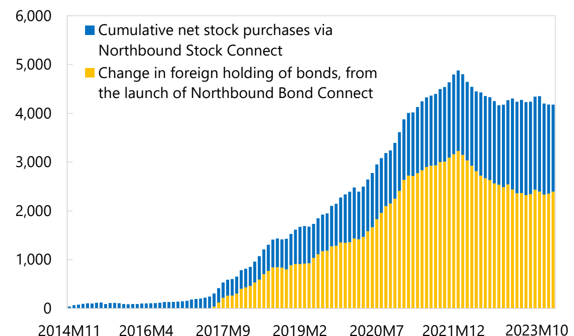
Sources: Bloomberg; and IMF staff calculations.

Foreign investors are increasingly cautious towards local financial assets…



Sources: Bloomberg; and IMF staff calculations.

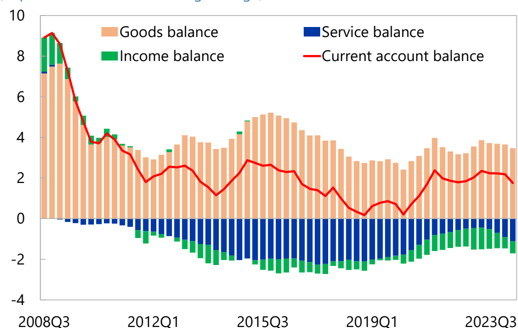
… after reducing fixed income exposures by 28 percent, on widening interest rate differentials.



Sources: CEIC Data Company Limited; WIND; and IMF staff calculations.

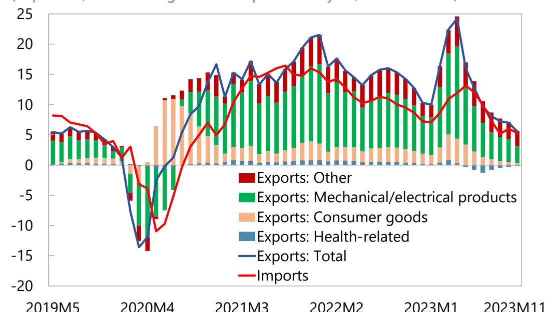
Figure 6. China: External—Unfavorable External Environment and Volatile Capital Flows

China's current account surplus narrowed in the first half of 2023, partly on the back of recovering outbound tourism.



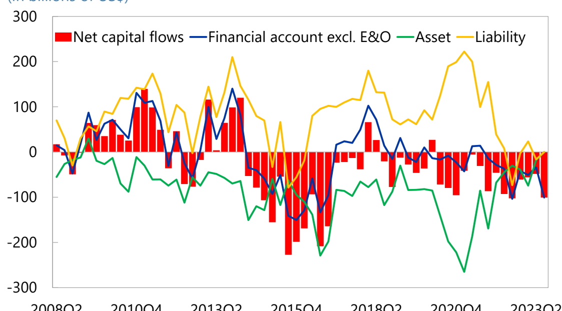
Sources: CEIC Data Company Limited; and IMF staff calculations.

Exports continued to slow reflecting weak global demand and normalizing demand for pandemic-related goods.



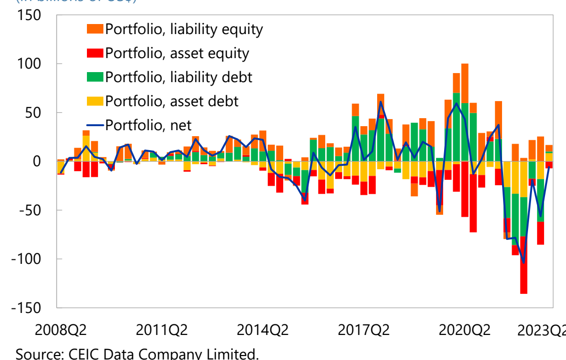
Sources: Customs Statistics China; Haver Analytics; and IMF staff calculations.

Capital net outflows continued in 2023H1, on the back of net outflows in FDI and portfolio investment, partly offset by net inflows in other investment.



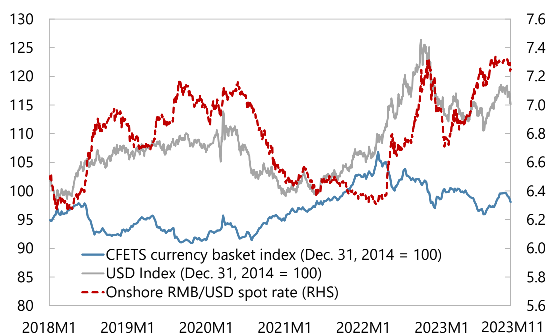
Sources: CEIC Data Company Limited; and IMF staff calculations.
Note: E&O = net errors and omissions.

Portfolio investment net outflows continued in 2023Q1, with net bond outflows and slowing net equity inflows.



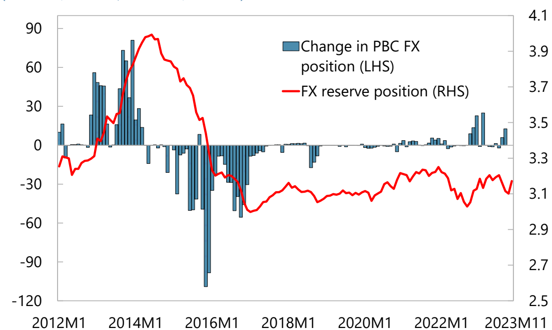
Source: CEIC Data Company Limited.

After the RMB appreciated with China's reopening, downward pressures intensified amid diverging monetary policy stances between the U.S. and China.



Sources: CEIC Data Company Limited; and IMF staff calculations.

FX reserves increased in 2023H1, with no indications of large FXI.

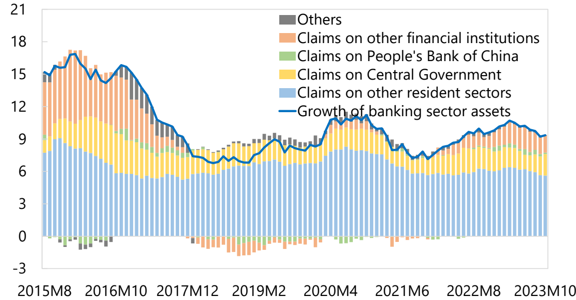


Sources: Haver Analytics; and IMF staff calculations.

Figure 7. China: Banks—Problem Loans Continue to Weigh on Profitability

Expansion in banking system assets accelerated on the back of a renewed rise in financial interlinkages.

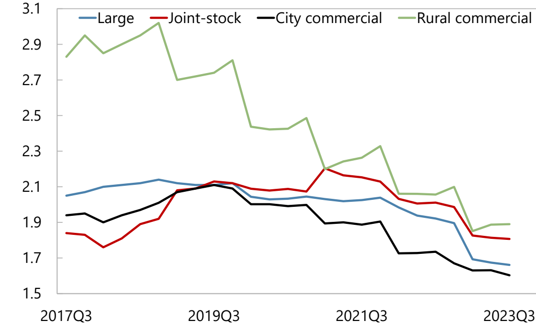
Growth of Banking Sector Assets
(In percent, year-on-year)



Sources: CEIC Data Company Limited; and IMF staff calculations.

Banks' net interest margin fell on weaker private credit demand, monetary easing, and housing market support...

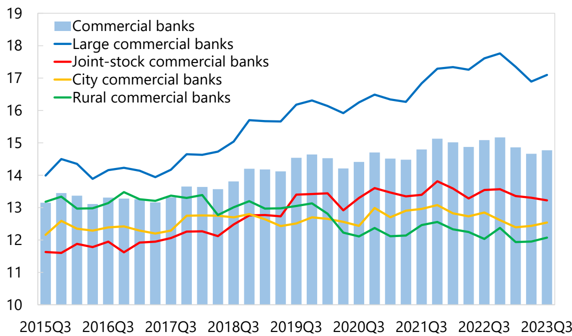
Net Interest Margin
(In percent)



Sources: CEIC Data Company Limited; and IMF staff calculations.

... contributing to falling banks' capital buffers.

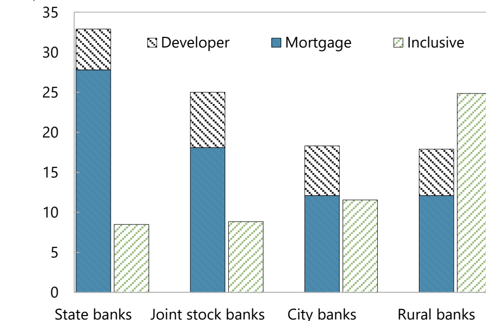
Commercial Banks Total Capital
(In percent of risk-weighted assets)



Sources: CEIC Data Company Limited; and IMF staff calculations.

The property downturn poses asset quality risks particularly for smaller banks with higher risk exposures.

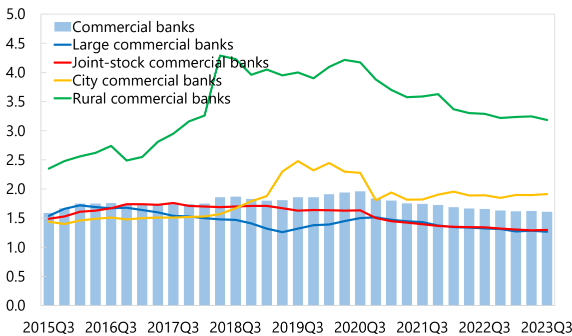
Real Estate and Inclusive MSE Loans 2022
(In percent of total loans)



Sources: WIND; China Banking Insurance Regulatory Commission; and IMF staff calculations.

While headline NPL ratio declined due to extended forbearance measures...

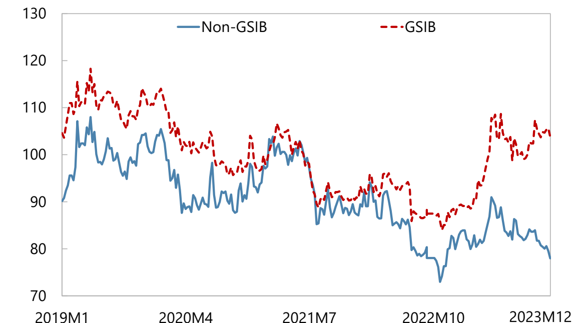
Commercial Banks: Nonperforming Loans
(In percent of total loans)



Sources: CEIC Data Company Limited; and IMF staff calculations.

.... vulnerabilities are reflected in market pricing with non-GSIB banks consistently underperforming.

Bank Equity Performance
(2021M5 = 100)



Sources: Bloomberg; and IMF staff calculations.

Table 1. China: Selected Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Est.	Projections				
	(Annual percentage change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP (base=2015)	6.75	6.0	2.2	8.4	3.0	5.4	4.6	4.0	3.8	3.6	3.4
Total domestic demand	7.42	5.3	1.7	6.8	2.7	6.2	5.2	4.1	3.9	3.7	3.5
Consumption	7.91	6.3	-0.3	9.0	2.0	8.4	5.5	4.3	4.1	4.0	3.7
Fixed investment	7.34	5.3	3.4	3.2	3.4	4.8	4.4	4.0	3.6	3.3	3.2
Net exports (contribution)	-0.49	0.7	0.6	1.8	0.4	-0.5	-0.4	0.1	0.0	0.0	0.0
Total capital formation (percent of GDP)	43.96	43.1	42.9	43.3	43.5	42.3	42.1	41.9	41.7	41.6	41.6
Gross national saving (percent of GDP) 1/	44.14	43.8	44.5	45.3	45.7	43.7	43.4	43.1	42.8	42.5	42.3
Output gap estimate	-0.50	-1.0	-3.6	-1.5	-2.8	-1.4	-0.5	-0.2	-0.1	0.0	0.0
LABOR MARKET											
Urban unemployment rate (year-end) 2/	4.90	5.2	5.2	5.1	5.5	5.2	...	...	...	...	...
PRICES											
Consumer prices (average)	1.93	2.9	2.5	0.9	1.9	0.4	1.3	2.0	2.0	2.0	2.0
Consumer prices (end of period)	1.78	4.5	0.2	1.4	1.8	0.1	1.8	2.0	2.0	2.0	2.0
GDP Deflator		2.1	1.3	3.0	2.2	-1.1	1.5	1.8	1.9	2.0	2.0
FINANCIAL											
7-day repo rate (percent)	4.58	3.0	2.7	2.2	2.3	1.9	...	...	...	...	...
10 year government bond rate (percent)	4.62	3.7	3.2	3.0	3.1	2.8	...	...	...	...	...
MACRO-FINANCIAL											
Total social financing	10.26	10.7	13.3	10.3	9.6	9.3	8.9	7.3	6.9	6.8	6.7
In percent of GDP	247.92	254	278	274	286	300	307	312	315	319	322
Total nonfinancial sector debt 3/	10.79	10.8	13.2	10.4	9.8	9.4	9.2	7.5	7.1	7.0	6.8
In percent of GDP	248.25	254	278	277	284	295	301	305	308	311	312
Domestic credit to the private sector	8.62	8.7	10.8	8.4	8.3	7.7	7.8	5.5	5.1	5.1	5.1
In percent of GDP	161.24	162	173	168	173	179	182	182	180	180	179
Household debt (percent of GDP)	52.30	55.8	61.6	62.1	62.2	63.9	62.8	62.2	62.0	61.9	62.0
Non-financial corporate domestic debt (percent of GDP)	108.94	106	112	106	111	115	119	119	118	118	117
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-4.28	-6.1	-9.7	-6.0	-7.5	-7.5	-7.4	-7.4	-7.6	-7.8	-8.0
Revenue	28.99	28.1	25.7	26.6	25.9	26.5	26.7	26.8	27.0	27.2	27.3
Additional financing from land sales	2.84	2.9	2.5	2.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Expenditure	33.28	34.2	35.4	32.7	33.4	34.0	34.1	34.2	34.6	34.9	35.3
Debt	36.50	38.5	45.4	46.9	50.6	55.3	58.7	62.1	65.7	69.4	73.4
Structural balance	-4.14	-5.8	-8.8	-5.7	-6.7	-7.1	-7.3	-7.3	-7.6	-7.8	-8.0
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	0.17	0.7	1.7	2.0	2.2	1.5	1.3	1.2	1.0	0.9	0.8
Trade balance	2.75	2.7	3.4	3.2	3.7	3.4	3.3	3.5	3.4	3.4	3.3
Services balance	-2.11	-1.8	-1.0	-0.6	-0.5	-1.3	-1.4	-1.6	-1.6	-1.7	-1.8
Net international investment position	15.23	16.0	15.4	12.3	14.2	15.6	16.0	16.2	16.3	16.3	16.2
Gross official reserves (billions of U.S. dollars)	3167.99	3,223	3,357	3,427	3,307	3,299	3,450	3,572	3,642	3,714	3,787
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	91577.43	99,071	102,563	114,528	120,502	125,544	133,244	141,013	149,076	157,533	166,113
Augmented debt (percent of GDP) 6/	80.85	86.3	98.8	100.8	107.7	116.2	122.0	127.5	132.8	137.7	142.6
Augmented net lending/borrowing (percent of GDP) 6/	-9.40	-12.5	-17.0	-12.1	-13.4	-13.6	-13.3	-13.0	-12.8	-12.6	-12.4
Change in Augmented Cyclically-Adjusted Primary Balance 7/	2.07	-3.1	-2.6	3.9	-0.8	-0.1	0.2	0.5	0.4	0.3	0.4

Sources: Bloomberg; CEIC Data Company Limited; IMF International Financial Statistics database; and IMF staff estimates and projections.
1/ 2021 GDP will be revised to match official revisions, once full official data are released.
2/ Surveyed unemployment rate.
3/ Includes government funds.
4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.
5/ Expenditure side nominal GDP.
6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).
7/ In percent of potential GDP.

Table 2. China: General Government Fiscal Data

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Est.			Projections		
							(In RMB billions)					
Balance: General Budgetary (official)												
(1)	**Revenue (incl. adjustments) (1a)+(1b)**	19813	21255	20905	21427	22819	23633	25696	27158	28877	30683	32477
(1a)	Headline revenue	18336	19039	18291	20255	20365	21730	23363	24825	26544	28350	30144
(1b)	Adjustments 1/	1477	2216	2613	1171	2454	1903	2333	2333	2333	2333	2333
(2)	**Expenditure (incl. adjustments) (2a)+(2b)**	22192	24013	24672	24930	26189	28563	30181	31588	33541	35541	37574
(2a)	Headline expenditure	22090	23886	24568	24567	26055	28013	30131	31538	33491	35491	37524
(2b)	Adjustments 2/	102	127	104	363	134	550	50	50	50	50	50
(3)	**Fiscal balance (official) (1)-(2)**	-2379	-2758	-3767	-3504	-3370	-4930	-4485	-4430	-4664	-4858	-5097
Balance: General Budgetary (Fund definition)												
(4)	**Revenue (1a)+(4a)+(4b)**	26551	27790	26343	30512	31233	33229	35567	37741	40199	42779	45359
(1a)	General budget headline revenue	18336	19039	18291	20255	20365	21730	23363	24825	26544	28350	30144
(4a)	Social security revenue	7925	8355	7551	9694	10250	10936	11606	12283	12985	13722	14469
(4b)	SOE fund revenues 3/	290	396	500	563	618	563	598	633	669	707	745
(5)	**Expenditure (2a)+(5a)+(5b)+(5c)-(5d)**	30474	33835	36310	37435	40260	42640	45460	48164	51535	55026	58594
(5a)	Social security expenses	6779	7535	7861	8673	9072	9801	10868	11968	13120	14331	15582
(5b)	SOE fund expenditures 3/	216	229	261	277	344	347	368	390	412	435	459
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	3992	5090	6144	6529	6126	5816	5512	5770	6100	6446	6797
(5d)	of which: net expenditure financed by land sales	2604	2904	2524	2612	1337	1337	1419	1502	1588	1678	1769
(6)	**Net borrowing/lending (Fund definition) (4)-(5)**	-3923	-6045	-9967	-6923	-9027	-9411	-9894	-10423	-11336	-12247	-13234
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	2971	4503	5479	4722	4945	5302	5528	5625	5597	5514	5364
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	1713	1874	1940	2165	2227	2320	2311	2245	2173	2095	2009
(8)	**Augmented net lending/borrowing (6)-(7a)-(7b) 5/**	-8607	-12423	-17386	-13810	-16200	-17033	-17732	-18293	-19105	-19856	-20607
Debt: General government												
(9)	**General budgetary debt (official) (10)+(11)**	33423	38114	46552	53740	60931	69445	78200	87615	98015	109403	121856
(10)	Central government debt 6/	14961	16804	20891	23270	25869	29863	33865	38292	43460	49359	56064
(11)	Explicit local government debt 7/	18462	21310	25661	30470	35062	39582	44335	49323	54555	60044	65792
(12)	LGFV debt 8/	35071	39965	45444	50165	55111	60413	65941	71566	77162	82676	88040
(13)	Additional debt tied to SCF and GGFs 9/	5544	7418	9358	11523	13750	16069	18380	20625	22798	24893	26901
(14)	**Augmented debt (9)+(12)+(13)**	74037	85496	101353	115428	129791	145927	162520	179805	197975	216972	236798
Memorandum items:												
(15)	Augmented excluding "possible to be recognized" 10/	51887	59842	71935	82273	92762	104813	117255	130421	144555	159620	175651
						(In percent of GDP) 11/						
Balance: General Budgetary (official)												
(1)	**Revenue (incl. adjustments) (1a)+(1b)**	21.6	21.5	20.4	18.7	18.9	18.8	19.3	19.3	19.4	19.5	19.6
(1a)	Headline revenue	20.0	19.2	17.8	17.7	16.9	17.3	17.5	17.6	17.8	18.0	18.1
(1b)	Adjustments 1/	1.6	2.2	2.5	1.0	2.0	1.5	1.8	1.7	1.6	1.5	1.4
(2)	**Expenditure (incl. adjustments) (2a)+(2b)**	24.2	24.2	24.1	21.8	21.7	22.8	22.7	22.4	22.5	22.6	22.6
(2a)	Headline expenditure	24.1	24.1	24.0	21.5	21.6	22.3	22.6	22.4	22.5	22.5	22.6
(2b)	Adjustments 2/	0.1	0.1	0.1	0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.0
(3)	**Fiscal balance (official) (1)-(2)**	-2.6	-2.8	-3.7	-3.1	-2.8	-3.9	-3.4	-3.1	-3.1	-3.1	-3.1
Balance: General Budgetary (fund definition)												
(4)	**Revenue (1a)+(4a)+(4b)**	29.0	28.1	25.7	26.6	25.9	26.5	26.7	26.8	27.0	27.2	27.3
(4a)	Social security revenue	8.7	8.4	7.4	8.5	8.5	8.7	8.7	8.7	8.7	8.7	8.7
(4b)	SOE fund revenues 3/	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
(5)	**Expenditure (2a)+(5a)+(5b)+(5c)-(5d)**	33.3	34.2	35.4	32.7	33.4	34.0	34.1	34.2	34.6	34.9	35.3
(5a)	Social security expenses	7.4	7.6	7.7	7.6	7.5	7.8	8.2	8.5	8.8	9.1	9.4
(5b)	SOE fund expenditures 3/	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	4.4	5.1	6.0	5.7	5.1	4.6	4.1	4.1	4.1	4.1	4.1
(5d)	of which: net expenditure financed by land sales	2.8	2.9	2.5	2.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
(6)	**Net borrowing/lending (Fund definition) (4)-(5)**	-4.3	-6.1	-9.7	-6.0	-7.5	-7.5	-7.4	-7.4	-7.6	-7.8	-8.0
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	3.2	4.5	5.3	4.1	4.1	4.2	4.1	4.0	3.8	3.5	3.2
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	1.9	1.9	1.9	1.9	1.8	1.8	1.7	1.6	1.5	1.3	1.2
(8)	**Augmented net lending/borrowing (6)-(7a)-(7b) 5/**	-9.4	-12.5	-17.0	-12.1	-13.4	-13.6	-13.3	-13.0	-12.8	-12.6	-12.4
Debt: General government												
(9)	**General budgetary debt (official) (10)+(11)**	36.5	38.5	45.4	46.9	50.6	55.3	58.7	62.1	65.7	69.4	73.4
(10)	Central government debt 6/	16.3	17.0	20.4	20.3	21.5	23.8	25.4	27.2	29.2	31.3	33.8
(11)	Explicit local government debt 7/	20.2	21.5	25.0	26.6	29.1	31.5	33.3	35.0	36.6	38.1	39.6
(12)	LGFV debt 8/	38.3	40.3	44.3	43.8	45.7	48.1	49.5	50.8	51.8	52.5	53.0
(13)	Additional debt tied to SCF and GGFs 9/	6.1	7.5	9.1	10.1	11.4	12.8	13.8	14.6	15.3	15.8	16.2
(14)	**Augmented debt (9)+(12)+(13)**	80.8	86.3	98.8	100.8	107.7	116.2	122.0	127.5	132.8	137.7	142.6
Memorandum items:												
(15)	Augmented excluding "possible to be recognized" 10/	56.7	60.4	70.1	71.8	77.0	83.5	88.0	92.5	97.0	101.3	105.7

Sources: CEIC Data Company Limited; China Ministry of Finance; National Audit Office; and IMF staff estimates and projections.

1/ Includes central and local governments' transfers to general budget from stabilization funds, and central government transfers from government managed and SOE funds.

2/ Includes contributions to budget stabilization funds and carryover.

3/ Including only revenues/expenditures for the year, and excluding transfers to general budget and carry over.

4/ Includes carry over counted as revenue, adjustments to local government spending, proceeding from issuing special purpose bonds, and net expenditure financed by land sales estimated by subtracting the acquisition cost, compensation to farmers, and land development from the gross land sale proceeds.

5/ The overall net lending/borrowing includes net land sale proceeds as a decrease in nonfinancial assets recorded above the line.

6/ Ministry of Finance debt only, excludes bonds issued for bank recapitalization and asset management companies.

7/ Includes local government bonds and explicit debt.

8/ Total interest-bearing debt of LGFVs with listed bonds.

9/ Total social capital contribution to SCF and GGFs.

10/ Includes only ~2/3 of LGFV debt, being categorized as government explicit debt according to NAO report (2013), and excludes the remaining ~1/3, being categorized as government guaranteed debt or "possible to be recognized" debt. It also excludes row (13).

11/ GDP in this table refers to expenditure side nominal GDP.

Table 3. China: Balance of Payments

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Est.			Projections		
	(In percent of GDP, unless otherwise indicated)										
BALANCE OF PAYMENTS											
Current account balance	0.2	0.7	1.7	2.0	2.2	1.5	1.3	1.2	1.0	0.9	0.8
Trade balance	2.7	2.7	3.4	3.2	3.7	3.4	3.3	3.5	3.4	3.4	3.3
Exports	17.5	16.6	16.9	18.1	18.7	17.9	17.5	17.1	16.8	16.5	16.3
Imports	14.7	13.9	13.4	14.9	15.0	14.5	14.2	13.7	13.4	13.2	13.0
Services balance	-2.1	-1.8	-1.0	-0.6	-0.5	-1.3	-1.4	-1.6	-1.6	-1.7	-1.8
Income balance	-0.4	-0.3	-0.8	-0.7	-1.1	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Current transfers	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital and financial account balance	1.3	0.1	-0.3	-0.2	-1.1	-1.5	-0.4	-0.6	-0.7	-0.6	-0.4
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.3	0.1	-0.3	-0.2	-1.1	-1.5	-0.4	-0.6	-0.7	-0.6	-0.4
Net foreign direct investment	0.7	0.4	0.7	0.9	0.2	-0.7	-0.1	0.0	0.0	0.0	0.0
Foreign Direct investment	1.7	1.3	1.7	1.9	1.0	0.2	0.8	0.8	0.8	0.8	0.8
Overseas Direct Investment	-1.0	-1.0	-1.0	-1.0	-0.8	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8
Portfolio investment	0.8	0.4	0.6	0.3	-1.6	-0.4	0.3	0.3	0.4	0.5	0.5
Other investment	-0.1	-0.7	-1.7	-1.4	0.3	-0.4	-0.6	-0.9	-1.0	-1.0	-0.9
Errors and omissions 1/	-1.3	-0.9	-1.1	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.1	-0.1	0.2	1.1	0.6	0.0	0.8	0.6	0.3	0.3	0.3
Reserve assets	-0.1	0.1	-0.2	-1.1	-0.6	0.0	-0.8	-0.6	-0.3	-0.3	-0.3
INTERNATIONAL INVESTMENT POSITION											
Asset	53.7	54.7	59.7	53.6	51.8	54.2	54.6	54.4	54.4	54.4	54.4
Direct investment	14.5	15.6	17.4	15.7	15.6	16.6	16.6	16.4	16.3	16.3	16.2
Securities investment	3.7	4.6	6.1	5.5	5.8	6.3	6.5	6.6	6.7	6.9	7.0
Other investment	12.6	12.0	13.6	13.0	11.7	12.6	13.0	13.5	14.1	14.7	15.2
Reserve assets	22.9	22.5	22.6	19.3	18.5	18.6	18.4	17.9	17.2	16.6	16.0
Liability	38.5	38.7	44.4	41.3	37.6	38.6	38.6	38.2	38.1	38.2	38.3
Direct investment	20.4	19.5	21.7	20.3	19.5	19.9	19.7	19.3	18.9	18.7	18.5
Securities investment	8.4	10.1	13.2	12.1	10.0	10.1	10.4	10.6	10.9	11.3	11.7
stment	9.6	9.0	9.4	8.9	8.0	8.5	8.5	8.4	8.3	8.2	8.1
Net international investment position	15.2	16.0	15.4	12.3	14.2	15.6	16.0	16.2	16.3	16.3	16.2
MEMORANDUM ITEMS											
Export growth (value terms, percentage change)	9.1	-1.3	5.2	28.1	4.1	-4.9	2.8	4.5	3.9	4.2	4.3
Import growth (value terms, percentage change)	17.1	-2.1	0.3	32.7	0.9	-3.8	3.1	2.9	3.7	4.0	4.4
FDI (inward, billions of U.S. dollars)	235.4	187	253	344	180	36	152	160	168	175	182
External debt (billions of U.S. dollars)	1,983	2,071	2,401	2,747	2,482	2,552	2,742	2,942	3,153	3,376	3,612
As a percent of GDP	14.3	14.4	16.2	15.5	13.9	14.4	14.6	14.7	14.9	15.1	15.3
Short-term external debt (remaining maturity, billions of U.S. dollars)	1,289	1,205	1,316	1,446	1,320	1,359	1,466	1,578	1,696	1,821	1,953
Gross reserves (billions of U.S. dollars) 2/	3,168	3,223	3,357	3,427	3,307	3,299	3,450	3,572	3,642	3,714	3,787
As a percent of short-term debt by remaining maturity	246	267.4	255.0	237.0	250.5	242.7	235.4	226.4	214.8	204.0	193.9
Terms of trade (percentage change)	-2.7	4.6	4.7	0.4	0.6	0.4	1.6	1.8	1.2	0.9	0.6
Real effective exchange rate (2010 = 100)	121.9	121.3	124.0	127.9	126.7	…	…	…	…	…	…
Nominal GDP (billions of U.S. dollars)	13,842	14,341	14,863	17,759	17,886	17,751	18,722	19,961	21,175	22,384	23,649

Sources: CEIC Data Company Limited; IMF Information Notice System; and IMF staff estimates and projections.
1/ Includes counterpart transaction to valuation changes.
2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.

Table 4. China: Monetary and Credit Developments

	2018	2019	2020	2021	2022
MONETARY SURVEY					
			(Annual percentage change)		
Net foreign assets	1.0	3.5	1.9	5.0	2.2
Monetary authority (contribution)	-1.5	0.5	-0.3	2.6	0.4
Depository institutions (contribution)	2.5	3.0	2.1	2.4	1.7
Domestic credit	10.4	10.6	12.3	9.6	10.3
Claims on government, net (contribution)	2.6	2.0	2.3	1.8	2.4
Claims on nonfinanical sectors (contribution)	9.1	9.2	10.2	7.5	7.7
Claims on other financial sectors (contribution)	-1.3	-0.6	-0.2	0.2	0.2
Broad money (M2)	8.1	8.7	10.1	9.0	11.8
M1 (contribution)	0.5	1.3	2.5	1.0	1.0
Quasi-money (contribution)	7.6	7.4	7.6	8.0	10.8
Reserve money	2.8	-2.0	1.9	-0.3	9.6
TOTAL SOCIAL FINANCING					
			(Annual percentage change)		
TSF	10.3	10.7	13.3	10.3	9.6
Bank loans (contribution)	7.5	7.4	8.0	7.0	6.5
Shadow banking (contribution)	-1.4	-0.8	-0.5	-0.9	-0.2
Net corporate bond financing (contribution)	0.9	1.2	1.7	0.8	0.3
Non-financial enterprise equity (contribution)	0.2	0.2	0.4	0.4	0.4
Others (contribution) 1/	0.8	0.6	0.6	0.5	0.3
			(In percent of GDP)		
TSF	247.9	253.7	277.7	274.3	285.6
Bank loans	149.5	155.1	169.4	169.2	177.8
Shadow banking	26.2	22.4	20.4	15.9	14.6
Net corporate bond financing	22.6	23.7	26.9	26.1	25.7
Non-financial enterprise equity	7.7	7.4	8.0	8.3	8.8
Government bonds	36.0	38.1	44.9	46.3	49.9
Others 1/	5.9	6.9	8.1	19.6	19.1
MEMORANDUM ITEMS					
			(In percent)		
Non-performing loans (NPLs) ratio	1.8	1.9	1.8	1.7	1.6
Provision coverage ratio (provisions/NPLs)	186.3	186.1	184.5	196.9	205.9
Liquidity ratio (liquid assets/liquid liabilities)	55.3	58.5	58.4	60.3	62.9
Loan to deposit ratio	74.3	75.4	76.8	79.7	78.8
Return on assets	0.9	0.9	0.8	0.8	0.8
Return on equity	11.7	11.0	9.5	9.6	9.3
Capital adequacy ratio	14.2	14.6	14.7	15.1	15.2
Tier-1 capital adequacy ratio	11.6	12.0	12.0	12.4	12.3
Core tier-1 capital adequacy ratio	11.0	10.9	10.7	10.8	10.7
Net open FX position (in percent of capital)	2.4	2.7	2.1	1.6	1.3

Sources: Haver Analytics; and IMF staff estimates.

1/ Includes local government debt swap, asset-backed securities, loan write-offs, and other components.

Table 5. China: Nonfinancial Sector Debt

	(In RMB trillions)						*(In percent of GDP)*						Coverage	
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023		
Total non-financial sector debt	227	252	285	314	345	378	248	254	278	275	286	301		
Central government	15	17	21	23	26	30	16	17	20	20	21	24	Official Government Debt	Staff Estimate of General Government Debt ("Augmented")
Local government 1/	18	21	26	30	35	40	20	22	25	27	29	32		
Local government financing vehicles (LGFV)	35	40	45	50	55	60	38	40	44	44	46	48		
Government funds 2/	6	7	9	12	14	16	6	7	9	10	11	13		
Households	48	55	63	71	75	80	52	56	62	62	62	64		Private Sector Debt
Corporates (excluding LGFV)	105	111	121	128	140	152	115	112	118	112	116	121		
Domestic 3/	100	105	115	122	134	145	109	106	112	106	111	115		
External	6	6	6	6	6	7	6	6	6	5	5	6		
Memo items:														
Total domestic non-financial sector debt	221	246	279	308	339	371	242	248	272	269	281	296		
Corporates (including LGFVs)	140	151	166	178	195	212	153	152	162	155	162	169		
	35	40	45	50	55	60	38	40	44	44	46	48		
Households	48	55	63	71	75	80	52	56	62	62	62	64		
General government (Official definition)	33	38	47	54	61	69	36	38	45	47	51	55		
Government funds 2/	6	7	9	12	14	16	6	7	9	10	11	13		
Nominal GDP	92	99	103	115	121	126								

Sources: CEIC Data Company Limited; Bloomberg, L.P.; Ministry of Finance; and IMF staff estimates.
1/ Including LGFV debt recognized as LG debt as of 2014 (by the 2014 audit).
2/ Government guided funds and special construction funds (social capital portion only).
3/ Domestic corporate debt (excluding LGFV) for 2018 changed relative to the 2019 Article IV Staff Report due to the new LGFV borrowing estimates and the TSF data revisions in December 2019.

Table 6. China: Rebalancing Scorecard

External		Internal			Environment		Income Distribution	
Current acc.	Net exports contrib.	Cons/ Inv	Industry/ Services	Credit	Energy	Air pollution	Labor income ratio	Income inequality

	Unit	2019	2020	2021	2022	2023
					Projection / YTD	
1. External rebalancing						
Contribution of net exports to GDP growth	%	0.7	0.6	1.8	0.4	-0.5
Current account balance	% of GDP	0.7	1.7	2.0	2.2	1.5
FX reserve coverage	months of imports	15.1	16.1	17.3	12.8	12.6
National saving rate	% of GDP	43.8	44.5	45.3	45.7	43.7
2. Internal rebalancing						
Demand side						
Growth contribution of consumption vs investment 1/	%	2.0	-0.2	2.9	0.7	2.8
Share of private consumption (Nominal)	% of GDP	39.1	37.8	38.2	37.2	39.1
Share of investment (Nominal)	% of GDP	43.1	42.9	43.3	43.5	42.3
Supply side						
Growth contribution of Tertiary vs Secondary sector 1/	%	1.9	1.1	1.4	0.9	2.0
Share of Tertiary sector (Nominal) 1/	% of GDP	54.3	54.5	53.5	52.8	55.1
Share of Tertiary sector in total employment	%	47.1	47.7	48.0	47.1	...
Credit Side						
Private domestic credit 1/	% of GDP	162	173	168	173	179
Credit intensity		2.4	6.6	1.7	3.5	4.3
Return on asset: SOE - private 1/	%	-3.9	-3.2	-2.7	-1.7	0.0
3. Environmental rebalancing						
Energy intensity of output 1/	per unit of output	83.7	84.9	84.0	84.6	85.1
PM 2.5 (Weighted by usual residence) 1/	mcg per cubic meter	40.3	35.7	32.0	30.6	30.1
4. Income distribution						
Gini	index number	0.465	0.468	0.466	0.467	...
Labor income 1/	% of GDP	60.2	61.7	59.3	59.1	60.6
Urban/rural income gap 1/	income ratio	2.64	2.56	2.50	2.45	2.51
Real disposable income growth: Median – Mean 1/	%	0.11	-0.90	-0.29	-0.34	-0.95

Note: The color coding is based on the change in each indicator relative to the previous year. Color coding: red if the changes go in the opposite direction of rebalancing; yellow if some progress was observed; and green if there was substantial progress in rebalancing. For indicators that are ratios, changes are measured in simple differences and are considered substantial if larger than 0.5 percentage points. For indicators that are indices and for the credit indicators, changes are measured in annual percent change and are considered substantial if larger than 5 percent. See Zhang, L. (2016), "Rebalancing in China—Progress and Prospects," IMF Working Paper No. 16/183 for the framework.
1/ Reported values for 2023 are for 2023 YTD (through Q3), not full year projections.

Table 7. China: SOE Performance

Dimention	Indicator	2018	2019	2020	2021	2022	Trend
	(In percent unless otherwise indicated)						
Profitability	Return on assets SOEs 1/	1.9	0.9				
	Return on assets industrial SOEs	4.2	3.5	3.1	4.4	4.2	
	Return on assets industrial private	7.5	6.8	6.5	7.4	6.0	
Efficiency	Cost per unit of income -SOE	97.1	97.4	97.1			
Leverage	SOE debt to GDP 1/	59.2	59.5				
	Debt to equity SOEs 1/	183	182				
	-Central	210	209				
	Debt to asset SOE 1/	64.7	63.9				
	-Central	67.7	67.0				
	-Local	62.2	61.6				
	Debt to asset - above designated size industrial	55.6	56.6	56.4	56.5	56.6	
	Debt to asset- industrial state holding enterprises	58.7	58.0	57.3	57.1	57.3	
	Debt to asset - industrial private	53.7	55.6	57.4	57.7	58.4	
	Number of zombies 2/	141	102				
	Number of default SOE bonds	20	21	84	50	8	
Corporate governance	Central SOEs with board of directors	94	95	95	96	96	
	Number of Central SOEs 3/	96	97	97	98	98	
	Dividend payments to budget	7.4	7.6	9.1	7.3	8.9	
SOEs share in the economy	Employment	13.2	12.7	11.8			
	Above designated size industrial sales	26.9	27.2	25.5	25.0	26.5	
	Asset (industrial state holding enterprises/total above designated size industrial)	38.1	38.7	36.5	35.3	36.2	
	Liability (industrial state holding enterprises/total above designated size industrial)	40.3	39.7	37.1	35.7	36.7	

Sources: CEIC Data Company Limited; National Bureau Statistics China; and Ministry of Finance.

1/ Since June 2019, the government no longer disclosed non-financial SOE assets and liabilities. The debt ratios in 2019 is calculated as of June 2019.
2/ Number of zombies refers to legal entities of central SOEs. Number of zombies in 2019 refers to data as of 2019 Q3. According to SASAC's 3-year plan, all zombie enterprises will be cleaned up by 2020.
3/ There are 98 central SOEs invested by SASAC, 4 central SOEs and 27 central financial SOEs invested by MOF and 1 central SOE invested by Ministry of Water Resources by 2022.

Table 8. China: External Vulnerability Indicators

	2019	2020	2021	2022	2023
Monetary and financial					
General government debt (in percent of GDP, narrow definition)	38.5	45.4	46.9	50.6	55.3
Broad money (M2, annual percentage change)	8.7	10.1	9.0	11.8	…
Foreign currency deposits to broad money (percent)	2.7	2.7	2.7	2.2	…
Local currency loans to the economy (annual percentage change)	12.3	12.8	11.6	11.1	…
Foreign currency loans to bank domestic credit (in percent)	2.5	2.3	2.2	1.7	…
Stock exchange index (end-of-period, December 19, 1990 = 100) 1/	3,196	3,640	3,814	3,238	…
Stock exchange capitalization (percent of GDP)	93.1	117.7	119.3	109.5	…
Number of listed companies (A-share)	3,690	3,925	4,226	4,404	4,510
Balance of payments					
Exports (annual percentage change, U.S. dollars)	-1.3	5.2	28.1	4.1	-4.9
Imports (annual percentage change, U.S. dollars)	-2.1	0.3	32.7	0.9	-3.8
Current account balance (percent of GDP)	0.7	1.7	2.0	2.2	1.5
Capital and financial account balance (percent of GDP)	0.1	-0.3	-0.2	-1.1	-1.5
Of which: gross foreign direct investment inflows	1.3	1.7	1.9	1.0	0.2
Foreign Exchange Reserve					
In billions of U.S. dollars 2/	3,223	3,357	3,427	3,307	3,298.7
Coverage in terms of:					
Imports (in months)	15.1	16.1	17.3	12.8	12.6
Broad money (percent)	11.2	10.6	9.3	8.4	…
Short-term external debt by remaining maturity (percent)	267	255	237	251	243
Assessing Reserve Adequacy (range, in percent of ARA metrics) 3/	88-227	84-217	75-193	68-175	64-162
External debt and balance sheet indicators					
Total external debt (percent of GDP)	14.4	16.2	15.5	13.9	14.4
Total external debt (billions of U.S. dollars)	2,071	2,401	2,747	2,482	2,552
Short-term external debt by original maturity (billions of U.S. dollars)	1,205	1,316	1,446	1,320	1,359
Net foreign assets of banking sector (billions of U.S. dollars)	666	801	924	914	…
Total debt to exports of goods & services (percent)	78.7	87.7	77.3	66.8	72.8
Total debt service to exports of goods & services (percent)	46.0	48.3	40.8	36.1	…
Of which: Interest payments to exports of goods & services (percent)	0.2	0.2	0.1	0.1	0.1
Foreign-currency long-term sovereign bond ratings (eop)					
Moody's	Aa3	Aa3	Aa3	A1	A1
Standard and Poor's	AA-	AA-	AA-	AA-	A+

Sources: CEIC Data Company Limited; Bloomberg; IMF, Information Notice System; and IMF staff estimates.

1/ Shanghai Stock Exchange, A-share.

2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.

3/ ARA short for assessing reserve adequacy. Range for the ARA metric under different assumptions of exchange rate regime and capital controls.

Table 9. China: Core Financial Soundness Indicators for Deposit Takers

(Percent, eop)

	2018	2019	2020	2021	2022	2023Q1	2023Q2	2023Q3
Capital Adequacy Ratio	14.2	14.6	14.7	15.1	15.2	14.9	14.7	14.8
Tier 1 Capital Adequacy Ratio	11.6	12.0	12.0	12.4	12.3	12.0	11.8	11.9
Core Tier 1 Capital Adequacy Ratio	11.0	10.9	10.7	10.8	10.7	10.5	10.3	10.4
Return on Assets	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7
Return on Equity	11.7	11.0	9.5	9.6	9.3	10.3	9.7	9.5
Net Interest Margin	2.2	2.2	2.1	2.1	1.9	1.7	1.7	1.7
Nonperforming Loans Ratio	1.8	1.9	1.8	1.7	1.6	1.6	1.6	1.6
Substandard Loans Ratio	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.7
Doubtful Loans Ratio	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6
Loss Loans Ratio	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3
Provision Coverage Ratio	186.3	186.1	184.5	196.9	205.9	205.2	206.1	207.9
Liquidity Ratio	55.3	58.5	58.4	60.3	62.9	63.0	64.4	65.2
Loan to Deposit Ratio	74.3	75.4	76.8	79.7	78.8	77.6	77.7	78.2

Sources: Haver Analytics, National Administration of Financial Regulation.

Appendix I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: Preliminarily, the external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA surplus is projected to decline to 1.5 percent of GDP in 2023 as exports declined on the back of both transitory weakness in global demand as well as adverse structural shifts in global trade, including unwinding of the COVID-related export boom. Rising services imports due to a normalization of outbound tourism also contributed to the lower CA surplus. Over the medium term, the CA surplus is projected to narrow further and gradually converge to the CA norm mostly reflecting rising social security pressures as population ages. However, this assessment is highly uncertain given the lack of full-year data for 2023. The final assessment for 2023 will be presented in the 2024 External Sector Report.
Potential Policy Responses: Policies to ensure that the external position remains broadly in line with fundamentals include (1) accelerating market-based structural reforms—a further opening up of domestic markets, ensuring competitive neutrality between state-owned and private firms, scaling back wasteful and distorting industrial policies and increasing reliance on market forces to improve resource allocation, and promoting green investment—to boost potential growth, (2) shifting fiscal policy support toward strengthening social protection to reduce high household savings and rebalance toward private consumption, and (3) gradually increasing exchange rate flexibility to help the economy absorb progressively larger shares of external shocks.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP is projected to reach 15.7 percent of GDP in 2023, from 14.0 percent in 2022 and significantly below the peak of 30.4 percent in 2008. The improvement largely reflects a still high CA surplus.
Assessment. The NIIP-to-GDP ratio is expected to remain positive, with a modest decline over the medium term in line with its narrowing CA surplus. Increasing portfolio investment, on the back of China's gradual financial opening, is expected to diversify its foreign assets and liabilities further. The NIIP is not a major source of risk, as its assets remain high—reflecting large foreign reserves ($3.1 trillion as of October 2023, 17.4 percent of GDP)—and its liabilities are mostly FDI-related.</td></tr>
<tr><td>2023 (% GDP)</td><td colspan="2">NIIP: 15.7</td><td>Gross Assets: 54.3</td><td>Debt Assets: 15.4</td><td>Gross Liab.: 38.6</td><td>Debt Liab.: 13.0</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA surplus is projected to decline to 1.5 percent of GDP in 2023, from 2.2 percent in 2022. After a post-reopening increase in trade in 2023Q1, exports declined amid weak global demand and the unwinding of the COVID-related export boom. Imports evolved in line with domestic demand, weakening in 2023Q2 and rebounding in 2023Q3. The services deficit increased as outbound tourism partially recovered. As the travel balance remains around 0.2 percent of 2023 GDP above 2019 levels, an adjustor is included. The income balance deficit increased slightly on account of larger domestic profits. Over the medium term, the CA surplus is projected to converge to the norm reflecting rising social security pressures as population ages.
Assessment. Based on the adjusted results of the EBA CA model, the IMF staff CA gap ranges from -0.4 to 0.8 percent of GDP with a midpoint of 0.2 percent. EBA-identified policy gaps are estimated to be about 0.9 percent of GDP, driven by relatively low private credit growth and insufficient social safety nets, partly offset by a looser fiscal policy than in other countries</td></tr>
<tr><td>2023 (% GDP)</td><td>CA: 1.5</td><td>Cycl. Adj. CA: 1.2</td><td>EBA Norm: 0.8</td><td>EBA Gap: 0.4</td><td>Staff Adj.: -0.2</td><td>Staff Gap: 0.2</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. As of October 2023, the REER depreciated by 7.7 percent from the 2022 average, faster than the NEER depreciation (3.3 percent) reflecting lower inflation in China. The REER depreciation since 2022 (by about 9.5 percent as of October) reversed the appreciation of 5 percent in 2020–21, which followed a depreciation of 7 percent during 2015–19.
Assessment. The IMF staff CA gap implies a REER gap of -1.4 percent (with an estimated elasticity of 0.14 applied), with a range of -5.7 to 2.9 percent. The EBA REER index regression estimates the REER gap in 2023 to be 6.7 percent, and the EBA REER level regression estimates the REER gap to be 6.2 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. Preliminary data suggested that net capital outflows (including net errors and omissions) amounted to US$205 billion in the first three quarters of 2023 (1.6 percent of GDP over the same period), compared with US$302 billion (1.7 percent of GDP) in 2022 and US$165 billion (0.9 percent of GDP) in 2021. The authorities raised the cross-border financing macroprudential adjustment parameter for financial institutions and enterprises from 1.25 to 1.5 (relaxation of an inflow CFM measure) in July 2023. The authorities cut FX reserve requirements from 6 to 4 percent in September. As of end-October 2023, the total Qualified Domestic Institutional Investor quota stood at $165.5 billion. 1/
Assessment. Substantial net outflow pressures resurfaced with the divergence of China's monetary policy from that in advanced economies, weaker expected economic activity as well as market-perceived geopolitical risk and economic policy uncertainty. Over the medium term, further capital account opening is likely to create substantially larger two-way gross flows. The sequence of capital account opening consistent with exchange rate flexibility should carefully consider domestic financial stability, while addressing the faster pace of private sector accumulation of foreign assets with respect to nonresident accumulation of Chinese assets. CFMs should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. Over the medium term, China should gradually phase out CFM measures in a sequence consistent with greater exchange rate flexibility and accompanying reforms.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. FX reserves increased (by about $45 billion) and reached $3.2 trillion as of November 2023, estimated to reflect positive valuation effects due to weakness of the US dollar and net FX purchases.
Assessment. The projected level of reserves— 65 percent of the IMF's standard composite metric at the end of 2023 (68 percent in 2022) and 106 percent of the metric adjusted for capital controls (110 percent in 2022)—is assessed to be adequate.</td></tr>
<tr><td colspan="7">1/ See 2022 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.</td></tr>
</table>

Appendix II. Risk Assessment Matrix[1,2]

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
		External risks	
Intensification of regional conflict(s).	High	Medium. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	Let the exchange rate adjust to the change in the terms of trade. Protect the vulnerable from high food and energy prices through targeted transfers, without resorting to significant price controls. Allow for more accommodative macro policies, especially monetary easing through interest rate cuts, to offset headwinds from slower partner country growth.
Commodity price volatility.	High	Medium. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	Let the exchange rate adjust to the change in the terms of trade. Protect the vulnerable from high food and energy prices through targeted transfers, without resorting to significant price controls. Increase resilience to energy price shocks by accelerating green investments in the power sector. Avoid introducing further export restrictions and seek constructive multilateral solutions.
Abrupt global slowdown or recession.	Medium	High. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • U.S.: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real	Allow for more accommodative macro policies, especially monetary easing through interest rate cuts. Fiscal policy should focus on redirecting expenditure away from investment and towards households, which would support short-term growth and promote long-term rebalancing without unfavorably impacting debt dynamics. Let the exchange rate adjust more freely in response to interest rate differentials. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.
[2] Green upward and red downward arrows denote upside and downside risks, respectively.

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
		estate market correction, and "hard landing". • Europe: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	Ensure the smooth functioning of credit markets, while addressing moral hazard.
Monetary policy miscalibration.	Medium	Medium. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Let the exchange rate adjust flexibly to changing interest rate differentials. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks. Ensure the smooth functioning of credit markets, while addressing moral hazard.
Systemic financial instability.	Medium	Medium. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or nonbank financial institutions, causing market dislocations and adverse cross-border spillovers.	Let the exchange rate adjust flexibly to changing interest rate differentials. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks. Ensure the smooth functioning of credit markets, while addressing moral hazard.
Deepening geoeconomic fragmentation.	High	High. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	Accelerate domestic structural reforms. Avoid introducing further export restrictions. Find constructive multilateral solutions together with other countries on trade, supply-chain resilience, standard setting for critical technologies, and climate change.
Cyberthreats.	Medium	High. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Put in place adequate firewalls and security measures. Enhance crisis preparedness for cyberattacks.
Extreme climate events.	Medium	Medium. Extreme climate events driven by rising temperatures	A push for green investment, combined with well-sequenced climate change

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
		cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	mitigation strategies, would boost the near-term recovery while promising large environmental, health, fiscal, and economic benefits over the long term. Invest in climate change adaptation to increase resilience in vulnerable communities.
Disorderly energy transition.	Medium	Medium. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Implement a high-quality comprehensive reform package based on market-oriented policies.
		Domestic risks	
Sharper-than-expected slowdown in the property sector.	Medium	High. Growth slowdown due to the direct impact on real estate investment, unexpected fiscal tightening due to local government financing stress and decline in investment and consumption due to low consumer and business confidence.	Facilitate the efficient and orderly restructuring of distressed property developers, ensure the completion of unfinished, pre-sold housing to boost confidence, and prepare to deal with spillovers to the financial system through stronger prudential policies. Allow for more accommodative macro policies, especially monetary easing through interest rate cuts. Fiscal policy should focus on redirecting expenditure away from investment and towards households, which would support short-term growth and promote long-term rebalancing without unfavorably impacting debt dynamics.
Balance Sheet Recession.	Low	High. High aggregate debt level leads to broad-based deleveraging, which could result in weak domestic demand and further disinflationary pressures, with potential negative feedback loops.	Macroeconomic policy should be more accommodative. Monetary easing should focus on policy rate cuts. In the event of a large growth slowdown due to broad-based deleveraging, additional fiscal support may be needed, but should be provided by the central government and on budget. Implement a high-quality comprehensive reform package based on market-oriented policies to reignite growth.
Stronger than expected recovery.	Medium (Upside risk)	High. Policy support and restructuring leads to stabilization in the property sector, improved consumer and business confidence, and a stronger than expected recovery.	Consider frontloading fiscal consolidation.

Appendix III. Debt Sustainability Assessment

The Sovereign Risk and Debt Sustainability Assessment (SRDSA) assesses sovereign risk and government debt under staff's estimated general government "augmented" definition. "Augmented" debt and associated gross financing needs are high and on an upward trajectory. A gradual fiscal adjustment over 2025-2035 is needed to stabilize debt by 2035.

1. Staff assess sovereign risk based on the "augmented" debt definition. Augmented debt includes both official and off-budget debt:

- *Official* debt includes central government debt and "on-budget" local government debt identified by the authorities.[1]

- *Off-budget* debt adds other types of local government borrowing, including Staff estimates of debt from LGFVs, government-guided funds, and special construction funds, whose activities are considered quasi-fiscal. The augmented deficit is the flow counterpart of augmented debt. Augmented data are staff's best estimate of general government data. Data limitations mean some nongovernment activity is likely included, and some LGFV and funds may have substantial revenues. It is also possible that some general government activity takes place outside of staff's augmented definition (e.g., public-private partnerships, PPPs).

2. Under the baseline scenario debt continues to rise over the medium and long term. Augmented debt rises to 159 percent of GDP in 2032 from 108 percent of GDP in 2022.[2] The main driver are large primary deficits that are projected to decline only slowly over time, as the reduction in off-budget investment is partly offset by rising pension spending due to aging.[3] Positive growth-interest differentials (owing to a financial system that channels ample domestic savings to finance GG debt at favorable rates) help contain the debt rise but are projected to slowly reverse in the long term as potential growth falls. The recommended consolidation path between 2025-2035 (a CAPB tightening of 0.7 percent of GDP every year) stabilizes the debt-to-GDP ratio by 2035. Risks such as faster accumulation of general government debt or lower-than-projected potential growth would call for a more ambitious long-term consolidation path. In the baseline, gross financing needs hover around 30 percent of GDP but would slightly increase in the medium and long term in the absence of fiscal consolidation.[4] In addition to increased pension spending due to aging incorporated in the

[1] In 2014, 2/3 of existing LGFV debt was explicitly recognized as a government liability following a government audit.

[2] The baseline is surrounded by large uncertainty. Bolder policies to restructure the real estate sector would add to government debt, while LGFV debt restructuring could reduce augmented debt, with the size of the reduction depending on the degree of burden sharing with the private sector and potential macro-fiscal and financial spillovers requiring further stabilization measures (see LG SIP).

[3] The baseline assumes continued reductions in the LGFV debt NPV through bank maturity extensions and interest rate reductions, in line with recent years. Any LGFV debt refinancing with official debt would not change augmented debt.

[4] The SRDSA assumes maturing debt is rolled over and asset-based financing declines gradually.

baseline, investment needs to reach the 2060 climate goal could substantially increase the pace of debt accumulation if they were financed with government borrowing. However, China plans to rely on additional financing instruments such as expanding the coverage of the Emissions Trading System (ETS). Increased health spending due to aging would have minor effects.

3. Several factors mitigate risks associated with China's high augmented debt level and large financing requirements. Most of China's debt (about 95 percent of the total) is held by domestic residents and only a small portion is denominated in foreign currency, while the capital account is not fully open. The general government's positive net financial worth (estimated at 7 percent of GDP in 2019 by Lam and Moreno-Badia, 2023) further mitigates risks. The availability of liquid assets (government deposits in the banking system are a third of GDP), and the ability of domestic financial institutions to provide financing (the largely state-dominated commercial banking system claims on the government are only a quarter of the banking system's assets) offsets risks too. However, LGFV debt has shorter maturities (about 3 years on average compared with 7 years for official debt), is exposed to higher liquidity risks, and depends more on financing from nonbank financial institutions.

Appendix III. Figure 1. China: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	Staff's assessment of the overall risk of sovereign stress is moderate, with downside risks. While the mechanical signal suggests medium- and long-term risks are high, fiscal consolidation to stabilize debt is feasible, and the partially closed capital account mitigate risks. Moreover, large government assets could be used to meet financing needs, with the government financial net worth estimated to be positive and include sizeable cash deposits (Lam and Moreno-Badia, 2023).
Near term 1/			
Medium term	High	High	Staff's assessment of the medium term risk of sovereign stress is high. The mechanical medium-term signals for the fan chart and GFN indicate "high" risk, largely driven by the non-stabilization of debt and annual gross financing needs that hover around 30 percent of GDP.
Fanchart	High	…	
GFN	High	…	
Stress test		…	
Long term	…	High	Long-term risks are high given the effect of aging on pension and health spending, as well as large climate mitigation investment needs, and declining potential growth prospects. Staff estimates that annual pension spending will increase by about 9 percent of GDP from 2022 to 2050.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: China has a moderate overall risk of sovereign stress. Debt is expected to rise over the medium and long term, but it can be stabilized with a gradual fiscal adjustment over 2025-2035. Medium-term liquidity risks as analyzed by the GFN Financeability Module are high. However, China's partially closed capital account and the government's ample financial assets mitigate liquidity risks. To contain debt risks, China should seek to reduce public investment and close its structural revenue gap through comprehensive tax reform.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Appendix III. Figure 2. China: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG (chosen)	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector grouping		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes	May not include all EBFs.
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Included (green)	Included (green)	Included (green)	Missing (red)	Missing (red)

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis (chosen)	Nominal value 5/ (chosen)	Face value 6/	Market value 7/

5. Debt consolidation across sectors: Consolidated | Non-consolidated (chosen)

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-government Debt Holdings

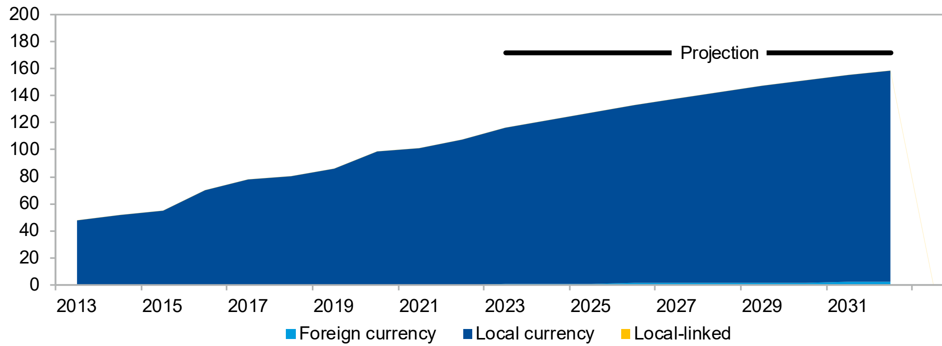
Sector grouping		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The general government perimeter is based on the "augmented" definition. Non-consolidation refers to cross-holdings between intra-government subsectors not being netted out.

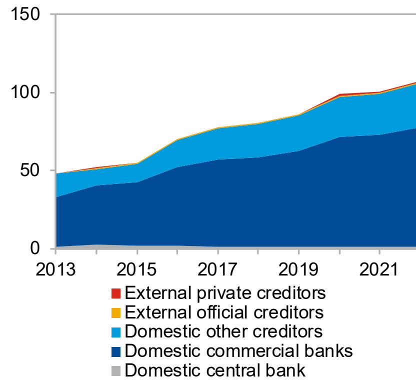
Appendix III. Figure 3. China: Public Debt Structure Indicator

Debt by Currency (percent of GDP)



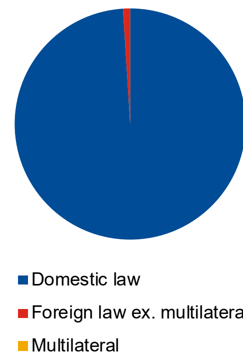
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



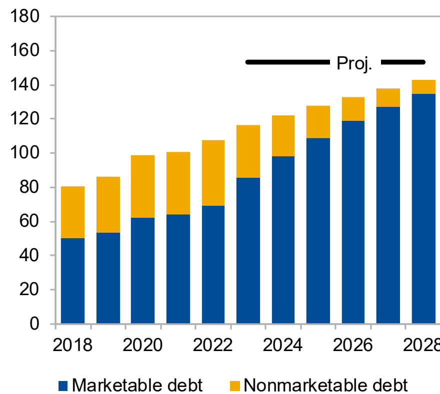
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (percent)



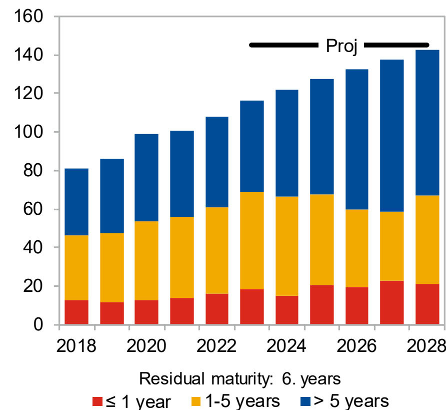
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

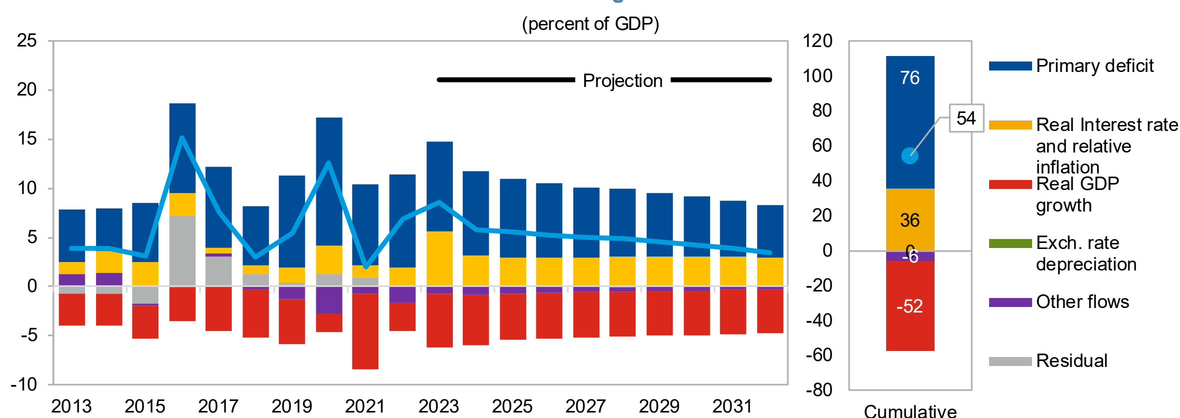
Commentary: Most debt is held by domestic residents and only a small portion is denominated in foreign currency, while the capital account is not fully open, both factors mitigating risks. However, LGFV debt has shorter maturities (about 3 years on average compared with 7 years for official debt), is exposed to higher liquidity risks, and depends more on financing from non-bank financial institutions.

Appendix III. Figure 4. China: Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	107.7	116.2	122.0	127.5	132.8	137.7	142.6	147.2	151.4	155.2	158.7
Change in public debt	6.9	8.5	5.7	5.5	5.3	5.0	4.9	4.5	4.2	3.8	3.5
Contribution of identified flows	6.9	8.5	5.7	5.5	5.3	5.0	4.9	4.5	4.2	3.8	3.5
Primary deficit	9.5	9.1	8.6	8.0	7.5	7.2	6.8	6.5	6.0	5.7	5.3
Noninterest revenues	25.9	26.5	26.7	26.8	27.0	27.2	27.3	27.4	27.4	27.4	27.5
Noninterest expenditures	35.4	35.5	35.3	34.7	34.5	34.4	34.1	33.9	33.4	33.1	32.7
Automatic debt dynamics	-1.0	0.2	-2.0	-1.7	-1.7	-1.7	-1.5	-1.6	-1.4	-1.5	-1.5
Real interest rate and relative inflation	1.9	5.6	3.1	3.0	3.0	2.9	3.1	3.0	3.1	3.0	3.0
Real interest rate	1.9	5.7	3.1	3.0	3.0	2.9	3.1	3.0	3.1	3.0	3.0
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.9	-5.5	-5.1	-4.7	-4.6	-4.6	-4.5	-4.6	-4.6	-4.5	-4.5
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-1.6	-0.7	-0.9	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.6	-0.7	-0.9	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	29.5	31.3	30.7	27.2	32.1	29.9	33.6	32.4	29.3	28.7	28.3
of which: debt service	20.0	22.2	22.1	19.2	24.6	22.7	26.8	25.9	23.3	23.0	23.1
Local currency	20.0	22.2	22.0	19.1	24.5	22.6	26.7	25.8	23.2	22.9	23.0
Foreign currency	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	3.0	5.4	4.6	4.0	3.8	3.6	3.4	3.3	3.2	3.1	3.0
Inflation (GDP deflator; percent)	2.2	-1.1	1.5	1.8	1.9	2.0	2.0	2.1	2.0	2.0	2.0
Nominal GDP growth (percent)	5.2	4.2	6.1	5.8	5.7	5.7	5.4	5.5	5.3	5.2	5.1
Effective interest rate (percent)	4.2	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4.1	4.0

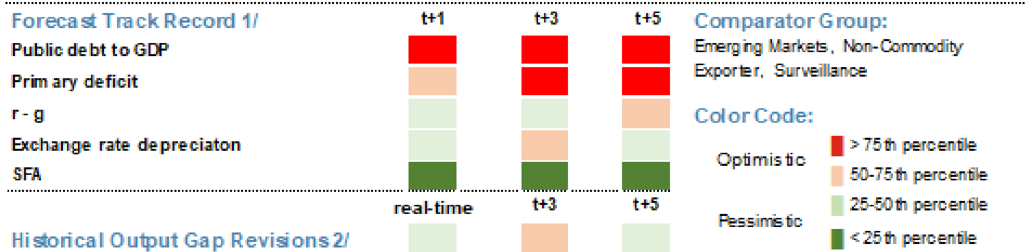
Contribution to Change in Public Debt

(percent of GDP)

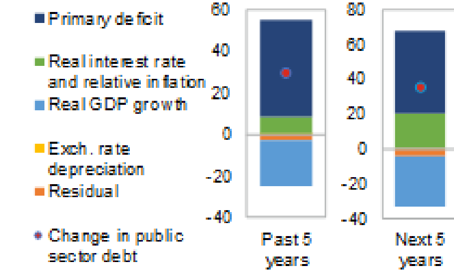


Staff commentary: Public debt rises over the projection period, as large deficits only decline slowly, with a reduction in infrastructure investment partly offset by growing pension spending.

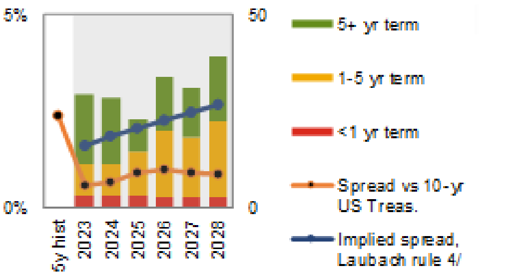
Appendix III. Figure 5. China: Realism of Baseline Assumption



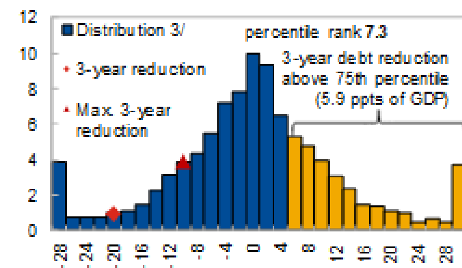
Public Debt Creating Flows
(Percent of GDP)



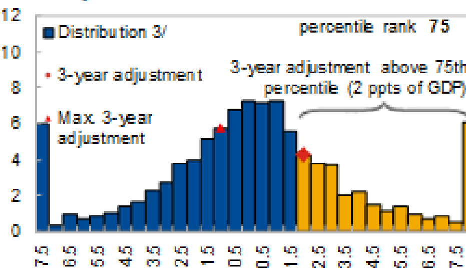
Bond Issuances (Bars, debt issuances (RHS, % GDP); lines, avg marginal interest rates (LHS, percent))



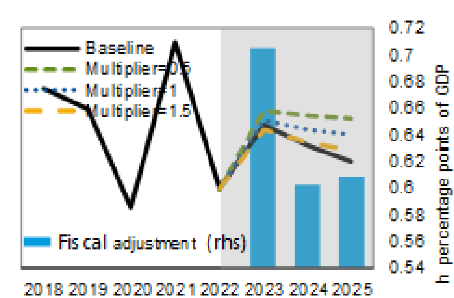
3-Year Debt Reduction
(Percent of GDP)



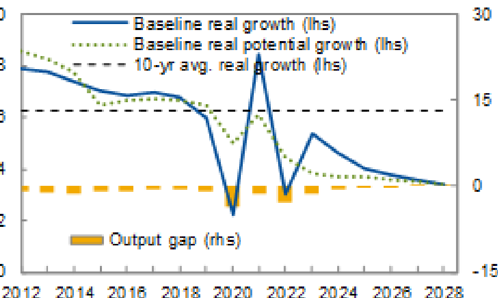
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



Commentary: The baseline is based on a gradual fiscal consolidation over 10 years. This is feasible as public investment is currently very large and the off-budget entities carrying a significant portion of such investment are expected to face progressively tighter financing constraints.

Source : IMF Staff.

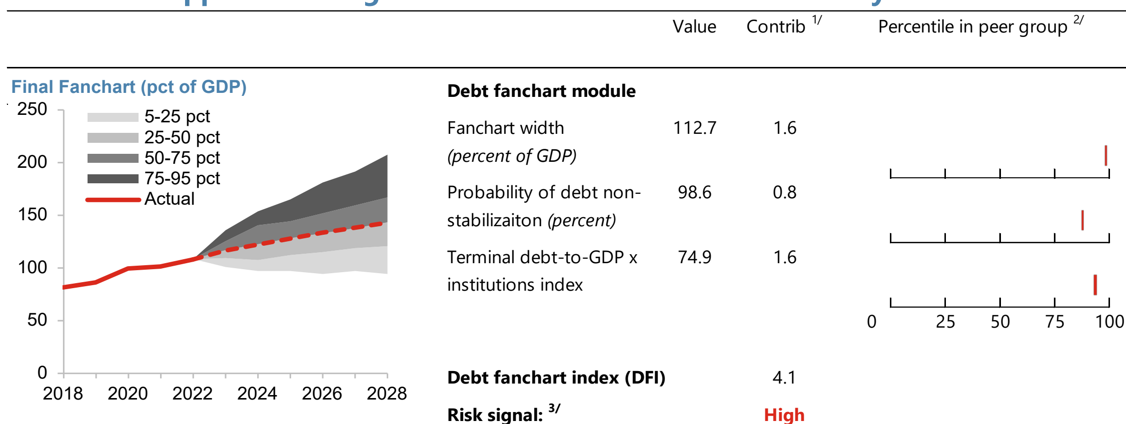
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

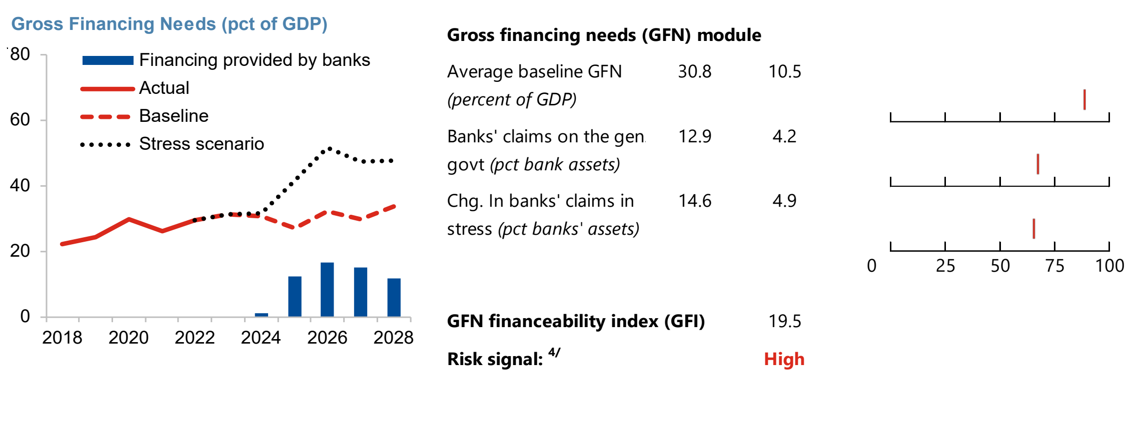
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Appendix III. Figure 6. China: Medium-Term Risk Analysis

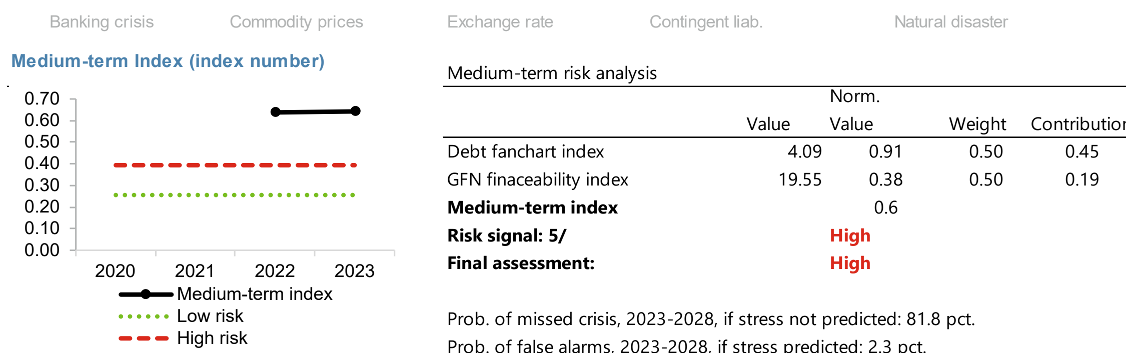


	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	112.7	1.6	
Probability of debt non-stabilizaiton *(percent)*	98.6	0.8	
Terminal debt-to-GDP x institutions index	74.9	1.6	
Debt fanchart index (DFI)		4.1	
Risk signal: 3/		**High**	



	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	30.8	10.5	
Banks' claims on the gen govt *(pct bank assets)*	12.9	4.2	
Chg. In banks' claims in stress *(pct banks' assets)*	14.6	4.9	
GFN financeability index (GFI)		19.5	
Risk signal: 4/		**High**	

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	4.09	0.91	0.50	0.45
GFN finaceability index	19.55	0.38	0.50	0.19
Medium-term index		0.6		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 81.8 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 2.3 pct.

Commentary: The Debt Fanchart and GFN Modules are pointing to high level of risk. However, medium-term liquidity risks are mitigated by China's partially closed capital account and ample financial assets.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Appendix III. Figure 7. China: Long-Term Risk Analysis

Large Amortization Trigger

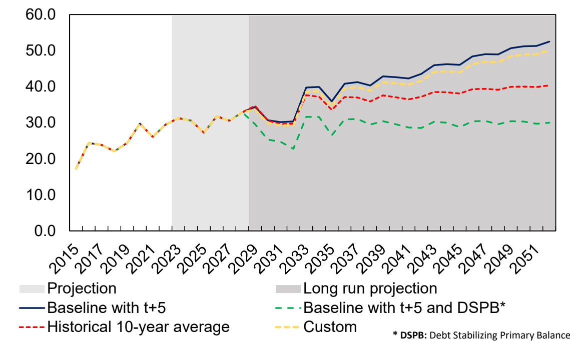
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

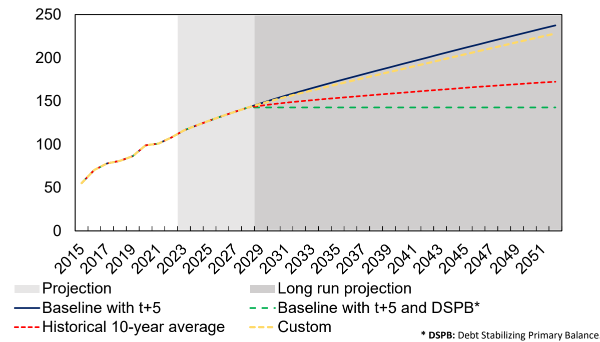
Alternative Baseline Long-term Projections (including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.4%	3.2%
Primary Balance-to-GDP	-6.8%	-6.1%
Real depreciation	-2.1%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP ratio



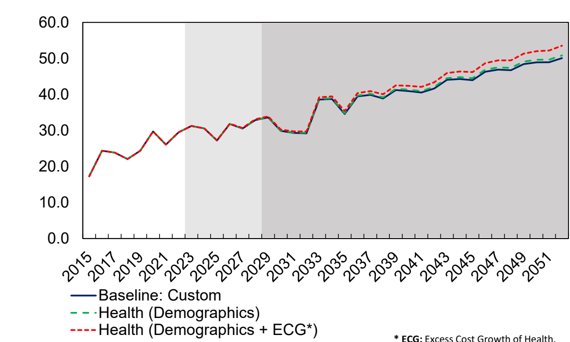
Total public debt-to-GDP ratio



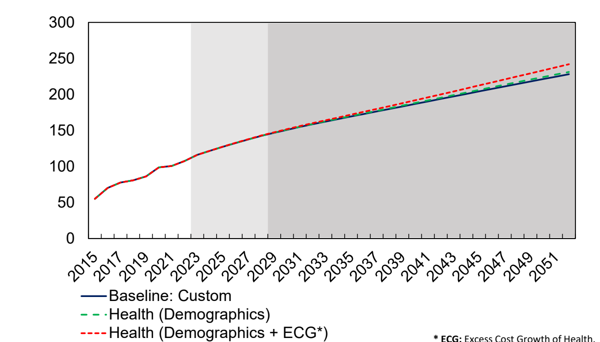
Commentary: The custom baseline assumes constant values for primary deficits, interest, and growth for the LT projection period (2029-2052), while charts in the main text are based on Staff's time-varying projections. Under the historical 10-year average scenario in which real GDP growth is at 6.2 percent, debt-to-GDP grows significantly less than in the baseline, as the baseline incorporates declining growth in the absence of comprehensive structural reforms (IMF, 2022).

Demographics: Health

GFN-to-GDP ratio

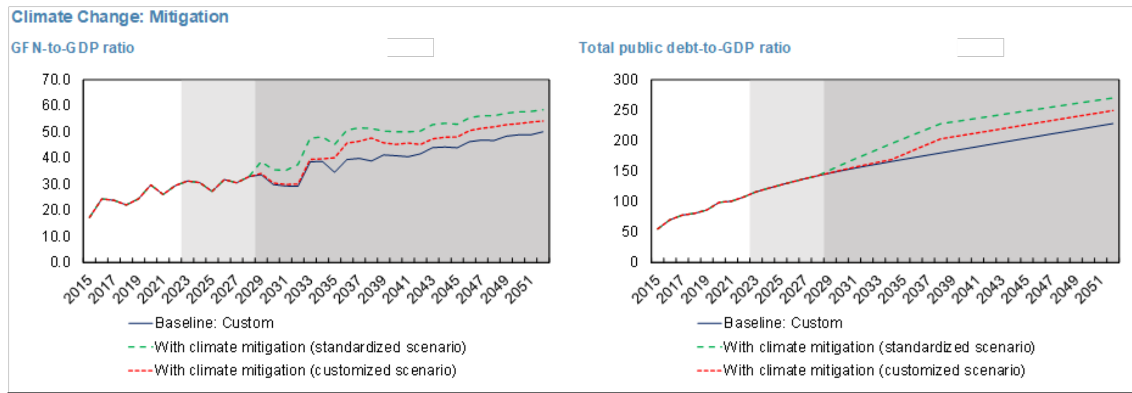


Total public debt-to-GDP ratio



Commentary: The demographics health module shows a slightly steeper trajectory of public debt-to-GDP ratio when taking into account the effect of China's aging population on health expenditures over the long term. The increase in debt-to-GDP ratio is largest under the scenario with both demographics and excess cost of health (ECG), though the differences across the different scenarios are overall very small.

Appendix III. Figure 7. China: Long-Term Risk Analysis (Concluded)



Commentary: China's investment needs to meet its net neutrality target in 2060 are sizeable, estimated at around 5 percent of GDP (Chateau, Chen, Jaumotte, Zhunussova, 2022). If these climate investments were funded with the same instruments that are used to finance the general govenment deficit, then debt could reach close to 250 percent of GDP by 2050. This indicates that other options, such as ETS reforms (to move closer to an optimal carbon pricing tool), as well as improved standards and regulations, and private sector investment would be preferable from the perspective of public debt-to-GDP.

Appendix IV. Implementation of Main Recommendations of the 2022 Article IV Consultation

1. **Some progress has been made in tackling risks in the property sector and indebted local governments, advancing power sector reforms, and promoting the green transition.** At the same time, there remains significant room for further rebalancing the economy away from investment-led growth, implementing SOE reforms, advancing the green economy, including by phasing out coal, and addressing public finances of local governments. Further reforms should focus more on providing direct fiscal support to households and strengthening social safety nets, improving monetary policy transmission, allowing more market-based adjustment in the property sector and durably addressing local government debt while protecting financial stability. Additional steps are also needed to raise productivity and achieve high-quality growth in the medium to long term.

Announced Reform Measures since November 2022	Date
Rebalancing Growth	
The full lifting of COVID containment measures should be preceded by urgent measures to contain the health impact.	
The State Council (Comprehensive Group of the Joint Prevention and Control Mechanism for Novel Coronavirus) issued an overall plan for prevention and control of Covid-19 with measures against class b infectious disease , which proposed to increase the vaccination rate of the elderly, improve the preparation of related drugs and testing reagents, and increase input in the construction of medical resources. (link)	Dec-2022
Five documents on prevention and control of Covid-19 with measures against class b infectious disease, such as the epidemic monitoring plan were issued by State Council (Comprehensive Group of the Joint Prevention and Control Mechanism for Novel Coronavirus) (link)	Dec-2022
The Central Rural Work Leading Group and the State Council's Joint Prevention and Control Mechanism for Covid-19, issued the Current Work Plan on Strengthening the Prevention and Control of Covid-19 in Rural Areas, put forward to improve medical and health services in rural areas and accelerate the production of anti-epidemic drugs, as well as to improve the vaccination rates for key populations, etc. (link)	Dec-2022
The Central Committee of CPC and the State Council issued the "Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) ", which proposes to provide multi-level medical and health services, timely optimize the types of vaccines in the national immunization plan, and gradually include safe, effective, and financially affordable vaccines in the national immunization plan. (link)	Dec-2022 in progress
China Banking and Insurance Regulatory Commission issued a notice on the practical implementation of optimized measures for epidemic prevention and control to ensure the smooth flow of basic financial services, proposing to make every effort to ensure the funding and financial services of industries including healthcare, logistics supply guarantee, and service consumption. (link)	Dec-2022
The Ministry of Civil Affairs and other ministries issued a notice on prevention and control of Covid-19 in urban and rural communities, and proposed to set up green channels for the elderly, temporary vaccination sites, mobile vaccination vehicles and other measures. (link)	Jan-2023
The Plan for preventing and Controlling Covid-19 (Tenth Edition) was published by State Council (The Comprehensive Group of the Joint Prevention and Control Mechanism. (link)	Jan-2023
NDRC and other ministries issued a notice on consolidating major achievements in epidemic prevention and control, promoting strengths and weaknesses of urban and rural medical and health care and environmental protection work. It proposes to promote the continuous increase of vaccination rates for the elderly, and build a modern medical distribution network covering both urban and rural areas. (link)	Feb-2023

Announced Reform Measures since November 2022	Date
The General Office of the Central Committee and the General Office of the State Council issued the "Opinions on Further Deepening Reform and Promoting the Healthy Development of the Rural Medical and Health System", proposing to improve the comprehensive services, emergency response, and epidemic prevention and control capabilities of the rural medical and health system. The central government will provide support to rural medical and health institutions through basic public health services and basic drug system subsidies. (link)	Feb-2023 in progress
The General Office of the Central Committee and the General Office of the State Council, issued the "Opinions on Further Improving the Medical and Health Service System", proposing to strengthen the construction of major epidemic prevention, control and treatment systems, and emergency response capabilities. (link)	Mar-2023 in progress
State Council (The Comprehensive Group of Joint Prevention and Control Mechanism for Novel Coronavirus) issued a Notice on the Vaccination Work Plan. (link)	Apr-2023
In the short term, fiscal policy should protect the recovery and facilitate rebalancing	
MOF and STA implement the deferral of personal income tax for personal pensions in some regions. (link)	Nov-2022 in progress
CPCCC and The State Council issued "The Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) , proposed "increase the adjustment of financial and tax systems on income distribution" and "improve the social security system" (link)	Dec-2022 in progress
MOF continued the implementation of preferential policies for employment security funds for people with disabilities. (link)	Mar-2023 n progress
MHRSS,MOF and STA have gradually reduced the rates of unemployment insurance and work-related injury insurance, and the implementation period of relevant policies has been extended until the end of 2024. (link)	Mar-2023 in progress
MOF, STA and MIIT issued a notice to continue and optimize the implementation of new energy vehicle purchase tax reduction policies. (link)	Jun-2023 in progress
MOF and MOHURD issued "Management Measures for Subsidy Funds for Rural Dangerous Housing Renovation from the Central Government", further standardizing and strengthening the management of subsidy funds for rural dangerous housing renovation from the central government, and improving the efficiency of fund utilization. (link)	Jun-2023 in progress
MHRSS, MOE and MOF continue to implement a one-time subsidy policy for job expansion, giving full play to the role of unemployment insurance in assisting enterprises in job expansion. (link)	Jun-2023 in progress
At the Executive Meeting of the State Council on June 29 , "Several Measures to Promote Home Consumption" took effect, deploying relevant measures to promote home consumption. (link)	Jun-2023 in progress
The General Office of the State Council forwarded the Notice of the NDRC on Measures to Restore and Expand Consumption, proposing 20 measures such as stabilizing bulk consumption, expanding service consumption, promoting rural consumption, expanding new consumption, improving consumption facilities, and optimizing consumption for the environment. (link)	Jul-2023 in progress
NDRC and seven other departments issued the "Several Measures for Promoting Electronic Product Consumption", proposing 12 measures in four aspects to promote electronic product consumption. (link)	Jul-2023 in progress
MOF and STA, together with other relevant departments, continue to implement four phased policies until the end of 2027 based on optimization, improvement. They are: further supporting tax policies related to employment for key groups (link) , and further supporting employment for retired soldiers who are self-employed (link) , tax and fee support policies for small and micro enterprises and individual businesses (link) . Continue the implementation of the other six phased policies until the end of 2027. They are: the value-added tax reduction and exemption policy for small-scale taxpayers (link) , policies related to venture capital enterprises and angel investment individuals investing in start-up technology enterprises (link) ; value added tax relief policies for financing for farmers, SMEs, and individual businesses (link) ,tax cut policies related to financing for SMEs (link) , value-added tax exemption policy on interest income from loans to SMEs by financial institutions (link) .	Aug-2023 in progress
The Sixth Session of the Standing Committee of the 14th National People's Congress reviewed and approved the State Council's proposal to increase the issuance of government bonds to support post-disaster recovery and reconstruction and enhance disaster prevention, reduction, and relief capabilities. The	Oct-2023 in progress

Announced Reform Measures since November 2022	Date
central government will issue an additional 1,000 billion yuan in 2023 government bonds in the fourth quarter of this year. The main purpose of this additional issuance of 1 trillion yuan of treasury bonds is to implement the deployment of the Standing Committee meeting of the Political Bureau of the CPC Central Committee, to support post-disaster recovery and reconstruction and the construction of projects to improve disaster prevention, reduction, and relief capabilities. It is to make up for shortcomings, strengthen weaknesses, and benefit people's livelihood. important arrangements.(link)	
Going forward, it will take the systematic strengthening of the social protection system to sustain high-quality growth	
MHRSS,MOF and STA have gradually reduced the rates of unemployment insurance and work-related injury insurance, and the implementation period of relevant policies has been extended until the end of 2024. (link)	Mar-2023 in progress
CPCCC and The State Council issued "The Opinion on Promoting the Construction of Basic Elderly Care Service System", proposed to accelerate the construction of a basic elderly care service system that covers all elderly people, has clear rights and responsibilities, moderate security, and sustainability, continuously enhancing the sense of gain, happiness, and security of the elderly. (link)	May-2023 in progress
The General Office of the State Council issued the "Implementation Opinions on Strengthening the Normalization Supervision of the Use of Medical Insurance Funds", ensuring the safe operation of medical insurance funds and standardizing medical service behavior. (link)	May-2023 in progress
MHRSS, MOE and MOF continue to implement a one-time subsidy policy for job expansion, giving full play to the role of unemployment insurance in assisting enterprises in job expansion. (link)	Jun-2023 in progress
The National Medical Insurance Bureau, MOF and STA issued the "Notice on Ensuring Basic Medical Security for Urban and Rural Residents in 2023" to further strengthen the basic medical security capacity. (link)	Jul-2023 in progress
Combined with a more progressive tax system, these reforms can make fiscal policy a substantially more effective stabilization tool	
MHRSS, MOE and MOF continue to implement a one-time subsidy policy for job expansion, giving full play to the role of unemployment insurance in assisting enterprises in job expansion. (link)	Jun-2023 in progress
MOF and four other departments have issued a notice on further supporting tax policies related to entrepreneurship and employment for key groups, continuing to implement tax cut policies for low-income individuals such as those who have been unemployed for more than six months and zero employment families who have started their own businesses. (link)	Aug-2023 in progress
In order to further reduce the burden on enterprises and support their development, the Ministry of Finance, together with relevant departments, issued a number of policy announcements to clearly extend the implementation of more than 20 preferential tax policies such as corporate income tax deductions for equipment and appliances and value-added tax exemption for medical services. (link)	Sep-2023 in progress
Further monetary policy easing will cushion the impact of COVID disruptions and the property crisis, while greater reliance on interest-based measures will make it more effective	
PBoC has issued a notice to extend the implementation of special re-lending for transportation and logistics until the end of June 2023, including small and medium-sized logistics warehousing enterprises, to further enhance financial support for the smooth and smooth operation of transportation and logistics, and to assist in the high-quality development of the transportation and logistics industry. (link)	Jan-2023
PBoC has cut the reserve requirement ratio for financial institutions by 0.25 percentage points. (link)	Mar-2023
PBoC has cut the winning rate for open market reverse repo operations by 10 basis points. (link)	June-2023
PBoC has cut the Medium-term Lending Facility (MLF) rate by 10 basis points. (link)	June-2023
The loan prime rate (LPR) decreased by 10 basis points. (link)	June-2023
PBoC has increased the amount of re-loans and rediscounts provided to farmers and small businesses by 200 billion yuan. (link)	June-2023
PBoC has continued to implement the Inclusive Small and Micro Loan Support Facility until the end of 2024. (link)	Jun-2023
PBoC has lowered 1Y MLF rate by 15bps to 2.50% from 2.65%, 7-day reverse repo rate was cut by 10bps to 1.80% from 1.90%. (link)	Aug-2023

Announced Reform Measures since November 2022	Date
PBoC has cut the foreign exchange required reserve ratio for financial institutions by 2 percentage points to 4% from 6%.(link)	Sep-2023
PBoC has cut the required reserve ratio for financial institutions by 25 bps, with a weighted average required reserve ratio for financial institutions of approximately 7.4% after adjustment. (link)	Sep-2023
PBoC has reduced the interest rate on commercial personal loans for the first home in the inventory. (link)	Sep-2023
PBoC has adjusted and optimized differentiated housing credit policies. (link)	Sep-2023
The RMB should be allowed to adjust flexibly to help absorb shocks and increase the effectiveness of monetary policy	
PBoC and SAFE decided to increase the macro prudential adjustment parameters for cross-border financing of enterprises and financial institutions from 1.25 to 1.5. （link）	July-2023
The meeting of Political Bureau of the CPC Central Committee on July 24 pointed out the need to maintain basic stability of the RMB exchange rate at a reasonable and balanced level. （link）	July-2023 in progress
PBoC has decided to lower the foreign exchange reserve requirement ratio of financial institutions by 2 percentage points from September 15, 2023, that is, to 4% from the current 6%. (link)	Sep-2023
Ending the Real Estate Crisis and Containing Financial Stability Risks	
Setting up more robust mechanisms to facilitate restructuring and restore homebuyer confidence will be critical in the near term.	
PBoC and CBIRC issued a notice on the smooth and healthy development of the current financial support for the real estate market, including six aspects and sixteen measures. 1、Maintain stable and orderly real estate financing: (1) Stabilize the investment of real estate development loans. (2) Support the reasonable demand for personal housing loans. (3) Stabilize credit allocation for construction enterprises. (4) Support the reasonable extension of existing financing such as development loans and trust loans. (5) Maintain basic stability in bond financing. (6) Maintain stable financing for trust and other asset management products. 2、Actively providing financial services for "guaranteed delivery buildings": (7) Supporting development policy banks to provide special loans for "guaranteed delivery buildings". (8) Encourage financial institutions to provide financing support. 3、Actively cooperate to handle the risks of trapped real estate enterprises: (9) Provide financial support for real estate project mergers and acquisitions. (10) Actively explore market-oriented support methods. 4、Protect the legitimate rights and interests of housing finance consumers in accordance with the law: (11) Encourage independent negotiation and extension of principal and interest payments in accordance with the law. (12) Effectively protect the personal credit rights and interests of deferred loans. 5、Periodic adjustment of some financial management policies: (13) Extension of the transition period arrangement for real estate loan concentration management policies. (14) Stagewise optimization of financing policies for real estate project mergers and acquisitions. 6、Increase financial support for housing leasing: (15) Optimize housing leasing credit services. (16) Expand diversified financing channels in the housing rental market. (link)	Nov-2022
CSRC issued five measures to support equity financing of real estate enterprises. 1、Resumption of mergers and acquisitions and supporting financing of listed companies related to housing. 2、Resumption of refinancing for listed real estate enterprises and housing related listed companies. 3、Adjust and improve the policy of listing real estate enterprises in the overseas market. 4、Further leverage the role of REITs in revitalizing the existing assets of real estate enterprises. 5、Actively leverage the role of private equity investment funds. (link)	Nov-2022
If the relevant policies of the "Notice of PBoC and CBIRC on Supporting the Stable and Healthy Development of the Current Financial Support Real Estate Market" have an applicable period, the applicable period will be uniformly extended to December 31, 2024. (link)	Jul-2023 in progress
The meeting of Political Bureau of the CPC Central Committee on July 24 pointed out that it is necessary to effectively prevent and resolve risks in key areas, adapt to the new situation of significant changes in the supply and demand relationship in real estate market, adjust and optimize real estate policies in a timely manner, use the policy toolbox well for urban implementation, better meet the rigid and improving housing	Jul-2023 in progress

Announced Reform Measures since November 2022	Date
needs of residents, and promote the stable and healthy development of the real estate market. It is necessary to increase the construction and supply of affordable housing, actively promote the transformation of urban villages and the construction of public infrastructure for both regular and emergency use and revitalize the transformation of various types of idle properties. (link)	
On July 31, the Executive Meeting of the State Council pointed out the need to adjust and optimize real estate policies, launch policy measures that are conducive to the stable and healthy development of the real estate market according to different needs and cities, and accelerate the research and construction of new development models for the real estate industry. (link)	Jul-2023 in progress
NDRC issued a notice on measures to restore and expand consumption, supporting the demand for rigid and improved housing. Ensure the delivery of buildings, people's livelihoods, and stability, improve the basic system and support policies for housing security, expand the supply of affordable rental housing, and focus on solving the housing problems of new citizens, young people, and other groups with housing difficulties. (link)	Jul-2023 in progress
MOF, SAT and MOHURD have made it clear in the "Announcement on Continuing the Implementation of Individual Income Tax Policies Related to Supporting Residents' Swap for Housing" that from January 1, 2024 to December 31, 2025, taxpayers who sell their own housing and purchase new housing in the market within one year after the sale of their current housing will be given preferential tax refunds for the individual income tax already paid on the sale of their current housing. (link)	Aug-2023 in progress
Notice of the MOHURD, PBoC and NAFR on Optimizing the Criteria for Determining the Number of Housing Units in Personal Housing Loans. When a resident family applies for a loan to purchase commercial housing, if their family members do not have a complete set of housing locally, regardless of whether they have used the loan to purchase housing, banking and financial institutions will implement the housing credit policy for the first set of housing. (link)	Aug-2023 in progress
The Executive Meeting of the State Council deliberated and approved the Guiding Opinions on the Planning and Construction of Affordable Housing. It is necessary to do a good job in the planning and design of affordable housing, promote construction through reform and innovation methods, ensure the quality of housing construction, and pay attention to strengthening the construction of supporting facilities and public service supply. (link)	Aug-2023 in progress
Notice of PBoC and NAFR on Adjusting and Optimizing Differentiated Housing Credit Policies. For residential households who purchase commercial housing with loans, the minimum down payment ratio for commercial personal housing loans for the first set of housing is uniformly not less than 20%, and the minimum down payment ratio for commercial personal housing loans for the second set of housing is uniformly not less than 30%. The lower limit of the interest rate policy for commercial personal housing loans for the first set of housing shall be implemented in accordance with the current regulations, and the lower limit of the interest rate policy for commercial personal housing loans for the second set of housing shall be adjusted to not less than the market quoted interest rate for the corresponding term loan plus 20 basis points. (link)	Aug-2023 in progress
Notice of PBoC and NAFR on Matters Related to Reducing the Interest Rate of Existing First Home Loans. For commercial personal housing loans for the first housing that have been issued by financial institutions before August 31, 2023, or those that have signed contracts but have not been issued, or other commercial personal housing loans for existing housing that meet the first housing standards in the city where the borrower is located, the borrower can apply to the lending financial institution to issue a new loan to replace the commercial personal housing loan for existing first housing. (link)	Aug-2023 in progress
Over the medium term, structural reforms can facilitate the property market's gradual transformation to a more sustainable size, where demand is driven largely by demographic factors and household income growth	
The General Office of the CPC Central Committee and the General Office of the State Council issued the "Opinions on Promoting the Construction of the Basic Elderly Care Service System" to improve the guarantee mechanism for basic elderly care services. (link)	May-2023 in progress

Announced Reform Measures since November 2022	Date
The Notice of the National Administration of Financial on Promoting the Development of Exclusive Commercial Pension Insurance stipulates that life insurance companies that meet the conditions can operate exclusive commercial pension insurance. (link)	
Building on efforts to rein in off-balance-sheet financing and address local SOE debt, fiscal reforms for local governments should alleviate their structural over-reliance on the property market.	
At the National Financial Work Conference in February 2023, Minister of Finance Liu Kun proposed to strengthen the assessment of fiscal sustainability and ensure the controllability of local government debt risks, continuously increasing transfer payments to difficult and underdeveloped areas, and improving the level of local financial security. Continue to effectively resolve the hidden debt risks of local governments and strengthen the corporate governance of LGFVs. (link)	Feb-23 in progress
MOF issued the "Management Measures for Registration, Custody and Settlement of Government Bonds" to prevent market risks in government bonds and promote efficient operation of the government bond market. (link)	Jul-23 in progress
Stronger prudential policies for the banking sector will help identify vulnerabilities and rebuild buffers to address the mounting pressures from lockdowns and real estate, especially in smaller banks	
The CBIRC and the PBoC jointly formulated the "Measures for the Risk Classification of Financial Assets of Commercial Banks". (link)	Feb-2023
Upgrades to restructuring frameworks are urgently needed to help facilitate the exit of nonviable firms and banks while protecting financial stability	
The Financial Stability Law has been delivered to the first review of the National People's Congress, and PBoC will promote the introduction of the Financial Stability Law. (link)	Mar-2023 in the legislative progress
China should continue strengthening the effectiveness of the AML/CFT framework, including measures to prevent the misuse of e-CNY.	
N/A	
Responding to Potential Downside Risks	
Additional policy support should be provided under some downside scenarios	
The Central Committee and the State Council issued the "Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) ", which proposes to effectively respond to external risks and challenges through domestic stable development. (link)	Dec-2022 in progress
The Ministry of Commerce and the People's Bank of China jointly issued the **"Notice on Further Supporting Foreign Economic and Trade Enterprises to Expand the Cross-border Use of RMB and Promote Trade and Investment Facilitation".** (link)	Jan-2023
The People's Bank of China, together with the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, the State Administration of Foreign Exchange and the People's Government of Guangdong Province jointly issued **"the Opinions on Financial Support for the Construction of Hengqin Guangdong-Macao Deep Cooperation Zone"** and **"the Opinions on Financial Support for the Comprehensive Deepening of Reform and opening up of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone"**. (link)	Feb-2023
The General Office of the State Council issued the "Opinions on stabilizing the Scale and optimizing the Structure of Foreign Trade". (link)	Apr-2023 in progress
The People's Bank of China, National Financial Regulatory Administration, the China Securities Regulatory Commission, the Ministry of Finance and the Ministry of Agriculture and Rural Affairs recently jointly issued **"the Guiding Opinions on Financial Support for Comprehensively Promoting Rural Revitalization and Accelerating the Construction of an Agricultural Powerhouse"**. Specific requirements were put forward in nine aspects: ensuring stable production and supply of grain and important agricultural products, strengthening, consolidating and expanding financial support for the achievements of poverty alleviation, and strengthening financial supply to strong agricultural countries, and so on. (link)	June-2023

Announced Reform Measures since November 2022	Date
"Ministry of Industry and Information Technology, People's Bank of China，National Financial Regulatory Administration, China Securities Regulatory Commission, Ministry of Finance on the implementation of "One chain, one policy, One Permission" small, medium and micro enterprises financing promotion action Notice". (link)	July-2023
NDRC issued a notice on measures to restore and expand consumption, supporting the demand for rigid and improved housing. Guarantee the delivery of pre-sold real estate projects, people's livelihoods, and stability, improve the basic system and support policies for housing security, expand the supply of affordable rental housing, and focus on solving the housing problems of new citizens, young people, and other groups with housing difficulties. (link)	Jul-2023 in progress
MOF issued the revised Measures for the Administration of Special Funds for the Development of Inclusive Finance, raised the ceiling of individual loans for entrepreneurial guaranteed loans from 200,000 yuan to 300,000 yuan, and the ceiling of loans for small and micro-enterprises from 3 million yuan to 4 million yuan. (link)	Sep-2023 in progress
MOF, SAT, and MOHURD issued the Announcement on Tax Policies Relating to Guaranteed Housing, which exempted the land used for the construction of guaranteed housing projects from urban land use tax from October 1; and exempted guaranteed housing operation and management units from the stamp duty related to guaranteed housing, as well as guaranteed housing purchasers from the stamp duty involved. (link)	Sep-2023 in progress
The State Council issued the "Implementation Opinions on Promoting the High-quality Development of Inclusive Finance" to optimize key products and services of inclusive finance and support the sustainable development of small and micro businesses. (link)	Sep-2023 in progress
NFRA revised and issued the "Measures for the Implementation of Administrative Licensing Matters for NonBanking Financial Institutions", further relaxing the entry conditions for foreign institutions to acquire shares in financial asset management companies. (link)	Nov-2023 In progress
In order to activate the capital market and boost investors' confidence, the MOF and SAT issued an announcement clarifying that from August 28, 2023, the stamp duty on securities transactions will be implemented with a 50% reduction. (link)	Aug-2023 in progress
The State Council issued the "Opinions on Further Improving the Foreign Investment Environment and Increasing the Attraction of Foreign Investment", to create a market-oriented, legalized, and internationalized business environment, and make greater efforts to attract and utilize foreign investment more effectively. (link)	July-2023 in progress
Lifting Medium-Term Growth	
Re-accelerating market-based structural reforms will be key to raising domestic productivity growth.	
Opinions of the CPC Central Committee and the State Council on Promoting the Development and Growth of Private Economy. Accelerate the creation of a market-oriented, legalized, and internationalized first-class business environment, optimize the development environment of the private economy, protect the property rights of private enterprises and the rights of entrepreneurs in accordance with the law, comprehensively build a friendly and clean political business relationship, and ensure that all forms of ownership of the economy use production factors equally in accordance with the law, participate in market competition fairly, and receive equal legal protection. Guide private enterprises to continuously improve the quality of development through their own reform and development, compliant operation, transformation and upgrading, Promote the growth, optimization, and strength of the private economy. (link)	Jul-2023 in progress
NDRC has issued a notice on **further implementing the promotion of private investment and striving to mobilize the enthusiasm of private investment**, further deepening, implementing, and refining policy measures, continuously enhancing the willingness and ability of private investment, and striving to mobilize the enthusiasm of private investment. (link)	July-2023 in progress
NDRC and other departments issued a notice on the implementation of several recent measures to promote the development of the private economy, promoting the resolution of prominent problems faced in the development of the private economy, stimulating the vitality of the private economy, and boosting confidence in the development of the private economy. (link)	Aug-2023 in progress

Announced Reform Measures since November 2022	Date
NDRC has established the Private Economy Development Bureau to coordinate and create a better development environment. (link)	Sep-2023
The State Administration for Market Regulation issued a notice on the issuance of "Several Measures for Market Regulation Departments to Promote the Development of Private Economy", continuously optimizing a stable, fair, transparent and predictable development environment, and fully stimulating the vitality of private economy. (link)	Sep-2023 in progress
To further stimulate the vitality of private investment, the NDRC released a unified platform for promoting projects to private capital, focusing on 4894 key projects with a total investment of approximately 5.27 trillion yuan, actively attracting the participation of private capital. (link)	Sep-2023
Staff estimates suggest that comprehensive steps to lift productivity growth and foster rebalancing towards sustainable, less investment-driven growth could significantly raise China's growth potential	
The first meeting of the 20th Central Committee for Comprehensive Deepening Reform pointed out that it is necessary to improve the safety responsibility, quality structure, asset and enterprise management of the state-owned economy, deepen the reform of state-owned enterprises, focus on addressing weaknesses, solidifying the foundation, and enhancing advantages, and build a top-level coordination, clear rights and responsibilities, efficient operation, and strong supervision system for the state-owned economy. To promote the development and growth of the private economy, efforts should be made to optimize the development environment of the private economy, remove institutional barriers that restrict private enterprises from fair participation in market competition, guide private enterprises to find their correct positioning in high-quality development, and continuously improve the quality of development through their own reform and development, compliant operation, transformation and upgrading. It is necessary to consider the characteristics of the private economy, improve policy implementation methods, strengthen policy coordination, promote precise and direct preferential policies, and effectively solve practical difficulties for enterprises. (link)	Apr-23 in progress
Achieving the Climate Goals	
Advancing power sector reform is critical to effectively implement China's climate agenda	
NDRC, NBS and NEA noticed to further improve the work of excluding new renewable energy consumption from total energy consumption control". (link)	Nov-2022
The NDRC and NEA issued the notice on completing the signing and performance of medium and long-term electricity contracts in 2023, proposing to optimize the inter provincial and regional medium and long-term trading mechanism, and improve the formation mechanism of market trading electricity prices for high energy consuming enterprises etc. (link)	Dec-2022 in progress
The Central Committee and the State Council issued the "Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) ", proposing to promote the construction of a new type of power system and enhance the capacity for clean energy consumption and storage. (link)	Dec-2022 in progress
The Ministry of Industry and Information Technology and other ministries issued the "Guiding Opinions on Promoting the Development of the Energy Electronics Industry", proposing measures to adapt to the electrification of energy consumption, low-carbon power production, and informatization of production and consumption, and help achieve carbon peak and carbon neutrality. (link)	Jan-2023 in progress
The NEA issued opinions on accelerating the development of digital and intelligent energy, promoting the development of energy digital economy and green low-carbon circular economy. (link)	Mar-2023 in progress
National Standards Commission and other ministries published the "Guidelines for the Construction of Carbon Peak and Carbon Neutrality Standard System". (link)	Apr-2023 in progress
NDRC issued the notice on Provincial Power Grid Transmission and Distribution Tariff and Related Matters in the Third Supervision Period. (link)	May-2023

Announced Reform Measures since November 2022	Date
The NDRC, NEA, and National Rural Revitalization Bureau issued the "Guiding Opinions on the Implementation of the Rural Power Grid Consolidation and Improvement Project", proposing to implement rural "coal to electricity" and other measures stably and orderly. (link)	Jul-2023 in progress
NDRC and NEA issued the Guiding Opinions on Strengthening the Stability of the Power System in New Situation, proposing to accelerate the construction of a new type of power system, ensure the safe and reliable supply of electricity, and promote the achievement of carbon peak and carbon neutrality goals. （link）	Sep-2023 in progress
NDRC and NEA issued a notice on further accelerating the construction of the electricity spot market, to promote building a new power system and energy system. (link)	Oct-2023 in progress
NDRC issued "National Carbon Peak Pilot Construction Plan". 100 cities and parks selected will explore carbon peak paths and provide experience and practices for China.（link）	Oct-2023 in progress
Fostering the development of climate finance further could provide additional impetus to the transition toward a carbon-neutral economy and improve the quality of growth	
The Carbon Emission Reduction Support Tool will be extended to the end of 2024, and some local legalized financial institutions and foreign-funded financial institutions will be included in the scope of financial institutions of the Carbon Emission Reduction Support Tool, so as to further expand the coverage of the policy and deepen the international cooperation in green finance. (link)	Jan-2023
The special refinancing loan for supporting the clean and efficient use of coal will be extended until the end of 2023, and the carbon emission reduction support tool and the special refinancing loan for supporting the clean and efficient use of coal will continue to be implemented in parallel in 2023, so as to support the economy's transition to a green and low-carbon economy while guaranteeing the security of the energy supply, and to help the scientific and orderly realization of the goal of peak carbon attainment and carbon neutrality. (link)	Jan-2023
Contributing to Multilateral Solutions	
The threat of geoeconomic fragmentation not only adds to the urgency of domestic structural reforms, but also emphasizes the importance of multilateral efforts to avoid it	
China submitted "Progress on the Implementation of China's Nationally Determined Contributions". (link)	Nov-2022
China has initiated the approval process of the "Reference Document for Domestic Regulations on Service Trade" in the WTO. (link)	Dec-2022
The Central Committee and the State Council issued the "Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) ", which proposed to jointly build the "the Belt and Road" with high quality and steadily promote bilateral and multilateral trade cooperation etc. (link)	Dec-2022 in progress
The Central Committee and the State Council issued the "Opinions on Building a Data Infrastructure System to Better Play the Role of Data Elements", proposing the orderly development of cross-border data circulation and transactions. (link)	Dec-2022 in progress
China has committed to participate in the Global Sovereign Debt Roundtable, and has been actively involved in the multilateral debt consultation. (link)	Jan-2023 in progress
The Central Committee and the State Council issued the "Overall Layout Plan for the Construction of Digital China", proposed to actively participated in digital cooperation platforms under multilateral frameworks such as the UN, WTO, G20, APEC, BRICS, and the Shanghai Cooperation Organization. (link)	Feb-2023 in progress
China and Brazil released the joint statement on tackling climate change. (link)	Apr-2023
China (MOFCOM) completed of the approval process for the Fisheries Subsidy Agreement which helps to improve the confidence of all parties in the multilateral trading system and advance negotiations in other fields. (link) (link)	June-2023
RECP has been fully effective for all signatory countries, and MOFCOM will guide and support local governments, industries, and enterprises to make good use of the policies of RECP. (link)	June-2023
China supported and participated in recent or ongoing debt restructurings, including its leadership as a co-chair of several Official Creditor Committees under the G20 Common Framework.	June-2023

Announced Reform Measures since November 2022	Date
The negotiations on the text of the WTO "Investment Facilitation Agreement" have ended, for which China has played a positive role in promoting negotiations and promoting peace. (link)	Jul-2023
China participated in the 13th BRICS Economic and Trade Ministers' Meeting and reached outcome documents in areas including supply chain, SMEs, supporting for the multilateral trading system etc. (link)	Aug-2023
China and Brazil released the joint statement on tackling climate change.	
During the 3rd BRI International Cooperation Summit Forum, China and relevant countries jointly released the "Digital Economy and Green Development International Economic and Trade Cooperation Framework Initiative".(link）	Oct-2023 in progress
Improving Economic Data	
Further efforts are needed to address significant remaining data gaps	
The State Council decided to conduct "the Fifth National Economic Census" in 2023, during which the input-output survey will be coordinated for the first time. This will provide scientific and accurate statistical information for macroeconomic governance and long-term development plans. (link)	Nov-2022 in progress
The Central Committee and the State Council issued the "Opinions on Building a Data Infrastructure System to Better Play the Role of Data Elements", proposing to innovate the governance mechanisms of government data. (link)	Dec-2022 in progress
At the special press conference of the Fourth United Nations World Data Forum, the NBS stated that it will further strengthen international exchanges and cooperation in statistics, and accelerate the construction of statistical survey methods and indicator systems in line with international standards (link)	Apr-2023 in progress

Appendix V. Implementation of Main Recommendations from China's 2017 FSAP[1]

(as of November 13, 2023)

Recommendation	Time Frame	Measures Taken
Macroeconomic recommendations		
Reduce the relatively high GDP growth forecasts in national plans, which encourage local governments to set high growth targets.	NT High priority	The "Outline of the People's Republic of China 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035" ("14th FYP") did not set a quantified target for GDP growth; it only specified that "GDP growth should be maintained within a reasonable range; annual targets will be determined and set each year."
Systemic risk, macroprudential policies, and strengthening supervision		
Newly establish a financial stability sub-committee and entrust it with the sole function of maintaining financial stability	NT High priority	As indicated in the Reform Plan for the Party and the State Institutions (RPPSI), the State Council's Financial Stability and Development Committee (FSDC) and its supporting organizations have been replaced. The functions of the secretariat of the FSDC have been transferred to the office of the Central Financial Commission (CFC). The CFC is the Party's central organization for coordination and decision-making on financial issues. It will be responsible for the high-level planning, coordination, management, monitoring and execution of the work on financial stability and development; it will conduct research and review proposals on major financial issues and policies. The CFC and its supporting office have now been established.
Establish vigorous mechanisms for cooperation, coordination, and information sharing with participants in domestic and foreign financial security networks, including the sharing of detailed financial data.	NT High priority	Within China, the National Financial Regulation Administration (NFRA) has improved its coordination and information sharing with other institutions. It regularly shares data from the banking and insurance industries with the People's Bank of China (PBC), National Bureau of Statistics (NBS), China Securities Regulatory Commission (CSRC), Ministry of Commerce (MoC) and other bodies, to support shared efforts to maintain the security and stability of the financial system. It has continued to develop and improve national and local coordination on monitoring and early-warning mechanism for illegal finance, with the goal of early detection, identification and resolution. Measures include sharing leads on illegal finance risks, developing feedback mechanisms to confirm investigation and resolution of leads. Actions by the CSRC: (1) Signed MoUs for data exchange with the PBC and State Administration of Foreign Exchange (SAFE) and has put in place mechanisms for data sharing. It is also improving information sharing with the former China Banking and Insurance Regulatory Commission (CBIRC). It is obtaining relevant data such as bank and insurance company balance sheets, income statement, OTC stock pledges, and asset management products. (2) In 2021, the PBC led the drafting of *Rules for the Accounting of Assets and Liabilities for Securities Industry Financial Institutions* and its sub-regulations, which requires data sharing arrangements. The CSRC currently provides balance sheet data on securities companies on an annual and quarterly basis. (3) explores joint monitoring of cross-exchange, cross-market and cross-border transactions and risks. The CSRC coordinates with PBC to encourage the pooling of data on investor assets and transactions into a unified big data pool, including data on cross-border transactions, asset management products, private equity funds, derivatives etc. Internationally, the PBC continues to support the collection of financial stability data by the IMF. Key indicators are submitted to the IMF on a quarterly basis, with agreed data

[1] Information as reported by the authorities, with IMF staff providing translation.

Recommendation	Time Frame	Measures Taken
		disclosures on the IMF website. Data has been provided up to Q3 2022. The PBC supports the NFRA to report data starting from Q4 2022 using the new IMF template. The NFRA is working with overseas financial regulators, building collaborative systems that are multi-level, multi-channel, and span multiple fields. (1) The NFRA regularly chairs joint conferences with key regulators of G-SIBs as part of the PBC-led working group on managing cross-border financial crises. It engages with other regulatory institutions from other countries, and maintains open channels of communication. (2) It has expanded the geographical reach of regulatory MoUs and the scope of regulatory collaboration. As of September 2023, the NFRA has signed 126 agreements on regulatory cooperation with financial regulators in 87 countries and regions, including 55 Belt and Road participating countries. These MoUs specify how the parties will handle information exchange, onsite inspections, crisis management, data protection, regulator meetings, etc. Since September 2022, the NAFR has signed new regulatory MoUs with the central banks of Saudi Arabia and Azerbaijan; it has updated its MoU with the UK's Prudential Regulation Authority, adding insurance regulation into the scope of the MoU; and signed an MoU on cooperation on the insurance industry with the Swiss financial market regulator. (3) Regular bilateral conferences. The NFRA has established arrangements for conferences with regulators in Japan, South Korea, Singapore, UK, Luxembourg, USA, and the EU. It holds regular meetings with these regulators on the status of branch offices in each others' territories; areas of regulatory concern; new regulatory decisions; and to share experience. Going forward, as the need arises, more bilateral discussions on regulatory strategy with key national regulators will be explored, including reaffirming the ongoing, regular exchanges with the US banking and insurance regulators. More relationship with regulators in key nations and in neighboring countries/ regions will be established, with formal arrangements for regulatory communications with more overseas regulators. (4) Organizing and participating in joint conferences. The NFRA organizes an annual joint conference on the regulation of China's four G-SIBs (ICBC, ABC, BoC, CCB) and invites representatives of relevant global regulators. These conferences touch on the current status of these Chinese banks, new regulations in various countries/regions, and specific issues in the regulation of individual banks. The NFRA, in its capacity as the home regulator of Chinese banks and insurance companies, also attends joint conferences organized by overseas financial regulators on the regulation of foreign entities. It also keeps up to date with the business of foreign banks and insurance companies with branches in China. And it discusses recovery and resolution plans for banks and insurers within the framework of a crisis management group (CMG) when necessary. (5) Day-to-day communication with overseas regulators. The NFRA communicates with overseas regulators on issues such as the qualification checks for senior managers, information requests, and sharing regulatory experience. Channels include phone conferences, emails, and video conference. CSRC improved exchanges of information and sharing of financial data with international organizations: (1) The CSRC has responded to the FSB questionnaires on climate-related practices, providing data on the size of funds under management to the Non-Bank Monitoring Expert group. It engaged in a mutual exchange of data with the Hong Kong Securities and Futures Commission (HKSFC); and it regularly exchanged information on the MSCI China A 50 Connect Index Futures, and OTC derivatives of stocks on the A market. (2) Better regulatory collaboration. The CSRC has expanded cross-border regulation and enforcement cooperation with securities and futures regulators in other countries and participates in international financial regulation. As of September 2023, it has signed MoUs on bilateral regulatory cooperation and established mechanisms for regulatory collaboration with securities/futures regulators in 67 countries/regions. As a full member of the International Organization of Securities Commissions (IOSCO), the CSRC fulfills its duty

Recommendation	Time Frame	Measures Taken
		to cooperate in cross-border law enforcement under the multilateral MoU, working with its partners to crack down on cross-border securities crime.
CSRC to trigger the countercyclical capital buffer, assess bank capital requirements, and implement targeted capital replenishment	NT High priority	The PBC has begun to develop a basic methodology for assessing the correct level of countercyclical capital buffers. Based on the current state of the economy in China and accumulated levels of systemic risk, the countercyclical capital buffer requirements have not been raised.
Amend major laws to strengthen the operational and budgeting autonomy of the PBC and regulatory agencies and increase their resources	MT High priority	In terms of budgeting, the former CBIRC published a consultation draft of an amendment to the *China Banking Industry Regulation Law* in November 2022, where Article 15 stipulates "The operational expenditures incurred by banking regulators in the course of their duties shall be included in the state budget and guaranteed at a sufficient level." In terms of personnel, the State Commission Office for Public Sector Reform (SCOPSR) added 1980 to the headcount for former CBIRC local offices in two tranches in 2020 and 2021. This has eased the staffing shortages to some extent. In March 2023, the Central Committee launched a new round of reforms to update the organization of the local offices of the CFC, as well as the allocation of resources. The CFC is currently in the process of optimizing its resource allocation, as instructed by the Central Committee.
Resolve data gaps that place constraints on systemic risk monitoring and effective financial regulation and supervision	MT High priority	The PBC's efforts on financial sector statistics provides data to support the monitoring of systemic risks. The NFRA makes regular revisions to the framework and data requirements in its off-site surveillance, updating reporting requirements to better reflect key types of financial business, key risks, and the latest regulations. These updates support the monitoring of systemic financial risk by addressing data gaps, bringing various risks within the regulatory perimeter in a timely manner. The CSRC has accelerated the development of its regulatory big data warehouse, improving data connectivity and data sharing on stock, bond, and fund markets, promoted the unified storage and centralized management of data, , and improved the collection and aggregation of regulatory data, and continued to strengthen data sharing and regulatory coordination with the PBC, NFRA and other departments.
Evaluate and simplify the objectives and structure of the PBC's macroprudential assessments, and only use them as a means of monitoring by the financial stability sub-committee and its subordinate agencies.	Medium priority	No new developments.
Bank regulation and supervision		
Strengthen risk supervision of financial holding groups, and upgrade supervision capabilities with respect to banks and their related financial groups and their ownership	MT High priority	Financial regulators continue to update systems for the regulation of financial holding companies. (1) The former CBIRC issued *Measures for the Monitoring and Regulation of Insurance Group Companies* (CBIRC [2021] no. 13), which strengthened the regulation of insurance groups. It requires that group companies have a clear and transparent ownership structure, and a reasonable ownership structure for the subsidiaries it controls. This regulation places more responsibility for corporate governance on group companies. (2) In February 2023, the PBC issued *Measures on the Regulation of Related-party Transactions for Financial Holding Companies* (PBC [2023] no. 1), which regulates related-party transactions

Recommendation	Time Frame	Measures Taken
structure, including identification of ultimate beneficiary owners.		by financial holding companies, preventing improper transfer of assets, risk contagion, and regulatory arbitrage. (3) The PBC maintains a macroprudential approach, applying comprehensive, ongoing, "look-through" regulation to financial holding companies. The "look-through" principle enables supervision of shareholders and the ownership structure. It requires that ownership structures are clear and transparent. so that actual controlling persons and ultimate beneficial owners can be clearly identified. The PBC has strengthened the consolidated supervision of group companies through reporting requirements, off-site monitoring and on-site inspections, regulatory interviews, risk assessment, and risk alerts. enhanced regulations of key areas such as capital, corporate governance, risk management, and related-party transactions, in order to effectively monitor, assess, prevent, and mitigate the risk for financial holding companies. In March 2023, as specified in *the RPPSI*, responsibility for the day-to-day management of financial holding companies and other financial group companies was transferred from the PBC to the NFRA.
Stop considering the effects of collateral in loan classifications, restrict loan rollover to non-small and medium enterprise (SME) borrowers, and categorize all loans that are 90 days or more past due as non-performing loans.	MT High priority	In February 2023, the former CBIRC and the PBC released *Measures for the Risk Classification of the Financial Assets of Commercial Banks*. These Measures stress that the level of risk on the debtor is the key factor for classification. When commercial banks classify the risk on non-retail assets, they must strengthen the analysis of the first source of repayment, and make the debtor's debt servicing ability the prime consideration. The Measures require that a loan must be classified at least as sub-standard if any repayment of principal, interest, or revenue is more than 90 days overdue; that restructured loans must be classified at least as special mention, with an observation period of at least one year.
Strengthen implementation of the "look-through" principle.	Medium priority	On the institutional level: (1) The PBC issued *Measures on the Regulation of Related-party Transactions for Financial Holding Companies* (PBC [2023] no. 1) in February 2023. The Measures strengthens supervision of related-party transactions by financial holding companies, as it requires financial holding companies to identify related parties and related-party transactions in an accurate, comprehensive, and timely manner, applying the principles of look-through and substance over form. (2) The former CBIRC issued *the Measures on the Regulation of Related-party Transactions by Banks and Insurers*, which explicitly applies the look-through principle to shareholders and related-party transactions. This supports better review, identification, and confirmation of banks' major and controlling shareholders, related parties, actual controlling persons, persons acting in concert, ultimate beneficial owners. On the level of regulatory practice: (1) Financial regulators apply the look-through principle in their handling of financial holding companies. They collect data on shareholders and related parties at every level of the ownership structure to identify actual controlling persons and ultimate beneficial owners. In the process of regulating related-party transactions, regulators apply the look-through principle. (2) The NFRA continues to enhance its off-site monitoring, and has drafted templates for monthly reports by wealth managers. These reports apply the look-through principle, and risk alerts are generated in case any indicator is outside normal limits, or if incorrect information is supplied; increased on-site inspections and apply administrative penalties if a wealth management company has failed to register underlying assets; if product net value has not been promptly adjusted to reflect underlying risks; or if valuation practices are non-compliant. (3) utilize technology in on-site inspections to support the "look-through" principle. Multiple techniques are used to look through and identify ownership relationships, related parties, transaction structure, and direction of fund flows.

Recommendation	Time Frame	Measures Taken
Tighten liquidity coverage ratio requirements for interbank products and off-balance-sheet financial products.	Medium priority	No new developments.
Increase supervision reporting requirements, and collect more detailed supervision data, including bank investment information and corresponding provisions.	Medium priority	The NFRA makes regular revisions to the framework and data requirements in its off-site surveillance, updating reporting requirements to better reflect key types of financial business, key risks, and the latest regulations. These updates support the monitoring of systemic financial risk by addressing data gaps, bringing various risks within the regulatory perimeter in a timely manner.
The CBRC should strengthen its forward-looking comprehensive risk analysis to identify vulnerabilities, question banks, and encourage intervention before the fact.	Medium priority	The NFRA continues to make its regulation more forward-looking and effective, and has put in place early-warning systems. (1) Bank ratings are forward-looking. Applying the updated *Measures for Regulatory Ratings of Commercial Banks*, regulators engage in an ongoing data collection process on internal and public information related to bank ratings. Data collected include: off-site regulatory information, on-site inspection reports and data, operational and management documentation for banks, auditor's reports, complaints and reports of illegal conduct, other significant internal and external information etc., to reflects the status of corporate governance, risk management, and operations at banks. Having collated and analyzed all of this information, regulators consider bank risk, growth, areas of concentration, etc., and develop a rating and form a judgment of the bank's future condition. (2) Stress testing. Stress tests are an important forward-looking regulatory instrument. Regulators require that commercial banks conduct regular stress tests and make full use of stress tests in their internal risk management and capital planning, in compliance with *Guidance on Stress Tests for Commercial Banks* (former CBIRC [2014] No. 49). Regulators also see stress tests as a highly important part of commercial banks' capital planning and require banks to make stress tests a key part of their internal capital adequacy assessment, including when determining their internal capital adequacy targets. The coverage of stress tests should include all of the main risks in a bank's major areas of business, and tests should fully consider the implications of economic cycles for capital adequacy. (3) Developing early warning systems for banking risks. *The Regulation on Early Warning Systems for Bank Risk (Trial)* was issued, establishing mechanisms for risk alarms and responses. Regulators are encouraged to accept and respond to early warnings. Regulators should take targeted, differentiated measures for early intervention. The NFRA updated the REASS risk alert system for banks, putting the risk alert process online. The risk indicators were updated, with broad sources of information, enabling alerts across levels and risk types. (4) In bank risk analysis and management, in July 2023, the NFRA launched a public consultation on a draft of *Administration Measures for Operational Risk in Banks and Insurers*. The Measures will improve the regulations covering operational risk in banks and insurance companies. The NFRA will consider the responses to the consultation, update the draft regulation, and implement it. (5) Bank early warning systems. The NFRA, working with the PBC, is developing a guidance to regulate early interventions of bank risk. This work will continue as scheduled in the legislative plan. (6) Specific measures for different classes of institution. (i) Annual bank ratings for private banks. If a bank's governance deteriorates,

Recommendation	Time Frame	Measures Taken
		or it has multiple risk issues, then its rating will be reduced. The consequences of bank ratings have been expanded, with banks informed of negative ratings more quickly, and reminders to rectify problems. (ii) Improved risk monitoring and early warning systems for urban commercial banks and private banks. Five new aspects were added to expand the scope of typical risks monitored: expansion risk, concentration risk, cost of debt, asset deterioration, interest rate risk. This has enabled better overall assessments and warnings, and made risk management more forward-looking, targeted, and effective. (iii) The NFRA tracks the operations and risk levels in small and medium-sized rural banks, running monthly data analyses. Where necessary, it issues risk alerts at meetings, in published reports, risk warnings, or through window guidance. It may also carry out targeted risk elimination, focusing on large loans, remote transactions, and credit risk; it may require the development of risk response plans. For small rural banks it has a system of risk warning indicators, and monitors on an ongoing basis. (iv) risk surveys on trust companies are carried out on a quarterly basis, track risk trends in the trust industry, and send risk notices and risk alerts as necessary. The risk maps are updated regularly and different policies are applied for organizations in different risk categories. (v) Issued *Notice on the System for the Rectification of Problems Discovered by Regulators in Early Intervention in Non-bank Risks*, as part of the efforts on early intervention in non-bank risks, to promote compliance and stable growth in non-bank institutions. Improved off-site regulatory reporting system for non-bank institutions and required financial asset management companies to report all of their business activities. Differentiated risk analyses and alert models are applied to different classes of non-bank institution. Key features for analysis include capital, leveraging, credit risk, liquidity risk, and market risk.
Stress testing		
Enhance stress testing and systemic risk assessment, data and information sharing among the PBC, CBIRC and CSRC must be substantially increased and systematized. Use more detailed supervision data in stress testing.	MT High priority	To improve coordination and information sharing with other institutions, the NFRA regularly shares data from the banking and insurance industries with the PBC, NBS, CSRC, MoC and other agencies. In securities, funds and futures institutions: the CSRC now uses more detailed entity-level data in its stress tests, and also instructed the China Futures Market Monitoring Center to carry out stress tests on the asset management business of futures companies and continuously optimize its stress test model.
In systemic risk assessments, substantially expands the scope of coverage for non-banking institutions and their relationship with other financial institutions and develop and integrate stress testing for collective investment plans.	Medium priority	Following the Interim Measures for the Supervision of Insurance Asset and Liability Management, and Rules for the Supervision of Insurance Asset and Liability Management (No. 1-5), the NFRA requires insurance companies to conduct quarterly stress tests for cost-revenue mismatches and cashflow mismatches as required for insurance asset/liability management, and instructs registered organizations to establish a reporting mechanism for risk monitoring of insurance asset management products to identify product risks an early stage. The CSRC continues to improve its scenario assumptions for stress tests for the securities fund industry. (1) Working with Capital Market Statistics and Monitoring Center, it is improving stress testing systems for important institutions in the securities fund industry. Debtor-creditor relationships provide the key map for tracking interconnectedness and risk contagion. (2) The CSRC organized the issuing of *Stress Test Guidelines for Securities Companies by the Asset Management Association of China*. This regulation improves stress tests by securities companies strengthens the application of stress test results in risk management, and enables better prediction, warnings, and prevention of various risks.

Recommendation	Time Frame	Measures Taken
Strengthen inter-agency coordination and the analytical capabilities of the stress testing teams.	Medium priority	The CSRC holds regular meetings on models and case studies for stress tests; exploring how to improve indicators for various stress test scenarios; building mechanisms to link stress tests with day-to-day regulation; and making stress tests more targeted and effective. It continues to improve inter-ministerial communication and coordination, actively seeks policy support, and jointly maintains stable operations in capital markets.
Shadow banking and implicit guarantees		
Amend laws or supervisory regulations, to ensure the bankruptcy remoteness of collective investment plans (including wealth management products) when a manager or custodian goes bankrupt.	MT High priority	In 2018, the former CBIRC issued *Regulation for the Wealth Management Services of Commercial Banks*. Article 4 requires that wealth managers and trust managers may not incorporate assets under wealth management products (WMPs) into their own assets. In the event that a company goes into liquidation because of dissolution, deregistration, or bankruptcy, the assets under WMPs are not to be liquidated. Article 15 requires that wealth management business must be kept separate from other business; WMPs must be kept separate from other financial products sold, including other WMPs. In 2022, the former CBIRC issued *Regulation for Trust Services of Commercial Banks* public consultation. Article 6 states that assets and property held in trust by a commercial bank must be ringfenced from the bank's own property and other trust products. In the event that a commercial bank goes into liquidation because of dissolution, deregistration, or bankruptcy, assets under trust products are not to be liquidated.
Conditioned on the elimination of implicit guarantees, gradually eliminate credit restrictions on certain industries.	Medium priority	No new developments.
Intervention measures in capital markets (including real estate and stock markets) should be limited to those in response to systemic risks.	Medium priority	The PBC updates the macroprudential regulation of real estate finance on an ongoing basis by assessing the strength and pace of the implementation of real estate loan concentration management. When experiencing significant changes in the real estate markets, it may allow an extended period for compliance with sectoral concentration limits. The CSRC maintains its basic policy of "building systems, zero intervention, zero tolerance." It respects the markets, distinguishes normal market variation from abnormal changes, and does not intervene in the former case. In the events of market panic, liquidity shortages, or other extreme circumstances, the CSRC takes decisive action using full range of market-based and legal measures to maintain market stability and prevent individual or local risk from developing into systemic risk.
Regulation and supervision of securities markets		
Improve information disclosure for collective investment plans and prohibit the stating of anticipated rate of return in the prospectuses of wealth management products.	NT High priority	*Measures for the Supervision and Administration of Distributors of Publicly Offered Securities Investment Funds*, issued by the CSRC in August 2020, effective October 1, 2020. Article 24 stipulates that a fund distributor and its employees engaged in fund sale business shall not engage in the following: Making a non-compliant commitment to returns, protection of the principal from loss, or a limit on the amount and proportion of loss. Forecasting the investment performance of a fund, or advertising an expected rate of return. *Interim Provisions on the Administration of Publicity and Promotional Materials of Publicly Offered Securities Investment Funds*, issued by the CSRC in August 2020, effective October 1, 2020. Article 6 states: "Where the fund publicity and promotional materials include the past performance of a fund, it shall make a special announcement in a conspicuous position that the past performance of the fund does not predict its future performance and the performance of any other fund managed by the fund manager does not guarantee the performance of the fund. No commitments shall be made regarding the future returns of a product either explicitly, implicitly or in any other way."

Recommendation	Time Frame	Measures Taken
		The CSRC strictly applies the *Administrative Measures for the Management of Privately-held Assets by Securities and Futures Brokers* in its day-to-day regulatory work. It regulates the disclosure of information about investment plans for the private assets, and strictly prohibits securities and futures broker–dealer institutions from guaranteeing expected levels of return in their advertising materials.
Introduce functional supervision, to ensure that similar products issued by different financial institutions are subject to similar supervision.	MT High priority	The NFRA continues to improve functional supervision. (1) In August 2022, the former CBIRC issued *Measures for the Regulation of Internal Controls in Wealth Management Companies* (CBIRC Decree [2022] No. 4). The Measures are a supplement to *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions and Measures for the Regulation of Wealth Management Services of Commercial Banks*. The new Measures requires establishing a chief compliance officer; expanding information disclosures; increasing transaction monitoring; better protections for individual investors. (2) Financial regulators strictly apply the principles of legal compliance and equal treatment for similar business and entities, bring all financial activities into supervision in accordance with the law, require licensing for financial operations, and prevent the blurring the business boundaries through unlicensed operations through internet channels. (3) Implementing the new rules for asset management. Regulators have improved the regulation of insurance and WMP valuations. Net asset value management has now been applied to all existing insurance asset management products. In the course of their day-to-day governance, the CSRC strictly implements *the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*, *Administrative Measures for the Management of Privately-held Assets by Securities and Futures Brokers*, and the associated regulatory instruments. They harmonize the standards applied to any single class in order to prevent and resolve risks.
Strictly control repo collateral qualifications and improve the discount rate calculation methodology.	Medium priority	The PBC continues to monitor repo collateral qualifications and repo rates in the interbank bond market, to prevent the emergence of market risk from insufficient collateral. The CSRC advises the China Securities Depository & Clearing Corporation (CSDC) on its institutional arrangements for maintaining the health and quality of repo collateral, and its calculation of discount rates and setting of repo rates. This includes: (1) The issuing of *Guidance on Minimum Standards for Repo Collateral Qualification and the Setting of Standard Repo Rates* (amended 2017). This regulation raised the minimum qualification standards for repo collateral, setting a minimum requirement of a AAA rating on new corporate bonds used as collateral. This move has improved the mix of collateral assets in the repo market, and made for better quality collateral. (2) Creating sound mechanisms for bond valuation and repo rates. The discount rate is calculated from a bond's valuation and the repo rate. For valuations, the CSDC considers internal and external valuations and market prices, then applies a prudential principle of selecting the lowest valuation to represent the value of the collateral. The CSDC adjusts its own risk-based valuation to calibrate collateral conversion rate. The repo rate depends on a mix of factors including the bond rating and credit risk. (3) Developing dynamic regulation on a more refined and scientific basis, including the day-by-day level. CSDC has established a daily market tracking system, calculate and publish discount rates for collateral daily, and give timely notification to investors with collateral shortages. CSDC sets prudent collateral haircut based on internal credit ratings combined with external ratings, price changes, and other factors. Under the macroeconomic risk framework, CSDC makes prudent assessments of total risk in the repo market asset pool and specific key risks, so that it can make countercyclical adjustments and avoid cyclical risk in collateral assets. It has also developed stress tests, and regularly conducts collateral coverage stress tests. At present, discounted collateral has sufficient value to pass stress tests. (4) The CSDC issued *Guidance on Risk Control in the Settlement of Collateralized Repo Transactions*, limiting the

Recommendation	Time Frame	Measures Taken
		concentration of collateral assets, ensuring diversification of collateral, restricting financing parties from using bonds related to their own risks as collateral, and preventing misaligned collateral valuation. (5) The CSRC issued *the Measures for the Administration of Privately Offered Asset Management Business of Securities and Futures Institutions*, and its supporting instruments, in January 2023. This regulation requires securities and futures broker–dealer institutions to possess comprehensive management systems for their bond repo collateral assets; apply prudent haircut; monitor asset risks and value changes; ensure sufficient collateral requirement.
Strengthen systemic risk monitoring mechanisms, to ensure that the connectedness among securities markets and between securities markets and other financial sectors is examined from a holistic perspective.	Medium priority	The PBC, working with other financial infrastructure institutions, shall establish a joint monitoring and early-warning mechanisms in the currency markets, negotiable instruments markets, and secondary bond markets. It analyzes movements in the secondary bond markets, leverage in the currency markets, and the liquidity of key risk institutions, with the goal of preventing risk contagion. The CSRC's responsibilities are as follows: (1) Develop mechanisms for assessing and responding to risk in capital markets. The CSRC Party Committee has set up a leadership group on capital markets risk assessment and response, expanding the remit of the original leadership group, which focused on stock market risk assessment and response. It regularly holds meetings to assess conditions and risks in the domestic and international capital markets and formulates actions and responses for risk resolution. In the event of crises such as major market volatility, the CSRC quickly convenes meetings to discuss and organize the response. (2) Continue to improve the monitoring and management of key risks. The CSRC has built and continues to improve its monitoring and indicator-based early warning system for systemic risk. It regularly carries out systemic risk assessments of the capital markets. The CSRC has improved its regulatory information systems, improving risk monitoring, and the coordination of onsite inspections and offsite analyses to boost the effectiveness of regulation. It improves the mechanisms for the routine monitoring of leveraged funds, improving the regulation of scale of leveraged funds, leverage ratios, and concentration, to ensure that the leverage remains within a reasonable range. Risks in pledged shares, bond default, private equity funds, local exchanges will be assessed with strengthened regulation and control of international market risks and exchange/OTC contagion risks, as part of its assessment of capital market risks. It improved the monitoring and regulation of new trading methods such as algorithmic trading and private securities funds, so that it can quickly recognize emergent issues with potential risks, and can issue corrective guidance to private funds. The CSRC continues to improve its regulatory information systems for private funds, with better coordination of onsite inspections and offsite analyses. (3) strengthen interdepartmental coordination for joint monitoring of the bond markets, with early-warning and risk control. The CSRC is building an emergency system for short-term information sharing across departments. On a monthly basis it examines the redemption risks of the bond issuers and watch for sectoral risks. In the event of default, bad debt, or other severe negative events for a bond issuer that could lead to risk contagion, the CSRC shares information with the PBC and other institutions so that risks can be quickly identified, warned of, discovered, and resolved.
Regulation and supervision of insurance		
Formulate a risk-based supervision plan that incorporates all issues and conduct of each insurance company (including market conduct).	Medium priority	(1) In the last few years, regulators have produced a series of legal instruments that require insurance companies to improve corporate governance. These include: *Guidance on Insurance Company Charters; Administrative Measures for Independent Directors for Insurance Organizations; Corporate Governance Standard for Banks and Insurance Organizations; Measures for Assessment of Directors and Supervisors of Banks and Insurance Organizations (provisional); Measures for the Monitoring and Assessment of Corporate Governance at Banks and Insurance Organizations*.

Recommendation	Time Frame	Measures Taken
		(2) In 2020, regulators published *Three Year Action Plan for Improving Corporate Governance in the Banking Industry and Insurance Industry* (2020-2022). This Action Plan focused on key problems and deficiencies in the governance of insurance companies and introduced a series of targeted measures with an explicit timetable. (3) The former CBIRC issued *Measures for the Monitoring and Regulation of Insurance Group Companies* (CBIRC [2021] no. 13), which included regulatory rules for the establishment and licensing of insurance companies; operational rules; corporate governance; risk management; capital management; management of non-insurance subsidiaries; and information disclosures. This regulation helped reducing the level of risk in the insurance sector and promoted healthy growth. (4) Completed the first phase of the upgrade of the regulatory IT system for the insurance asset management industry. This has improved the quality of offsite regulatory work. (5) Improved market regulation with the issuing of *Improving and Updating Compliance Regulation*, *Issues in the Regulation of Market Order in Vehicle Insurance*, and *Improving Regulation of Vehicle Insurance Rates*. This regulation requires property insurance companies to improve their regulatory compliance and maintain an orderly marketplace. Issued *Statistical Standard for Green Insurance*, which is the first statistical system for green insurance. A consistent data standard will improve the monitoring and analysis of green insurance industry. (6) In September 2023, the NFRA issued *Regulatory Standard for Improving the Solvency of Insurance Companies*, aiming to promote sound operations of the insurance industry to better serve the real economy and clients. It made a targeted change in minimum capitalization requirements for small and medium insurance companies. Certain solvency indicators were adjusted to guide insurance firms back to their original mission of providing certainty, supporting the healthy growth of capital markets, and supporting technological innovation. (7) Issued *Administrative Measures for Information Disclosures for Personal Insurance Products* and *Information Disclosure Rules for Personal Insurance Products with a Maturity of One Year or More*. These regulations expanded and standardized disclosure requirements.
Formulate a plan to gradually use more market-oriented means of valuation.	Medium priority	Regulators have implemented the new rules for asset management, which has improved the regulation of insurance and WMP valuations. Net asset value management has now been applied to all existing insurance asset management products.
Supervision of financial market infrastructure		
China Securities Depository and Clearing Corporation Ltd. should make full use of delivery-versus-payment (DVP)	NT High priority	In May 2022, the CSRC issued the amended *Measures for the Administration of Registration and Settlement of Securities*. By December 2022, China's securities markets had fully implemented delivery-versus-payment (DVP).
Fully implement the principles of the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Regulators (IOSCO) and strengthen the legal framework to increase the resilience of	MT High priority	Financial regulators are working to improve regulation around qualifying companies to be providers of financial market infrastructure. Since 2020, the PBC has adapted the PFMI principles and has led the drafting of *Measures for the Monitoring and Regulation of Financial Infrastructure*, and *State Council Decision on Regulating Access to Financial Infrastructure*. These documents have gone through multiple stages of review and revision. The Decision specifies the conditions and process for qualification to provide financial infrastructure. The Measures focus entities, activities and measures of financial infrastructure regulation (1) specify the conditions for qualification as a provider of financial infrastructure. (2) develop regulatory frameworks specifying the function of each organization, monitoring and penalties in financial infrastructure. In December 2022,

Recommendation	Time Frame	Measures Taken
the financial market infrastructure.		*Measures for the Monitoring and Regulation of Financial Infrastructure* was released for public consultations. Regulators also apply international standards to improve the resilience of our financial market infrastructure. (1) The PBC is working with the legislature to incorporate a settlement finality article into an amendment to *the People's Republic of China Enterprise Bankruptcy Law*. (2) *The Futures and Derivatives Law* officially went into effect on August 1. It draws on international experience and specifies the use of close-out netting and trading reports as basis for derivatives trading. It clarifies at the legal level the regulatory rules for financial market infrastructure such as trade repositories and futures clearing houses. In May 2022, the CSRC issued the amended *Measures for the Administration of Registration and Settlement of Securities*. As of December 2022, China's securities markets have now fully implemented delivery-versus-payment (DVP) principle.
Extend the services of the central bank to all systemically-important central counterparties.	Medium priority	No new developments.
Anti-money laundering and combating the financing of terrorism		
Adopt stronger customer due diligence measures with respect to domestic political and public figures based on risk.	Medium priority	In practice, China applies risk-based KYC measures to domestic political and public figures.
Ensure more effective investigations for acts of self-laundering, and prosecute them as independent convictions.	Medium priority	No new developments.
Crisis management		
The conditions that trigger government-led crisis responses should be more clearly defined and limited to systemic events that require the use of public resources.	NT High priority	Since March 2021, the PBC has continued with the development of legislation for financial stability, jointly with other relevant agencies. In December 2022, the 38th meeting of the Standing Committee of the 13th NPC carried out its first review of the draft *Financial Stability Law*, which was published for public consultations. The draft law is scheduled on the legislative agenda of the 14th NPC Standing Committee for 2023. The next review is scheduled for December 2023. Article 26 of the draft law (draft) states that the PBC shall lead the resolution of systemic financial risk as the lender of last resort. The MoF shall participate in the resolution of systemic financial risk in accordance with the law and regulations. Article 29 states that in the event that financial risk seriously threatens financial stability, the Financial Stability Guarantee Fund (FSGF) may be used in accordance with regulations. Loans from the PBC may be used to provide liquidity support to the FSGF. On systemic financial risk, Article 27 defines "financial risk that has significant spillover effects, broad and severe impact, and seriously threatens financial stability." Other articles define institutional arrangements for the prevention and resolution of major financial risks. In terms of quantified indicators, there are differences among the indicators used to assess major risks in banks, securities, and insurance institutions. For this reason, there is no single, consistent standard for a major risk; financial regulators will make timely expert judgments balancing all relevant factors. More details may be given during implementation. The draft law will be updated after the second review.

Recommendation	Time Frame	Measures Taken
Formulate special resolution mechanisms for banks and systemically important insurance companies.	MT High priority	(1) Development of institutional resolution mechanisms for banks and insurers. Banks are required to create recovery and resolution plans under *Interim Measures for the Implementation of Recovery and Resolution Plans by Bank and Insurance Institutions* (Yin Bao Jian Fa [2021] No. 16) and *Additional Regulatory Rules on SIBs (Trial)* (Order No.5 [2021] of the PBC and CBIRC). Large banks are required to submit their recovery and resolution plans to a Crisis Management Group (led by the PBC), and to file a copy with the NFRA. (2) Special resolution mechanisms for banks: In September 2023, the PBC and NFRA designated 20 banks as systemically important, 19 of which have submitted their recovery and resolution plans twice to date, in August 2022 and August 2023. (3) Special resolution mechanisms for insurers: In October 2023, the PBC and NFRA jointly issued *Measures for the Assessment of Systemically Important Insurance Companies*, which will go into effect on January 1, 2024. 21 insurance companies have been placed on the list required to submit recovery and resolution plans. 11 of these were automatically placed on the list because they hold total assets of more than CNY 200 billion. 10 were added based on the features of their business, risk profile, potential for spillover, among other factors. The Insurance Law has also been amended to improve risk resolution mechanisms for insurance firms and expand the resolution toolbox.
The PBC should formulate a formal emergency liquidity bail-out framework.	MT High priority	*The Financial Stability Law (draft)* is currently under discussion in the legislature. It will establish institutional arrangements for the prevention, mitigation, and resolution of financial risks.
Upgrade the institutional design of various types of protection funds to limit moral hazard.	Medium priority	In November 2022, the former CBIRC, MoF, and PBC jointly issued the amended *Measures on the Management of the Insurance Security Fund*. The amended Measures went into effect on December 12, and will promote stability and high-quality growth in the insurance industry, improve efficiency of the Insurance Security Fund (ISF) and protect the legitimate interests of policyholders. Key changes in the amended Measures include: A change to the rules on the funding of the ISF. The fixed subscription was changed for a risk-weighted subscription model, with a basic subscription plus a risk premium, to encourage insurance companies to improve their own risk management. The fiscal requirements for the ISF are specified including rules on the use of the ISF, the relationship between the Insurance Security Fund Company and the fund itself, and monitoring and regulation of the fund.
Inclusive Finance		
Upgrade the legal, regulatory, and supervision framework for financial technology.	Medium priority	The PBC has led the implementation of innovative fintech regulatory tools. Mainland fintech tools are connected to the Hong Kong Monetary Authority's Fintech Supervisory Sandbox (FSS). Guidance for machine learning finance applications, standards for digital authentication apps, technology ethics for finance, etc were developed. The PBC continues to develop regulations to promote the healthy and orderly development of financial technology. Within the scope of the NFRA's responsibilities: (1) The NAFR issued *Improving Regulation of Commercial Bank Online Loans and Boosting Efficacy in Financial Services*, among others. (2) Issued *Guiding Opinions on the Digital Transformation of Banking and Insurance Business*, requiring banks and insurers to strengthen data governance, including improving their technical capabilities. (3) Issued *Regulatory Measures for Risks in Information Technology Outsourcing by Banks and Insurance Organizations*, applying consistent rules to IT outsourcing for all banks and insurers. (4) Issued *Plan for Standardization in the Chinese Insurance Industry in the 14th FYP*, which sets out the guiding principles and targets for standardization during the 14th FYP period. The CSRC has developed regulatory framework for fintech in the field of securities and futures: (1) It implemented *the revised Securities Law* and *Law on Securities Investment Funds*, which require the registration of companies providing IT services to securities funds.

Recommendation	Time Frame	Measures Taken
		So far, 387 companies have completed initial registration. (2) The CSRC continues to explore and develop new approaches to regulating IT service providers for securities, futures, and funds. It has set rules and minimum standards and encouraged relevant institutions to deploy fintech and support the digital transformation of the industry. (3) The CSRC supports pilot programs for fintech innovation in capital markets with proper incentive systems, such as ongoing pilots in Beijing, Shanghai, Shenzhen, Guangzhou, Nanjing, and Jinan. (4) Issued *the Notice on Improving Security Management for Mobile Applications of Securities and Futures Institutions*. This regulation encourages securities and futures broker–dealer institutions to register their mobile applications and establishes a testing and certification system for mobile apps. To date, 13 app providers have completed certification, and a further 29 are currently in the certification process. (5) The CSRC implemented *the Cyber Security Law, Data Security Law, Personal Information Protection Law, Measures on Data Protection for Key Information Infrastructure*, etc. It also drafted and issued *Measures for the Management of Cyber Security and Information Security in the Securities and Futures Industry*. These regulations establish clear requirements on cyber and data security for securities and futures business. (6) The CSRC continues to update technical standards and regulations for fintech, providing regulatory leadership, and building a modern fintech regulatory environment that balances prudence and innovation. It is exploring the storage of securities and futures transaction data from public cloud to dedicated industry clouds to help regulation and law enforcement adapt to new technologies such as cloud computing.

INTERNATIONAL MONETARY FUND

PEOPLE'S REPUBLIC OF CHINA

December 19, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS _____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____ 4

CAPACITY DEVELOPMENT _____ 5

STATISTICAL ISSUES _____ 11

FUND RELATIONS

(As of November 30, 2023)

Membership Status: Joined December 27, 1945; Article VIII (December 1, 1996)

General Resources Account:

	SDR Million	% Quota
Quota	30,482.90	100.00
Fund holdings of currency	23,266.72	76.33
Reserve position in Fund	7,216.23	23.67
Lending to the Fund		
New Arrangements to Borrow	48.71	

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	36,206.16	100.00
Holdings	39,927.38	110.28

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	11/12/86	11/11/87	597.73	597.73
Stand-by	03/02/81	12/31/81	450.00	450.00

Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal		0.00	0.00	0.00	0.00
Charges/interest		0.48	0.48	0.48	0.48
Total		0.48	0.48	0.48	0.48

Exchange Rate Arrangement:

The de jure exchange rate arrangement is "managed floating" with a view to keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese economy and financial markets. China's de facto exchange rate regime is classified as "other managed" arrangement. The floating band of the RMB's trading prices is 2 percent against the U.S. dollar in the interbank foreign

exchange market: on each business day, the trading prices of the RMB against the U.S. dollar in the market may fluctuate within a band of ±2 percent around the midrate released that day by China's Foreign Exchange Trading System (CFETS). The People's Bank of China (PBC) indicated that the RMB's floating range would be changed in an orderly manner, based on the developments of the foreign exchange market and economic and financial situation. Within the trading band, banks may determine their RMB exchange rates to the U.S. dollar with their clients without any limit on the spread, based on market supply and demand (PBC No. 2014/188). On August 11, 2015, the PBC decided to further increase the flexibility of the RMB-to-USD exchange rate midrate quoting mechanism, thereby enhancing the market determination of RMB exchange rates, and giving market supply and demand an even greater role in exchange rate formation.

The CFETS publishes its exchange rate index (composed of 24 currencies since January 1, 2017, previously, 13 currencies), and other RMB indices based on the Bank for International Settlements (BIS) currency basket and the SDR currency basket.

China accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement on December 1, 1996. China maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions. However, China has notified measures to the Fund, pursuant to procedures under the Executive Board Decision 144 (52/51), which apply to measures imposed solely for national or international security reasons.

While exchange controls continue to apply to most capital transactions, the use of renminbi in international transactions has expanded over time. Effective October 1, 2016, the RMB was determined to be a freely usable currency and was included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, Japanese yen, and the British pound.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/china

Asian Development Bank: https://www.adb.org/countries/prc/main

CAPACITY DEVELOPMENT

Table 1. China: Summary of Capacity Development Activities, 2011–23 1/

Department	Purpose	Date
Tax System Reform		
FAD	Mission on Tax Gap Analysis	September 2011
FAD	Micro-Simulation Models	December 2013
FAD	Analysis of the Macroeconomic Impact of Tax Policy	March 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	The Future Design of Value-added Tax	September 2016
FAD	Tax Policy for promoting entrepreneurship and employment	September 2017
FAD	Social security contributions	March 2018
FAD	VAT policy	September 2018
FAD	Workshop on Microsimulation on Income Tax	November 2020
FAD	Workshop on Value-added Tax	July 2021
FAD	Workshop on Capital and Labor Income Taxation	October-November 2021
Tax Administration Reform		
FAD	Tax Policy And Administration	September 2011
FAD	Tax Administration (Peripatetic Expert Visit 4 Of 5)	October 2011
FAD	Tax Administration (Peripatetic Expert Visit 5 Of 5)	October 2011
FAD	Large Taxpayer Compliance	October 2011
FAD	Workshop on Practical Tax Analysis For Tax Officials	December 2012
FAD	Large Taxpayer Administration	January 2013
FAD	Tax Administration Follow-Up	April 2014
FAD	Tax Collection Law Revision	May 2014
FAD	Tax Collection Law Revision	July 2015
LEG	Mission on Reforming Tax Collection Law	July 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	Improving Tax Compliance on ODI by Chinese Enterprises	October 2016
FAD	Tax administration—outbound investment and Taxpayer services	October 2017
FAD	Evaluate implementation of multi-year tax administration modernization	January 2018
FAD	Tax administration—performance measurement	March 2018
FAD	Tax administration--PIT	November 2018
FAD	Workshop and report on tax modeling and analysis	April 2019
FAD	Improving International and Domestic Taxpayer Compliance through Strengthened Services and Supervision	October 2020
FAD	Administering the Value-added Tax on Cross-border Transactions	November-December 2020
FAD	Improving Taxpayer Compliance through Strengthened Services and Supervision	October 2021
FAD	International Practices in Compliance Risk Management and Data Management	November 2021
FAD	Administering the Individual Income Tax on Offshore Transactions	December 2021

Table 1. China: Summary of Capacity Development Activities, 2011–23 (continued)

Public Financial Management		
FAD	High-level Dialogue on PFM Institutions	June 2011
FAD	Medium-Term Expenditure Framework Seminar	November 2011
FAD	Medium-Term Revenue Administration Program And Policies Discussion	June 2012
FAD	High-Level Dialogue on PFM Institutions	November 2012
FAD	Mission on Introducing Advanced Treasury Reforms	February 2013
FAD	High-level Seminar on Fiscal Reforms	January 2014
FAD	Mission on Modernization of Government Accounting	April 2014
FAD	Mission on Medium Term Expenditure Frameworks	July 2014
FAD	Expert visit on Treasury management (accounting)	September 2014
FAD	Expert visit on Chart of Accounts Improvements	March 2015
FAD	Expert visit on Treasury Management (cash management)	March 2015
FAD	Mission on Strengthening Local Government Borrowing Reform	April 2015
FAD	Mission on Accounting Modernization	November 2015
FAD	Workshop on Medium-Term Expenditure Frameworks	April 2016
FAD	Seminar and Case Study on Local Government Borrowing and Bond Market Development	April 2016
FAD	Expert visit on Treasury – Central Bank Coordination	June 2016
FAD	Workshop on Medium-term Expenditure Frameworks	April 2017
FAD	Government accounting and financial reporting	April 2018
FAD	Performance Budgeting	April 2019
FAD	China-Revenue Administration	May-June 2023
FAD	China-Revenue Administration	July 2023
Statistics		
STA	Workshop On Special Data Dissemination Standard	April 2011
STA	Government Finance Statistics	May 2011
STA	Data Work: SRFS Data Development for OFCs/ FSI Data Reporting	April 2012
STA	Quarterly National Accounts	November 2013
STA	Total Social Financing(TSF) Indicators/Monetary and Financial Statistics	March 2014
STA	SDDS Assessment	August 2014
STA	Data Work: Monetary Data Reported in SRF	September 2014
STA	SDDS Assessment	December 2014
STA	TSF/Monetary Data Reported in SRFs	March 2015
STA	Multi-sector Mission: SDDS Metadata Development and Topical TA	June 2015
STA	Quarterly National Accounts	March 2019
Monetary Policy, Bank and financial Supervision, and AML/CFT		
LEG	AML/CFT Legislative Drafting	March 2011
LEG	Bank Resolution	May 2012
MCM	Seminar on Article VIII of IMF's Articles of Agreement	July 2017
MCM	Securities Markets Supervision Workshop	September 2017
MCM	Mission on Securities Market Supervision	March 2018
MCM	Regulatory and Prudential Framework	August 2018

Table 1. China: Summary of Capacity Development Activities, 2011–23 (continued)

MCM	Financial Sector Technical Assistance	September 2018
MCM	Financial Sector Technical Assistance	November 2018
MCM	Monetary Policy Implementation and Operations	January 2019
MCM	Financial Sector Technical Assistance	January 2019
MCM	Financial Sector Technical Assistance	April 2019
MCM	Workshop on Sovereign Bond Futures Market	April 2019
MCM	Indicator-based Framework for Systemic Risks Monitoring	May 2019
Training		
LEG	AML/CFT Legislative Drafting Mission	March 2011
INS	Course on Macroeconomic Management and Financial Sector Issues	March 2011
INS	Course on Macroeconomic Forecasting	April 2011
INS	Government Finance Statistics Course at CTP	May 2011
STA	Course on Government Finance Statistics	May 2011
STA	Course on Government Finance Statistics	June 2011
INS	BOP and IIP Course at CTP	June 2011
STA	Course on Balance of Payments Statistics	October 2011
INS	Monetary and Financial Statistics Course at CTP	November 2011
STA	Participate in OECD-NBS Workshop on National Accounts	March 2012
INS	FSI Course at CTP	September 2012
MCM	Medium Term Debt Management Workshop	November 2012
INS	BOP/IIP Course at CTP	April 2013
MCM	Workshop on Capital Account Convertibility and Exchange Rate Policy	June 2013
STA	SDDS Seminar	July 2013
INS	Introductory Course on Monetary and Financial Statistics in CTP	September 2013
STA	Quarterly National Accounts Seminar organized by NBS	November 2013
ICD	Macroeconomic Management & Financial Sector Issues	January 2014
MCM	Financial Statistics	March 2014
MCM	Workshop on Financial Regulation and Supervision	March 2014
ICD	Macroeconomic Management & Financial Sector Issues	March 2014
MCM	Course on External and Systematic Financial Risks	July 2017
ICD	Macroeconomic Diagnostics	September 2014
INS	Financial Soundness Indications in CTP	September 2014
STA	Seminar at Fund HQ for SAFE Officials on Experiences and Challenges in the Implementation of BPM6	September 2014
ICD	Macroeconomic Forecasting	October 2014
STA	OECD/NBS Workshop on Sectoral Accounts (with STA participation)	December 2014
ICD	Macroeconomic Management and Financial Sector Issues	March 2015
MCM/STA	Total Social Financing Indicator	March 2015
STA	Meeting: ECB Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
STA	Meeting: BIS Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
MCM	SDR Review/Operational Issues	June 2015
ICD	Macroeconomic Forecasting	June/July 2015
INS	Advanced Course on Monetary and Financial Statistics in CTP	August 2015
STA	SAFE-Course on Compilation of Balance of Payments Statistics	September 2015
ICD	Macroeconomic Diagnostics	September 2015
STA	Balance of Payments Statistics	September 2015

Table 1. China: Summary of Capacity Development Activities, 2011–23 (continued)

ICD/FAD	Fiscal Analysis and Forecasting	November 2015
FAD/ICD	Course on Fiscal Analysis and Forecasting	December 2015
STA	OECD/NBS China Workshop on National Accounts (with STA participation)	March 2016
MCM	Sub-national Debt Market Development	April 2016
MCM	Workshop on Securities Supervision	April 2016
STA	Seminar on Cross-border Position Statistics and Challenges in the Implementation of New Data Initiatives	June 2016
ICD	Macroeconomic Forecasting	June/July 2016
ICD	Macroeconomic Forecasting – Advanced	July 2016
ICD	Financial Sector Surveillance	June/July 2016
MCM	Workshop on Enforcement and Market Surveillance	September 2016
ICD	Dynamic Stochastic General Equilibrium Modeling	November 2016
ICD	Dynamic Stochastic General Equilibrium Modeling - China	November 2016
ICD	Financial Sector Surveillance	June 2017
ICD	Macroeconomic Forecasting –advanced course	June 2017
ICD	Monetary and Fiscal Policy Analysis with DSGE Models	August - September 2017
ICD	Dynamic Stochastic General Equilibrium Modeling – China	September 2017
STA	Cross-border Position Statistics	September 2017
ICD	Managing capital flows	March 2018
ICD	Macro-Econometric Forecasting and Analysis	May-June 2018
ICD	Fiscal Policy Analysis	June 2018
ICD	Financial Sector Surveillance	June 2018
ICD	Financial Development and Financial Inclusion	June-July 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models	August 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models(advanced)	August 2018
MCM	Stress Testing and Systemic Risks I	October 2018
ICD	Financial Programming and Policies	October 2018
ICD	Inclusive Growth	December 2018
MCM/ICD	Adapting Financial Supervision to New Financial Technologies	January 2019
SPR	Debt Sustainability Framework in Low-Income Countries and Fund	February-March 2019
MCM	Policies	March 2019
ICD/MCM	Stress Testing and Systemic Risk II	April 2019
ICD	Financial Markets and Instruments	April 2019
ICD	Financial Sector Policies	May 2019
MCM/ICD/LE	Macroeconomic Diagnostics	May 2019
ICD	Managing Capital Flows	June 2019
STA	Financial Sector Surveillance	June 2019
	Debt Securities Statistics	
ICD	Monetary & Fiscal Policy Analysis with DSGE Models-Advanced Workshop	September 2019
ICD	Fiscal Sustainability	September 2019
LEG	Current International Issues in Tax Law Design	September 2019
MCM	Bank Restructuring and Resolution	September 2019
ICD	Macroeconomic Diagnostics	October-November 2019
STA	Cross-Border Position Training	November 2019
ICD	Financial Programming and Policies	December 2019
SPR	Virtual Workshop on Debt Sustainability Analysis and IMF Policies	July 2020
MCM	Virtual Course on Stress Testing and Systemic Risk	September 2020
ICD	Virtual Course on Macroeconomic Diagnostics	October 2020
ICD	Economic Issues in Regional Integration (ERIv)	November 2020
ICD	(Selected Issues in) Financial Sector Policies (FSSv)	November-December 2020

Table 1. China: Summary of Capacity Development Activities, 2011–23 (continued)

SPR/ICD/LEG	Debt Sustainability Analysis and IMF Policies	December 2020
ICD/MCM/LEG	Managing Capital Flows (MCFv)	December 2020
ICD	Fiscal Policy Analysis (FPA)	December 2020
LEG	Corporate and Household Insolvency (CHI)	January 2021
ICD	Financial Markets and Instruments (FMI)	January 2021
LEG	International Issues in Tax Law Design (TLWD)	March 2021
MCM	Workshop on Regulation and Supervision of Issuers (RS)	April 2021
ICD	Fiscal Frameworks (FF)	July 2021
LEG	Implementing the International AML/CFT Standards (AMLS)	July 2021
ICD	Monetary and Fiscal Policy Analysis with DSGE Models(DSGE)	August 2021
SPR	Webinar on Implications of RCEP and CPTPP for China	September 2021
SPR/LEG	DSA AND IMF POLICIES WORKSHOP	September 2021
MCM	Course on Bank Restructuring and Resolution	November 2021
FAD	Financial Development and Financial Inclusion (FDFI)	November 2021
STA	Statistics on International Trade in Goods and Services	November-December 2021
MCM	Systemic Macro-financial Risk Analysis (MFRA)	November-December 2021
FAD	Applying the Tax Administration Diagnostic and Assessment Tool (TADAT)	December 2021
ICD	Managing Capital Flows	December 2021
ICD	Financial Sector Policies (FSP)	January 2022
ICD	Macroeconomic Diagnostics (MDS)	February 2022
ICD	Financial Development and Financial Inclusion (FDFI)	March 2022
ICD	Fiscal Sustainability (FS)	March 2022
ICD	Debt Dynamics and Fiscal Adjustment Paths (Part 2) (DDFAP)	March 2022
MCM	Selected Issues in the Regulation of Fintech (SIFR)	March 2022
ICD	Macroeconometric Forecasting & Analysis (MFA)	April 2022
ICD	Financial Markets and Instruments (FMI)	June 2022
LEG	Implementing the International AML/CFT Standards (AMLS)	June 2022
ICD	Nowcasting (NWC)	June-July 2022
ICD	Macroeconomic Diagnostics (MDS)	August-September 2022
SPR	Debt Sustainability Analysis and IMF Policies (DSA)	August-September 2022
STA	Statistics in International Trade in Goods and Services (ITGS)	September 2022
MCM	Current Issues in Banking Supervision and Regulation (BRS)	October 2022
FAD	Tax Policy and Administration: Theory and Practice (TPAT)	October 2022
ICD	Managing Capital Flows (MCF)	October-November 2022
STA	Balance Sheet Approach (BSA)	November 2022
STA	External Sector Statistics - Intermediate Level (ESS-M)	November 2022
LEG	International Issues in Tax Law Design (TLWD)	November-December 2022
ICD	Vulnerability Diagnostics (VDS)	December 2022
ICD	Fiscal Sustainability (FS)	December 2022
FIN	IMF Financial Account Operations	December 2022
ICD	Financial Sector Surveillances (FSS)	March 2023
MCM	"Green Finance" Webinar	April 2023
STA	Financial Soundness Indicators (FSI)	June 2023
LEG	Implementing the International AML/CFT Standards (AMLS)	July 2023
MCM	Core Elements of Banking Supervision (CBS)	July 2023
ICD	Monetary & Fiscal Policy Analysis with DSGE Models (DSGE)	August-September 2023
STA	Monetary and Financial Statistics-Introductory (MFS-I)	September 2023
ICD	Fintech Market Development and Policy Implications (FINTECH)	September 2023
ICD	Macroeconomic Diagnostics (MDS)	September 2023
FAD	Tax Policy and Administration: Theory and Practice (TPAT)	October 2023
APD/FAD/STA	Managing Fiscal Risks of Local Governments	October 2023
LEG	International Issues in Tax Law Design (TLWD)	November 2023

Table 1. China: Summary of Capacity Development Activities, 2011–23 (concluded)

SPR	Debt Sustainability Analysis and IMF Policies (DSA)	November 2023

1/ The new Institute for Capacity Development (ICD) was formed from the merger of the former IMF Institute (INS) and Office of Technical Assistance Management (OTM) on May 1, 2012.

STATISTICAL ISSUES

(As of November 28, 2023)

I. Assessment of Data Adequacy for Surveillance
General: While data is broadly adequate for surveillance, it is only barely so. Efforts at strengthening the statistical system and enhancing data transparency led to China's subscription to the Special Data Dissemination Standard (SDDS) in October 2015. Nevertheless, China's statistics continue to have significant gaps. The areas of concern relate mainly to national accounts data and government finance statistics. China has endorsed and is in the process of implementing the recommendations of the Data Gaps Initiative of the G20.
National Accounts: The National Bureau of Statistics (NBS) compiles and disseminates annual GDP by activity and by expenditure in current prices, by activity at constant prices (2020), and quarterly estimates of GDP by activity at current and constant prices. The NBS is in a transition period from 1993 SNA to 2008 SNA. The 2008 SNA has been implemented in the calculation of financial intermediation services indirectly measured and in the capitalization of research and development. The techniques for deriving volume measures of some GDP components are not sound and need to be improved. Annual and quarterly GDP by expenditure is compiled at constant prices but is not published. Quarterly estimates of production side GDP are available. Limited expenditure components' contributions to GDP are available on a quarterly basis. The NBS has made several improvements to the range and quality of national accounts data, the most recent being publication of export and import of goods and services in addition to the net export component of the annual GDP by expenditure in current prices. Further improvements are intended for both the annual and quarterly accounts; however, no target dates have been set. As in other countries, rapid economic change, including the expansion of the private sector, presents new problems for data collection and compilation. The ability to change the data collection systems is restricted by the decentralized nature of the statistical system. Monthly index of services production, and fixed investment indices are disseminated as ratios with respect to the corresponding month of the previous year, but no chain-linked indices are produced. Data revisions tend to be made without publishing the entire revised series.
Price Statistics: The CPI covers approximately 500 areas throughout the country, including around 200 counties and around 300 cities. The national CPI is a composite of the CPIs calculated at the local and regional level, with approximately 2 million prices collected each month. The index is compiled using weights derived from the 2020 household expenditures. However, the weights are not published, which makes changes in the aggregate groups more difficult to interpret. The PPI is aggregated according to the 2020 production value weights for the industrial sector. Expansion of the coverage to include services activities should be considered. A purchaser price index reflecting input prices paid by Chinese producers is also disseminated with the PPI. The NBS publishes residential property price indices (RPPIs) for both new and second-hand properties in 70 large and medium cities. The indices are compiled following a basic mix-adjustment methodology (by size). These data are not aggregated to the national level.
Government Finance Statistics: Serious data shortcomings continue to make fiscal analysis difficult. Comprehensive data on the social security, SOE, and government managed funds are only provided annually and with a long lag. China currently reports GFS for budgetary general government with no

breakdown of expenditure by economic type except interest, with no balance sheet data, but including data under the Classification of Functions of Government for the GFS yearbook. Expenditure classification remains in need of improvement, mainly because expenditures by economic type are not published. The authorities have indicated an intention to begin collecting this data and to develop accrual based measures of fiscal performance over the medium term while also strengthening the compilation of cash based GFS. China has made a commitment under the G20 Data Gaps Initiative to develop quarterly general government data; however, little progress has been made. General Government coverage excludes the operations of the local government financing vehicles (LGFVs) and off-budget government funds, which are substantial.

Balance sheet data on China's large and macro-relevant non-financial public corporations (NFPC) and public financial corporation sectors are needed to improve surveillance of China's broader public sector finances.

Monetary and Financial Statistics: In recent years, few improvements have been made in monetary and financial statistics. The monetary and banking surveys lack sufficient detail with regard to bank claims on the government, hampering the estimation of the fiscal deficit from the financing side. The reported net foreign assets position of PBC does not include exchange rate valuation effects and interest earnings on foreign reserves. The PBC has also ceased to report separate data on central government deposits in its balance sheet since April 2005 because the MOF no longer distinguishes between central and other government deposit accounts.

The monetary and financial statistics missions in March 2015 made several recommendations for improvements in monetary data compilation with a view to accelerating PBC's implementation of the standardized report forms (SRFs). Also, relevant training was provided to PBC staff in September 2023. The PBC is currently technically capable of compiling and reporting monetary statistics in the IMF-recommended format of SRFs at least for the central bank and other depository corporations. Nonetheless, reporting of SRFs has not yet begun pending internal review and approval processes. China reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: China reports financial soundness indicators (FSIs) to the Fund for dissemination on the IMF's website. In addition to the 13 core FSIs, the authorities included in early 2015 one additional FSI for deposit takers in their regular reporting to the Fund. The periodicity of data was also improved in May 2015 from annual to semi-annual frequency, and from semi-annual to quarterly frequency from the first quarter of 2019. However, they have not yet implemented the new FSIs report forms in line with the latest methodology recommended by the 2019 FSIs Guide. Training on FSIs was provided to PBC staff in June 2023.

External sector statistics: Balance of payments and international investment position (IIP) are compiled largely in accordance with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) and are disseminated in the IFS. Similar information is also available on the website of the State Administration of Foreign Exchange (SAFE). The authorities continue their efforts to improve external sector statistics, including participation in the IMF's Coordinated Direct Investment Survey (CDIS) with data on inward and outward investment for both equity and debt instruments, Coordinated Portfolio Investment Survey (CPIS), and the Currency Composition of Foreign Exchange Reserves (COFER). China also compiles the International Reserves and Foreign Currency Liquidity Template (the Reserves Data Template). Remaining issues include (i) missing institutional

sector breakdowns in balance of payments (BOP) and IIP and investment income breakdowns in the income account, (ii) persistent negative net errors and omissions in BOP, and (iii) a delay in reporting currency composition data in the Reserves Data Template.	
Other Statistical Issues: The National Bureau of Statistics conducts a monthly labor force survey and publishes a monthly surveyed urban unemployment rate. Publication of the surveyed unemployment rate by age groups has been suspended as of July 2023. Data on aggregate economically active population is published, but only at an annual frequency and with long lags.	
II. Data Standards and Quality	
The People's Republic of China is an adherent to the SDDS since October 2015, and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). The People's Republic of China's latest SDDS Annual Observance Report is available on the DSBB.	No data ROSC has been conducted.

Table 1. China: Common Indicators Required for Surveillance
(As of December 18, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange rates	December 2023	December 2023	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	November 2023	December 2023	M	M	M
Reserve/base money	November 2023	December 2023	M	M	M
Broad money	November 2023	December 2023	M	M	M
Central bank balance sheet	November 2023	December 2023	M	M	M
Consolidated balance sheet of the banking system	November 2023	December 2023	M	M	M
Interest rates[2]	December 2023	December 2023	D	D	D
Consumer price index	November 2023	December 2023	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	2022	Aug 2023	A	A	A
Revenue, expenditure, balance and composition of financing[3]—central government	October 2023	November 2023	M	M	M
Stocks of central government and central government-guaranteed debt[5]	2023Q2	June 2023	Q	Q	Q
External current account balance	2023Q3	November 2023	Q	A, Q	A, Q
Exports and imports of goods and services[6]	October 2023	November 2023	M	M	M
GDP/GNP[7]	2023Q3	October 2023	A, Q	A, Q	A, Q
Gross external debt	2023Q2	September 2023	A, Q	A, Q	A, Q
International investment position	2023Q2	September 2023	A, Q	A, Q	A, Q

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Data on financing (foreign, domestic bank and domestic nonbank financing) and the economic classification of expenditures is not available.
[4] The general government consists of the central (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Goods and services trade data are both provided monthly, with services trade data release slightly lagging goods trade data release.
[7] For GNP, level data are available only on an annual basis.
[8] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Zhengxin Zhang, Executive Director for People's Republic of China,
January 10, 2024

Our authorities would like to thank the IMF staff and management for their constructive policy dialogue during the China 2023 Article IV Consultation. We appreciate the staff for their professionalism and hard work, and value their comprehensive and well-focused analyses. The year 2023 was a year of economic recovery after three years of COVID-19 containment. Against the backdrop of a slow global economic recovery, China has overcome various internal and external difficulties and challenges. As the combination of macro-economic policies came into effect, the economic performance has continued to improve, and positive factors have been accumulating. Going forward, China will continue to seek progress while maintaining stability, consolidate and strengthen the momentum of economic recovery, and continue to promote effective qualitative improvement and reasonable quantitative growth of the economy.

I. Recent developments and medium-term forecast of the Chinese economy

We welcome the staff's significant upward revisions to China's economic growth forecasts for 2023 and 2024 following the Article IV Consultation. In 2023, China's economy continued to recover, and experienced overall positive developments. In the first three quarters, China's GDP grew by 5.2 percent year on year, laying a solid foundation for achieving the economic and social development goals of the whole year. From January to November, the total retail sales of consumer goods grew by 7.2 percent year on year. During the same period, the consumer price index (CPI) increased by 0.3 percent year on year, and prices remained generally stable. Investment in fixed assets grew by 2.9 percent year on year, of which investment in high-tech industries maintained a rapid growth, up by 10.5 percent year on year. China has continued its high-level opening-up. Against the backdrop of sluggish direct investment globally, China has remained highly attractive to foreign companies. From January to November, 48,078 foreign-invested enterprises were newly established nationwide, up by 36.2 percent year on year.

In November 2023, major economic indicators continued to improve. First, industrial production recovered rapidly, with the total value added of industrial enterprises above the designated size increasing by 6.6 percent year on year, 2.0 percentage points higher than that of the previous month. **Second**, the service sector grew fast, with the Index of Services Production growing by 9.3 percent year on year, 1.6 percentage points faster than that of the previous month. **Third**, market sales demonstrated increasing momentum, with the year-on-year growth of total retail sales of consumer goods reaching 10.1 percent, accelerating by 2.5 percentage points compared to the previous month. **Fourth**, the total value of imports and exports of goods increased by 1.2 percent year on year, with exports growing by 1.7 percent and imports growing by 0.6 percent (all denominated in RMB).

Considering this reality, compared to the statement in the Staff Report that the Chinese economy has recently experienced "subdued recovery", our authorities' assessment of the recent Chinese economic developments is more positive. China is projected to be one of the major economies with the fastest economic growth in 2023, and the largest contributor to world

GDP growth. China is expected to account for nearly one-third of world GDP growth, and has been providing positive spillover effects to other countries.

On China's economic growth prospects, currently, the complexity, severity and uncertainty of the external environment are on the rise, and the foundation for the steady recovery of the domestic economy needs to be further stabilized. However, comprehensively speaking, China's economic development still has strong support and favorable conditions. China enjoys the advantage of its large-scale market. With the continuous deepening of various institutional reforms, China's domestic demand still can release great potential under the new development pattern of "dual circulation", which promotes both the economic activities at home and abroad. It is expected that import and export will remain stable. Despite the increase of China's aging population, the capability of the population is gradually improving, with more than 240 million people having received higher education and the average years of education of the new labor force reaching 14 years. China's "demographic dividend" is transforming into a "talent dividend", which will continue to ensure the human capital needed by the economy. China will boost the new momentum of economic development through scientific and technological innovation. China's ambition to achieve the goals of "carbon peaking and carbon neutrality" is expected to promote trillions of dollars of new domestic investments and new industries. At the same time, China is still a developing country with an urbanization rate of about 65 percent, which is still substantially below the 80 percent urbanization rate in traditional developed countries. In the future, investment and consumption related to urbanization would bring huge potential. **In short, compared with the staff's view, we hold a more positive view of China's economic growth in 2024, as well as in the medium-term.** China will continue to be the vital engine of global economic growth. The staff's more appropriate forecast of China's economic growth prospect will help stabilize the confidence both at home and abroad in China's development and global economic growth. In view of this, we suggest that the staff should study carefully and consider reasonably the medium-term growth trend of China's economy.

II. Broader Policy Issues

<u>1. Monetary Policy.</u> **We are glad to see the staff's assessments such as China's monetary policy in 2023 "is welcome", and China's "external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies".** In addition, China does not set goals for credit growth, and there are no guidance policies to the deposit/lending rates of financial institutions, which have already reflected the Report's recommendations to "remove credit growth targets" and "ease deposit/lending rate guidance policies".

In 2023, China focused on implementing a sound monetary policy. In terms of aggregate support, we have maintained liquidity, money and credit at reasonable levels to continuously create a favorable monetary and financial environment. In March and September, the PBOC cut the reserve requirement ratio twice, releasing more than RMB 1 trillion in the medium- and long-term. **In terms of structural support,** in June and August, China increased twice central bank lending and discounts to provide support to agriculture and micro and small businesses (MSBs),

with the increment totaling RMB 235 billion. China extended the implementation period of six structural monetary policy tools, including the inclusive loans for MSBs. China provided well-targeted support to key areas, such as financial inclusion, technological innovation, and green development. China also stepped up financial support for private enterprises. By implementing measures such as reducing the down payment ratios for homebuyers, China adjusted and optimized real estate financial policy. In August, China launched the real estate finance "policy package", including measures such as reducing the down payment ratios, lowering mortgage rate floors, and improving the criteria for identifying second home buyers. China guided commercial banks to adjust the interest rates on outstanding mortgages, saving households about RMB 170 billion a year and benefiting about 50 million households and 150 million people. **In terms of price,** China guided the financing costs down, with the average interest rate on corporate loans at historic lows. In June and August, China lowered the policy rates twice, which guided the market interest rates such as Loan Prime Rate (LPR) to reduce continuously. China guided financial institutions to appropriately reduce medium- and long-term time deposit rates so as to translate savings into consumption and investment. The RMB exchange rate has remained basically stable at an adaptive and equilibrium level.

In 2024, we expect the sound monetary policy to be flexible, appropriate, accurate and effective. We will pay more attention to inter-temporal and counter-cyclical adjustments, and tackle the relationships between short term and long term, stable growth and risk prevention, and internal and external balances. We will step up the implementation of the existing monetary policies and comprehensively use a variety of monetary policy tools. By doing so, we aim to maintain the liquidity at a reasonable and adequate level, and keep aggregate financing to the real economy (AFRE) and money supply (M2) in line with the expected economic growth rate and price level. We will increase the credit extension in a balanced manner, boost the efficiency of the existing funds, and further optimize the credit structure, in order to sustain the relatively rapid growth of AFRE throughout the year. In terms of price, we will take into consideration internal and external balances and continue to deepen the market-oriented interest rate reform, so as to direct the overall financing cost to drop steadily. We will keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

2. Fiscal Policy. We welcome that the staff assessed China's fiscal policy in 2023 as "appropriate", but still hold different views on the concept and related assessments of "augmented" government definition. **In 2023, China implemented a proactive fiscal policy. First,** we strengthened fiscal policy adjustment. At the beginning of 2023, China's fiscal deficit ratio was targeted to be 3 percent, 0.2 percentage point higher than in 2022. Since then, considering changes in the economic situation and actual needs, proactive fiscal policy was strengthened to improve its effectiveness, including the issuance of an additional RMB 1 trillion of government bonds in the fourth quarter. In this way, the fiscal deficit ratio is expected to rise to about 3.8 percent in 2023. Fiscal revenue in the first 11 months of the year reached RMB 20 trillion, up by 7.9 percent year on year. Fiscal expenditure totaled RMB 23.8 trillion, up by 4.9 percent year on year. At the same time, we improved tax and fee policies to provide more support and reduce the tax burden of business entities. From January to November, we provided

more than RMB 1.8 trillion of tax cuts, fee reductions, tax rebates and delayed payments. **Second,** we strengthened input guarantees in key areas. We promoted high-quality development of the manufacturing industry, vigorously supported scientific and technological innovation, promoted rural revitalization, coordinated regional development, and helped improve the quality of economic development. **Third,** we strengthened safeguards for people's livelihood. We gave full support to flood prevention and relief efforts, and issued an additional RMB 1 trillion of government bonds to support post-disaster recovery and reconstruction and improve our capacity for disaster prevention, mitigation and relief. At present, most of the additional issuance of government bonds has been used to support specific projects. At the same time, we stepped up efforts to support the development of education and healthcare, improved social security, and strengthened environmental protection and governance.

In 2024, China is expected to moderately strengthen its proactive fiscal policy to improve the quality and effectiveness. China will make good use of its fiscal policy space to improve the effectiveness of funds and policies. We will improve the structure of government spending and strengthen financial support for major national strategic tasks. We will appropriately expand the scope for local government special bonds to be used as capital. We will implement structural tax cut and fee reduction policies and focus on supporting scientific and technological innovation and the development of the manufacturing industry. We will strictly monitor and regulate transfer payments and tighten financial discipline. We will strengthen fiscal sustainability, ensure the "Three Guarantees" (i.e. guaranteeing people's basic livelihood, their wages, and the operation of local governments) at the grassroots level, and strictly control general expenditures.

Based on the concept of "augmented" government, the staff assessed China's fiscal policy stance in 2023 as "broadly neutral". In reality, however, China's fiscal policy stance in 2023 was positive. The difference between the authorities' and staff's assessments of China's fiscal stance mainly lies in the treatment of debt issued by local government financing vehicles (LGFVs). China's Budget Law, Company Law and other relevant laws have clearly defined the boundaries between local government debt and LGFVs debt. All debts issued by LGFVs after 2014, including implicit debts borrowed illegally, have been squarely borne by the issuing entities themselves, and according to the laws, are not recognized as government debt. For the new implicit debts illegally issued by local governments, the Chinese authorities continue to strengthen the investigation and accountability measures to tackle the problem, and have taken a series of measures to enhance the corporate governance of LGFVs. First, we continue to regulate financing management and prohibit the establishment of new LGFVs. Second, we set the rules for the disclosure of financing information and prohibit LGFVs from using local government credit for debt issuance. Third, we appropriately handle LGFVs' debts and assets, in order to get rid of their government financing functions, and prevent local state-owned enterprises (SOEs) and public institutions from morphing into new types of LGFVs.

Therefore, the concept of "augmented" government finance used in the Staff Report, which includes all LGFV expenditures and liabilities, cannot accurately explain China's fiscal policy stance. In many cases, it will lead to misunderstanding of China's fiscal stance. **We welcome the**

ongoing constructive technical discussions between the Chinese fiscal authorities and the IMF staff on the definition and the scope of general government, and hope that the two sides can promote understanding, reach consensus, and discuss specific policy issues rather than conceptual issues.

3. Local Government Debt. We welcome the support of IMF staff for the actions taken by Chinese authorities to prevent and resolve risks arising from local government debt. In an international context, China's total level of government debt stands at a medium or low-medium level. The central government has relatively low debt burden. As of the end of 2022, local governments held a total of RMB 35.1 trillion in official debt. On-budget central government debt was RMB 25.9 trillion, making for a total national government debt of RMB 61 trillion. Compared against China's 2022 GDP of RMB 120.47 trillion (according to final verified data from the National Bureau of Statistics), this gives China an official debt burden (ratio of outstanding debt to GDP) of 50.6 percent. This level is lower than the threshold of 60 percent commonly used internationally, and lower than the major developed countries and emerging markets.

Local government debt in China has two important features. (1) It is generally used for investment in infrastructure, so the debt is mostly backed by real assets, and creates good positive externalities for the local economy. This feature fundamentally differs from other countries where government debt is used to finance current expenditures. For example, bonds issued by local governments in September 2023 were for the most part used to support capital outlays. The five most common types of investment being funded were: municipal and industrial zone infrastructure (30.07 percent); social undertakings (18.17 percent); transport infrastructure (18.01 percent); supportive housing (13.74 percent); and agricultural/forestry/hydrological projects (10.25 percent). **(2)** Most local government debt is concentrated in provinces with large and fast-growing economies. These provinces have the capacity to absorb the debt. According to data from provincial finance bureaus, as of end-2022, the provinces with the highest absolute levels of local government debt were Guangdong, Shandong, Jiangsu, Zhejiang, and Sichuan. These are all economically strong regions, with ample capacity to service their debts. In terms of the debt-to-GDP ratio, Qinghai and Guizhou are the only two provinces with debt ratios above 60 percent, whose ratios are 84.3 percent and 61.8 percent, respectively. The debts of these two provinces, at RMB 304.43 billion and RMB 1.24701 trillion, represent only 0.9 percent and 3.6 percent of total local government debt.

There has been a sustained effort over the last few years by the government to establish mechanisms for containing risk from local government debt. The trend of uncontrolled expansion in local government debt has been curbed to some extent, and the resolution of local government debt has achieved positive results. **Since 2023, financial authorities have also been working with other agencies of government on a range of new measures to help local governments and LGFVs to securely contain the risk from debt. (1)** Stricter fiscal/financial discipline. Local governments and LGFVs are encouraged to actively manage or sell their assets to find the resources to repay their debts. **(2)** For regions with relatively high debt burdens, strict

controls on new government investments. **(3)** Financial authorities have introduced policies that encourage financial institutions to negotiate with LGFVs on an equal footing, in a way that respects the principles of the market and the law. They may offer term extensions, refinancing, or debt replacement to help mitigate existing debt risk and control the growth in debt. They also support the creation of ongoing mechanisms for monitoring financial debt in LGFVs. When necessary, the PBOC will also offer emergency liquidity loans to regions with relatively high debt burdens. **(4)** Progressively eliminating the government finance function of LGFVs through a process of M&A, reorganization, and recapitalization, to ensure LGFVs become self-sustainable market entities that are no longer reliant on government credit or fiscal support. We are sure that with the progressive implementation of various measures to prevent or mitigate the risk from local government debt, including invisible debt, local government risk is now well-managed, and will continue to ease further.

4. Preventing and Mitigating Financial Risks. China's financial system is generally stable, with financial risks being manageable, financial institutions being generally healthy, and financial markets operating smoothly. According to the requirements of the Central Financial Work Conference held in November 2023, the PBOC and other financial authorities have been committed to deepening the supply-side structural reform in the financial sector, comprehensively strengthening financial regulation and supervision, and effectively improving the effectiveness of financial governance. At the same time, the authorities are always well prepared for danger in times of safety, attach great importance to preventing and mitigating financial risks, and earnestly safeguard financial stability.

On real estate financial risks, we welcome the staff's positive affirmation of China's real estate policy. At present, real estate-related loans account for about 23 percent of outstanding bank loans, of which about 80 percent are personal residential mortgages and about 20 percent are developer loans. China has been implementing a very prudent residential mortgage policy. Residential mortgages are generally regarded as high-quality bank assets, with a very low non-performing ratio. The non-performing ratio of loans issued to developers is slightly higher than that of residential mortgages but still quite low. Therefore, the potential impact of the real estate market adjustments on financial stability is generally manageable.

In recent years, Chinese authorities have implemented a range of measures in response to adjustments in the real estate industry. During the past long-term prosperity of the real estate industry, certain developers, such as Evergrande, had long been operating under a “high leverage, high debt, high turnover” business model. Due to their rapid expansion of assets and liabilities, relatively significant potential risks accumulated within these developers. Together with major changes in the supply and demand dynamics of the real estate market, compounded by a downward shift in long-term demand and shocks of COVID, in the second half of 2021, risks of Evergrande had emerged and spread to developers employing similar business strategies. In response, the authorities have adopted multi-pronged measures from both the supply and demand sides. The aim is to improve the real estate industry’s financing and operating cash

flows, mitigate spillover risks to other sectors, and facilitate a smooth and steady transformation of the real estate sector. These policy measures are gradually showing positive effects.

The financial authorities have also optimized and adjusted real estate financial policies, including the introduction of the "Sixteen-Point Financial Measures", the establishment of special loans for guaranteeing the delivery of pre-sold homes, and the equal support for both state- and privately-owned high-quality enterprises to improve their balance sheets. To meet the reasonable financing needs of the industry, we adjusted the down payment ratio, mortgage rates and other macro-prudential financial policies. With the economic upturn, coupled with the effect of real estate policies and the market's self-adjustment, since August 2023, the real estate market transactions have experienced general improvement, which has gradually strengthened market confidence. For example, in November, 70 large- and medium-sized cities saw increase in housing transactions, with prices showing two-way movements year on year. Developers' financing stress has also been eased. At the end of the third quarter, the outstanding real estate development loans increased by 4 percent year on year, a rate faster than at the end of last year. **In view of this, the statement in paragraph 6 of the Report that financing conditions for developers have been worsened is not in line with the latest actual situation.**

We agree with staff's recommendations that we should restructure nonviable property developers, support housing completion, allow for greater market-based price adjustment and reduce households' investment demand for housing. In fact, these recommendations are in line with the market-oriented and law-based measures China is taking now. **The Report warns of the risks in China's real estate market, but staff's estimate is, to some extent, too pessimistic. First,** it points out in paragraph 24 that "China's property market experienced a crisis in H2 2021 and 2022". Considering the facts that in 2021, China's economic growth was at a high level of 8.4 percent, and that economic slowdown in 2022 was mainly due to the disruptions from the pandemic, the statement in paragraph 24 exaggerates the scale and impact of real estate market adjustments. **Second,** the statement in paragraph 3 which says "slow project completion" doesn't reflect the reality. With strong efforts to guarantee the delivery of pre-sold homes, the construction and delivery of those homes have accelerated, so has the completion of real estate development projects. As of the end of the third quarter in 2023, the year-to-date Floor Space of Buildings Completed has increased by 19.8 percent compared to the same period in 2022. **Third,** in paragraph 25 it is stated that "fundamental demand for new housing is expected to decline by almost 50 percent over the next 10 years", which overestimates the possible market downturn. China will still have large housing demands in the future, and the effects of relevant supportive policies implemented will gradually kick in, thus continuously releasing housing demand. Therefore, a significant decline in housing demand is very unlikely to happen. The rationality of the base period selected is also debatable. **Fourth,** paragraph 26 mentions that the authorities have introduced measures to "limit price adjustment". Although price limits may exist in a few cases, they cannot reflect the situation of the entire market. China's housing transaction prices are determined by supply and demand in the market. The government does not restrict the adjustment of housing prices, and only in rare cases when the market prices are artificially inflated and market order is disrupted, will it take measures to resolve market failures. At

present, housing prices in different cities have shown two-way movements, while remained generally stable. These are the natural results from the price formation of the market. **Fifth,** "a downside scenario with protracted property sector weakness" analyzed in Box 3 can only be an extreme scenario with a very low probability to realize. We suggest that the Report should state it clearly and explicitly so as to avoid misunderstanding by its readers. In the first three quarter of 2023, the GDP of the real estate industry fell by 0.9 percent year on year, a rate significantly lower than the 5.1 percent decline in 2022. **Our preliminary judgement is that China's real estate market has been stabilizing and recovering, and its downward impact on the economy will continue to reduce gradually in the future.**

Moving forward, the PBOC and other financial authorities will proactively cooperate with industry authorities and local governments to support the stable and healthy development of the real estate market, mitigate its risks, and prevent its risk spillovers. We will guide financial institutions to maintain the stability of key financing channels such as real estate credit and bonds, and to meet the reasonable financing needs of real estate companies of different ownerships on an equal basis. We will provide medium- and long-term low-cost financial support for the construction of the "Three Major Projects" such as affordable housing, improve the housing rental financial policy system, and promote the establishment of a new model of real estate market development.

5. Reform of state-owned enterprises. In 2023, China made significant and sustainable progress in its structural reforms, including the reform of SOEs. China's experience over more than 40 years of reform and opening up is that we must separate government from industry, and support effective corporate governance and market-based operations. The Report mentions issues such as "implicit guarantees to SOEs" and "preferential access to credit provided to SOEs". **We believe that there is no factual evidence to support claims of implicit guarantees or preferential access to credit, and that the IMF staff should be cautious in their citation of such ideas.**

In reality, the policies implemented by China are already broadly in line with the IMF recommendations "implementing SOE reforms to ensure competitive neutrality," and "ensuring that competition policy is applied equally to state- and privately-owned firms." **In the last few years, the focus of Chinese policies has been precisely on supporting private companies and MSBs (most of which are private). And these policies have been effective on a practical level.** For example, China has been using monetary and financial policies to encourage commercial banks to offer inclusive finance loans to MSBs. In the first three quarters of 2023, RMB 4.8 trillion of new inclusive finance loans were made to MSBs. This was a 23.9 percent increase on the same period in 2022. The average interest rate on inclusive finance loans to small and micro-enterprises in this period was 4.8 percent, 0.4 percentage point lower than in 2022. In terms of fiscal policy, also, in the first 11 months of 2023, private companies benefited from RMB 1.34 trillion in new tax cuts, fee reductions, tax rebates and delayed payments. This was 73.8 percent of the total new benefits in 2023, making private companies the prime beneficiary of new policies.

<u>6. Opening up the economy, international cooperation, and industrial policy.</u> 2023 was the 45th year since the start of China's reform and opening up. The gates to China's open economy continue to swing wider and wider. We remain committed to high levels of openness, and there have been important steps forward on this front. China is willing and ready to cooperate with others, not only bilaterally but regionally and internationally, including in the IMF. We always think opening up is good for China and also for the world. China's experience also indicates that structural reforms require the participation of not only domestic stakeholders, but also external participants. In June, pilots began in five free trade zones (Shanghai, Guangdong, Tianjin, Fujian, and Beijing) and the Hainan free trade port to implement international standard trade regulations, as part of our program of making the Chinese economy institutionally more open. In August, the State Council issued "*Opinions on Further Optimizing the Environment for Foreign Investment and Increasing Efforts to Attract Foreign Investment*". This new policy details 24 measures in six areas, including national treatment for foreign enterprises, protection of intellectual property rights, facilitation for business operations, and supportive tax policies. These measures will further improve the investment environment for foreign businesses and boost our efforts to attract foreign investment. In October, China announced the removal of all restrictions on foreign investment in the manufacturing sector. To encourage the cross-border movement of people, China decided in November to expand the unilateral visa waiver to six new countries on a pilot basis: France, Germany, Italy, the Netherlands, Spain, and Malaysia. Holders of ordinary passports from these six countries will no longer need visas to enter China.

China is now working on reducing the negative list of restrictions on foreign investment in free trade zones; producing negative lists for cross-border trade in services, both for free trade zones and for nationwide. These moves will slim down the negative lists of areas where foreign investment is not permitted, and will lower barriers to market access. We are actively advancing our entry into the "*Comprehensive and Progressive Agreement for Trans-Pacific Partnership*" (CPTPP) and the "*Digital Economy Partnership Agreement*" (DEPA) in order to broaden market access and provide legal protection for the rights and interests of foreign investors. China is also committed to upholding the authority and effectiveness of the multilateral trading system. We are deeply involved in supporting the reform of the World Trade Organization (WTO); a staunch supporter of the stability of global supply chains; expanding our partnerships with nations under the Belt and Road Initiative; and resolutely opposed to unilateralism and protectionism. In 2024, China will continue to expand market access in services sectors such as telecoms and healthcare. We are benchmarking the highest quality international standards in trade regulation, and taking actual steps to solve problems like cross-border data flows, and equal participation in government procurement. We continue to build a first-class, internationalized, market-based, rule-of-law environment for business, and are building up the "Invest in China" brand. We are taking practical measures to remove barriers to foreigners visiting China for business, study, or travel.

The Report suggests: "Major trading partners have imposed export controls on certain semiconductors and related products to China, adversely affecting its domestic industries.

In turn, China imposed restrictions on exports of gallium, germanium, which are used in the production of high-performance chips, and graphite, which is needed for electric vehicle battery manufacturing." Staff advises China to reduce the use of industrial policy and trade restrictions. In reality, export controls on gallium and germanium are standard international practice, and the world's major export countries all have controls on them. The Chinese government's legal imposition of export controls on gallium and germanium materials to ensure their export for legitimate purposes, is necessary to maintain national security, and also necessary in order to fulfill our international obligation to maintain international peace and security. The Chinese government announced the control measures on the export of gallium and germanium under the legal authority of the Export Control Law, following the proper procedure. During this process, there was broad consultation with stakeholders in gallium and germanium, and a comprehensive assessment of how industry and trade would be affected. These considerations all informed the final decision on the scope of the controls. These measures are not targeted to any specific countries, regions, or sectors. This is not like the "high fence and small yard" practice in some other countries. Since the controls came into force, the Ministry of Commerce has received applications from companies for export licenses for gallium and germanium materials. Following the legally-defined review process, the Ministry of Commerce has approved several export applications where they are in compliance with the law.

Regarding industrial policy, in the 45 years of opening up and development, China has remained committed to finding the right relationship between government and the market. The decisive role of markets in allocating assets is fully respected, and direct government intervention in microeconomic activity is minimized. Market mechanisms are fully utilized to achieve efficiency of resource allocation. Subsidy policies are an example. Since entry into the WTO, China has strictly complied with the WTO rules on subsidies. We are constantly improving our market economy laws, and actively fulfilling our duty to be transparent and provide information on subsidy policies. China strictly complies with all undertakings made to the WTO. The level and form of any subsidies we provide always comply with WTO rules. China has always been opposing any form of trade protectionism. In fact, it is the discriminatory industrial policies and trade restrictions of a certain few trade partners that have seriously interfered with the normal trade and investment activities between China and the rest of the world. They are in breach of the law of the market and international trade rules. **Both Chinese state-owned and private companies have been harmed by the unfair industrial policies and competition policies of some trade partners.** These policies include discriminatory technical and supply chain restrictions, competitive industry subsidies, and barriers to market access for Chinese companies. As the risk of geopolitical tension and fragmentation increases, many Chinese companies have been forced to find alternative "Plan Bs." This includes defensively spurring the development of domestic industries to reduce the risk that a trade partner will unexpectedly cut off supply of an intermediate good. Having a Plan B is now key to a company's development, and even to its survival.

For example, semiconductors are a highly globalized industry, and China is the largest market for semiconductor products and devices in the world. We are also an important country of origin

for some semiconductor raw materials. For many years, China maintained a mutually beneficial relationship with semiconductor companies in many other countries. There was dense interlinking between the upstream and downstream, from which all parties benefited. But in recent years, some trade partners have pushed to disentangle semiconductor industry supply chains from China. They have seriously interfered with the normal trading relations between chip companies and semiconductor equipment makers, material suppliers, and parts providers, wherever they are in the world. They are damaging the integrity of the global semiconductor market, increasing the risk of supply chain interruption, and creating enormous uncertainty for companies everywhere. The international chip market is currently depressed, and the market for semiconductor devices has fallen into negative growth. Decoupling from China will in the short-term increase the losses of the companies in those trade partner countries. In the long term, it will reduce the potential for growth in the semiconductor market, and the capacity for innovation in related fields. It will be an obstacle to global economic growth and to collaboration on new technology. Give this background, we should establish and give our trust to an effective multilateral trade system. **China hopes that the IMF, after thorough consultations with the WTO, will objectively analyze the different backgrounds that inform the industrial policy of each country, and will continue to be an active supporter of multilateralism and a facilitator of multilateral cooperation.**

7. Climate change. China has made a serious commitment to achieve carbon neutrality, and has incorporated relevant targets in the 14th Five-Year Plan. China has created a policy system around the peak carbon emission and carbon neutrality targets, and has developed a strategy for controlling greenhouse gas emissions over the medium to long term. We have drafted a strategy for adapting to climate change. The national emissions trading system (ETS) was launched in July 2021, and is now operating smoothly. Trading prices are stable and trending upwards, trading volumes continue to grow, and participant activity is clearly increasing. In 2023, China continued to develop our systems for combating climate change with the release of "*Action Plan for the Control of Methane Emissions*"; we issued "*Administrative Measures for the Trading of Voluntary Reductions in Greenhouse Gas Emissions (Trial)*", which provides a framework for trading and other activities around voluntary emissions cuts; the regulation "*Interim Regulations for Carbon Credit Trading*" is now in the last stages of drafting.

China is also making major efforts to develop non-fossil energy sources, and the green/low-carbon energy transition is picking up pace. China has built the world's largest clean energy generation system, leading the world in each of wind, solar, hydro, and biomass generation capacity. China supplies 70 percent of the world's photovoltaic units and wind generators. This represents a giant contribution to the global transition to green energy. **In 2023, renewable energy represented more than 50 percent of China's total installed capacity, surpassing thermal generation for the first time. Total renewable energy generated over the year was 3 trillion kwh, approximately one-third of the country's total electricity consumption.** Since 2012, energy consumption in China has grown at just 3 percent per year, while supporting annual economic growth of 6.6 percent. Energy intensity per unit GDP has declined by 26.4 percent, making China one of the fastest cutters of energy intensity in the world.

Green finance is an important part of driving a green transformation in socioeconomic change, and achieving carbon peaking and neutrality. China already has a multi-layered green finance market focused on green loans and green bonds. As of the end of Q3 2023, China has the highest total in green loans, at about RMB 28.6 trillion, up 36.8 percent on the previous year. RMB 1.98 trillion of green bonds have been issued, putting China in second position globally. In 2021, the PBOC launched the carbon emission reduction facility (CERF), a structured policy instrument. This facility has been extended until the end of 2024. It offers a financial incentive to financial institutions to issue loans to the sectors that are doing the most to reduce emissions. As of the end of June 2023, CERFs has backed over RMB 750 billion in emission reduction loans. This means they have supported the elimination of 150 million tonnes of CO2e of emissions per year. This was a successful initiative. The Chinese authorities have permitted foreign financial institutions to participate in the CERF scheme to ensure that financial institutions are treated equally as part of their national treatment.

In the next phase, China will continue to actively and smoothly advance carbon peaking and neutrality by accelerating the buildout of green/low-carbon supply chains, and promoting green finance and international cooperation on global climate governance. **The IMF staff recognize the concrete efforts and progress made by China towards achieving its climate objectives, and we welcome this understanding.** We welcome the incisive analysis of the IMF staff on climate issues, and encourage the staff to continue to offer policy recommendations within the multilateral consensus of the UN Framework Convention on Climate Change, the Paris Agreement, and WTO rules. China is willing to accept the principle of common but differentiated responsibilities, and to continue to play an active and constructive role in multilateral and bilateral climate discussions and cooperative actions. We will contribute our wisdom and our strength to the development of a global system of climate governance that is fair, rational, cooperative, and mutually beneficial.

Additionally, China has always fully complied with our agreements and commitments to the IMF on data disclosure and provision. Even so, China will continue to expand our big data collection, and improve data quality and transparency, to better support the needs of policymaking. During the First Deputy Managing Director Gopinath's visit to China in November 2023, an MoU on statistical cooperation was signed between the Fund and China's National Bureau of Statistics (NBS). This cooperation exactly demonstrates that China is determined to enhance our data issue. Some colleagues mentioned the youth employment data. Actually, this data was too volatile with lower-than-expected quality, so the NBS stopped publishing it. The NBS is taking measures to improve the statistical methodology. I believe the NBS will publish this data again in due course.

Finally, we would like to thank once again Ms. Georgieva, Managing Director of the IMF; Ms. Gopinath, First Deputy Managing Director; Mr. Srinivasan, Director of the Asia and Pacific Department (APD); Mr. Helbling, Deputy Director of APD; Ms. Jain-Chandra, Mission Chief; Mr. Klein, Deputy Mission Chief; and all of the China team for their hard work and professionalism.