Advancing Reforms, Enhancing Prospects

Special Focus: Household Savings and Financial Intermediation in China

WORLD BANK GROUP

China Economic Update - December 2025

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List of Abbreviations

AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
BNPL	Buy Now, Pay Later
Bps	Basis Points
CEU	China Economic Update
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CSI	China Securities Index
EMDEs	Emerging Markets and Developing Economies
FinTech	Financial Technology
FYP	Five-Year Plan
GDP	Gross Domestic Product
GFP	Government-Funding Budget
GFC	Global Financial Crisis
HSCEI	Hang Seng China Enterprises Index
IT	Information Technology
LGFVs	Local Government Financing Vehicles
mfg	Manufacturing
MSCI China	Morgan Stanley Capital International China Index
MSMEs	Micro, Small and Medium-Sized Enterprises
MoF	Ministry of Finance
NBS	National Bureau of Statistics
NBFI	Non-Bank Financial Intermediaries
NIM	Net Interest Margin
NPL	Non-Performing Loan
OECD	Organization for Economic Co-Operation and Development
PBC	People's Bank of China
PFB	Public Finance Budget
PPI	Producer Price Index
PPP	Purchasing Power Parity
Ppt	Percentage Points
PV	Photovoltaic
Q2	Second Quarter
Q3	Third Quarter
RMB	Renminbi
sa	Seasonally-Adjusted
SAFE	State Administration of Foreign Exchange
US/USA	United States / United States of America
USD	Us Dollar

VAT	Value-Added Tax
WDI	World Development Indicators
WTO	World Trade Organization
y/y	Year-on-Year
Ytd	Year-to-Date
3mma	Three-Month Moving Average

Executive Summary

China's economy sustained its growth momentum in Q3, supported by resilient exports even as signs of domestic demand weakness reemerged. Real GDP grew by 1.1 percent q/q, seasonally adjusted (sa), in Q3, compared to 1.0 percent in Q2, bringing year-to-date growth to 5.2 percent y/y. Despite trade policy uncertainty, demand from developing countries sustained export growth. Accommodative policies have supported domestic demand this year. However, household spending remains cautious amid a soft labor market and wealth effects from a cooling housing market. There are also signs that the effect of the consumer goods subsidies has diminished, with retail sales increasing by an average of 0.06 percent month-on-month (sa) over July-October, compared with 0.2 percent in Q2. The property sector downturn has deepened in recent months, while manufacturing and infrastructure investment slowed due to profit pressures and tighter local government finances, respectively.

Growth is estimated at 4.9 percent in 2025 and projected at 4.4 percent in 2026. Consumer spending growth is expected to stay subdued due to the soft labor market and further adjustments in property prices. Investment is expected to receive a modest boost from additional fiscal stimulus announced in October and from some stability in global trade policy following recent announcements of partial tariff adjustments. But weak profit growth and continued adjustment in the property sector could hinder a strong rebound. Export growth is expected to ease from current levels, though lower trade tariffs after October, compared to earlier in 2025, are expected to offer some support. The projections assume moderately accommodative monetary policy and a somewhat narrower fiscal deficit in 2026, with the authorities balancing support to growth with concerns over financial risks.

China Economic Outlook	***2022***	***2023***	***2024***	***2025e***	***2026f***	***2027f***
Real GDP growth (%)	3.1	5.4	5.0	4.9	4.4	4.2
Consumer price index (% change, average)	2.0	0.2	0.2	0.3	1.0	1.5
Current account balance (% of GDP)	2.4	1.4	2.2	2.5	1.3	0.3
Consolidated fiscal balance (% of GDP)*	-6.1	-5.5	-6.5	-8.2	-7.7	-7.0

Source: World Bank.

Note: e = estimate, f = forecast, * = World Bank staff estimates.

Risks to the outlook are broadly balanced. Externally, trade policy uncertainty remains. Domestically, the property sector could cool down further, while compressed profit margins could lead to postponed investment, further softening the labor market and weighing on consumption. On the upside, higher-than-expected fiscal spending in 2026, including stronger measures to enhance social protection, and more decisive efforts to stabilize the property sector, could lift growth above baseline projections.

China's policy priority is to lift domestic demand amid an uncertain external environment while also addressing the structural headwinds that weigh on growth. China could complement short-term stimulus with reforms that can help address long-term drivers of low household consumption, subdued private investment, and local government financial constraints. Achieving a more sustainable improvement in domestic demand hinges on reforms to: (i) strengthen social protection and reduce households' need for high precautionary savings; (ii) enhance the business enabling environment to revitalize private investment; (iii) facilitate an orderly property-sector adjustment to boost sentiment; and (iv) strengthen fiscal sustainability at the subnational level. Advancing these measures could support structural rebalancing, laying the foundation for more resilient long-term growth.

Special Focus: Household Savings and Financial Intermediation in China

China's household savings remain high at 31 percent of disposable income in 2023.[1] Analyzing the composition of household balance sheets provides valuable insights into the reasons behind the slow recovery in consumption. Housing is by far the dominant household asset in China, accounting for 47 percent of the total in 2022. Bank deposits comprise 23 percent of household assets, second only to housing. Structural factors such as rapid aging, uneven social protection, and income inequality have contributed to precautionary saving behavior. In addition, falling home prices (weakening the role of housing as a store of value), limited long-term financial instruments, and cautious income expectations have encouraged households to hold liquid, low-risk deposits, even though these offer low real returns.

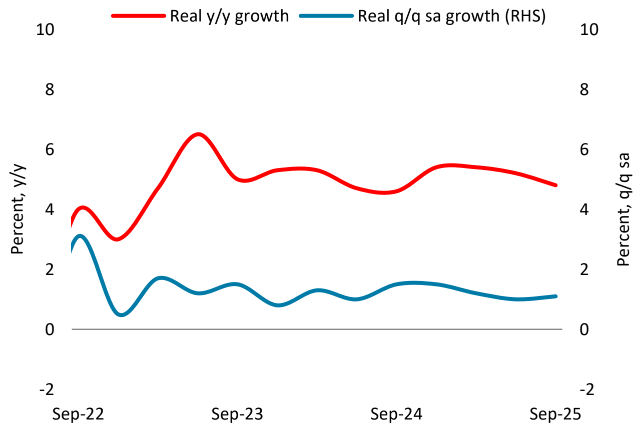
These household balance-sheet dynamics have important implications for the rebalancing of aggregate demand. A financial system that mobilizes large volumes of household deposits provides banks with ample low-cost funding, but it can also weaken price signals and allow for patterns of capital allocation that have not always aligned with productivity objectives. Strengthening non-bank saving options such as private pensions, life insurance, and investment funds; enhancing the depth and transparency of capital markets; expanding responsible consumer finance through digital innovation; and advancing interest rate liberalization would help diversify household portfolios and support more efficient resource allocation. Sequencing these reforms, alongside broader efforts to enhance social protection, could help reduce the need for precautionary saving and support rebalancing toward consumption.

[1] Based on NBS's Flow of Funds data.

The *China Economic Update* at a glance

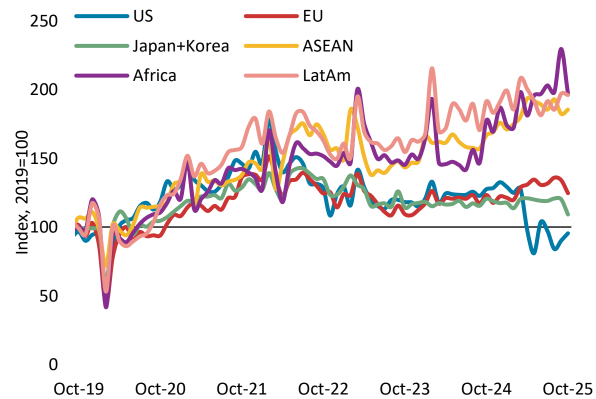
China sustained its growth momentum in Q3, …

A. Real GDP growth



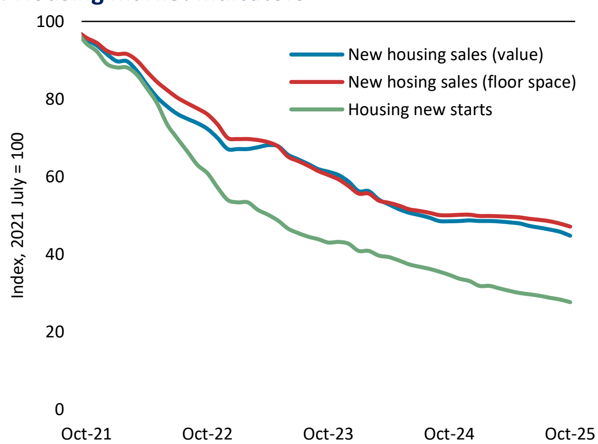
… supported by resilient exports.

B. Export by destination



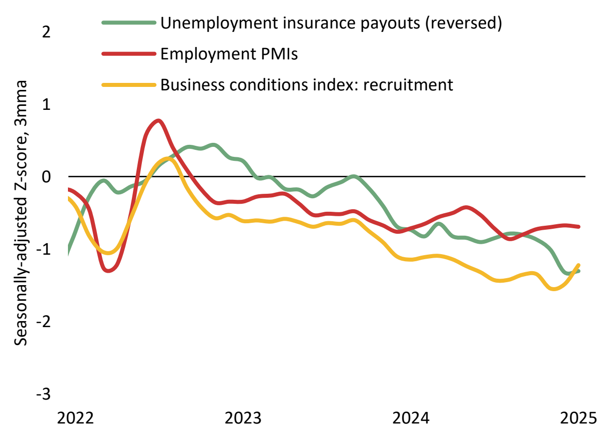
However, household spending remains cautious amid renewed weakness in the property sector …

C. Housing market indicators



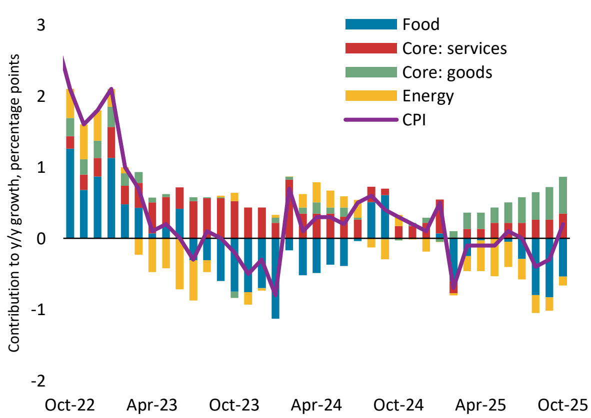
… and subdued labor market conditions.

D. Labor market indicators



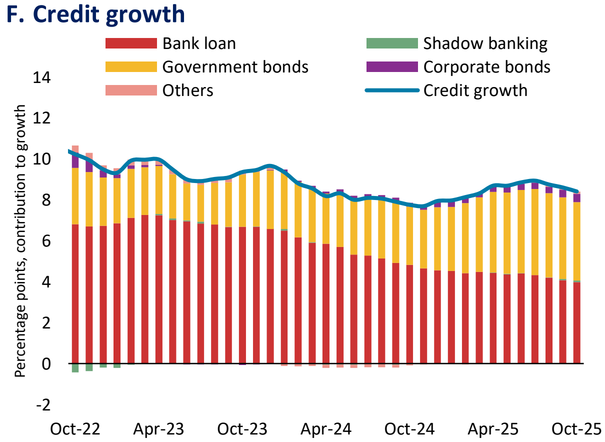
Weak demand suppressed consumer prices …

E. CPI inflation



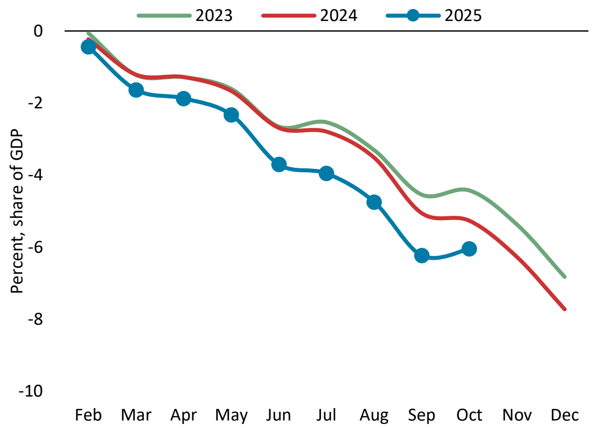
… and tempered private sector credit growth, …

F. Credit growth



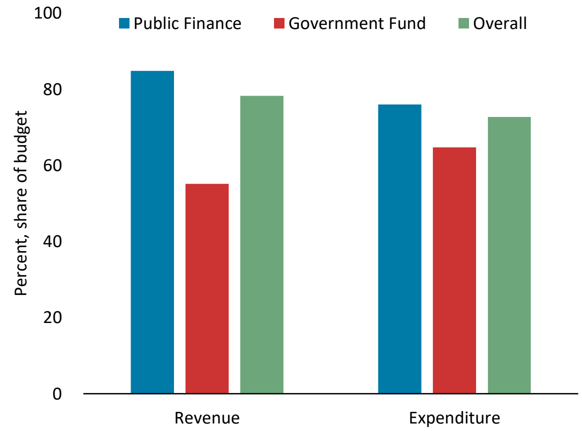
… even as fiscal policy remained accommodative …

G. Consolidated fiscal deficits



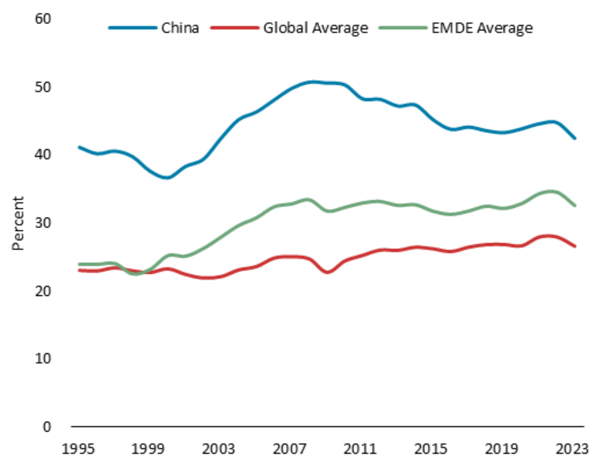
… but faced implementation hurdles at the local level.

H. Programmed and realized budget



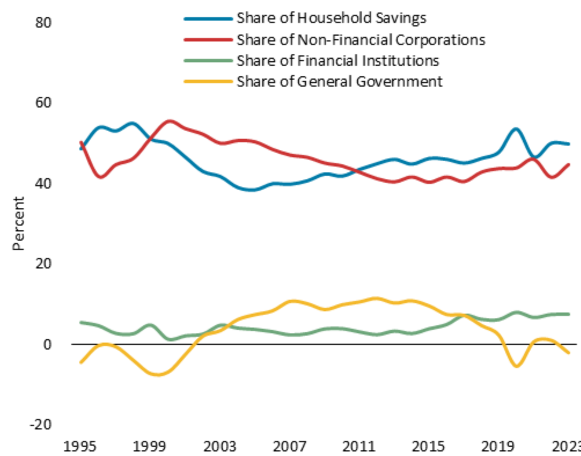
China's gross domestic savings rate has been high for decades, …

I. Gross domestic saving rates by country groups



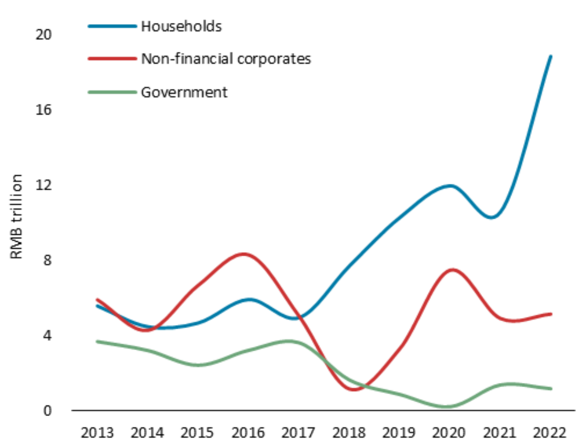
… with households contributing a significant share.

J. Composition of domestic savings



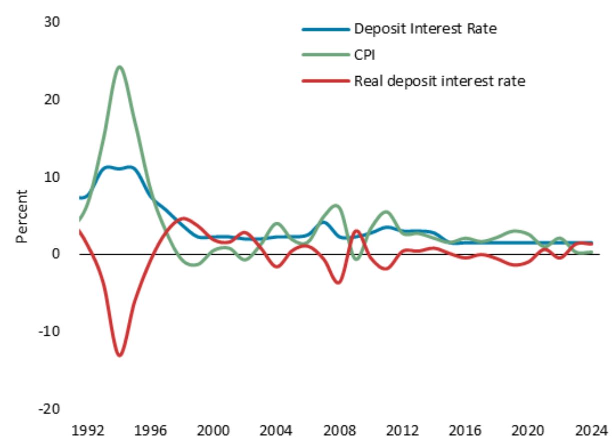
Households continue to channel savings into deposits, …

K. Deposit inflows into banks by source



… despite low or sometimes negative real rates of return.

L. Real deposit rates



Source: NBS, PBC, MOF, WIND, CEIC, and WB staff calculations.

I. Recent Economic Developments

Growth remains resilient despite headwinds

Growth momentum held steady in Q3, supported by resilient exports, even as signs of domestic demand weakness reemerged. Real GDP expanded by 1.1 percent quarter-on-quarter, seasonally-adjusted (sa), in Q3, up from 1.0 percent in Q2, bringing year-to-date growth to 5.2 percent year-on-year (y/y) (Figure 1A). Despite trade policy uncertainty, exports continued to expand, including strong growth in emerging markets, helping offset domestic demand weakness. The contribution of consumption remained steady at 2.7 percentage points (ppt) to y/y growth in Q3 (equivalent to a growth share of 56.7 percent), the same rate as in Q2, but driven by a low base in Q3 2024 (Figure 1B). The effect of consumer goods subsidies has moderated in recent months, with retail sales growing at an average of 0.06 percent month-on-month sa over July-October, compared with 0.2 percent in Q2. Investment growth slowed across sectors, with its contribution falling from 1.3 ppts y/y in Q2 (growth share of 24.7 percent) to 0.9 ppts in Q3 (growth share of 18.9 percent). The property sector downturn deepened, while manufacturing and infrastructure investment weakened due to profit pressures and tighter local government finances, respectively.

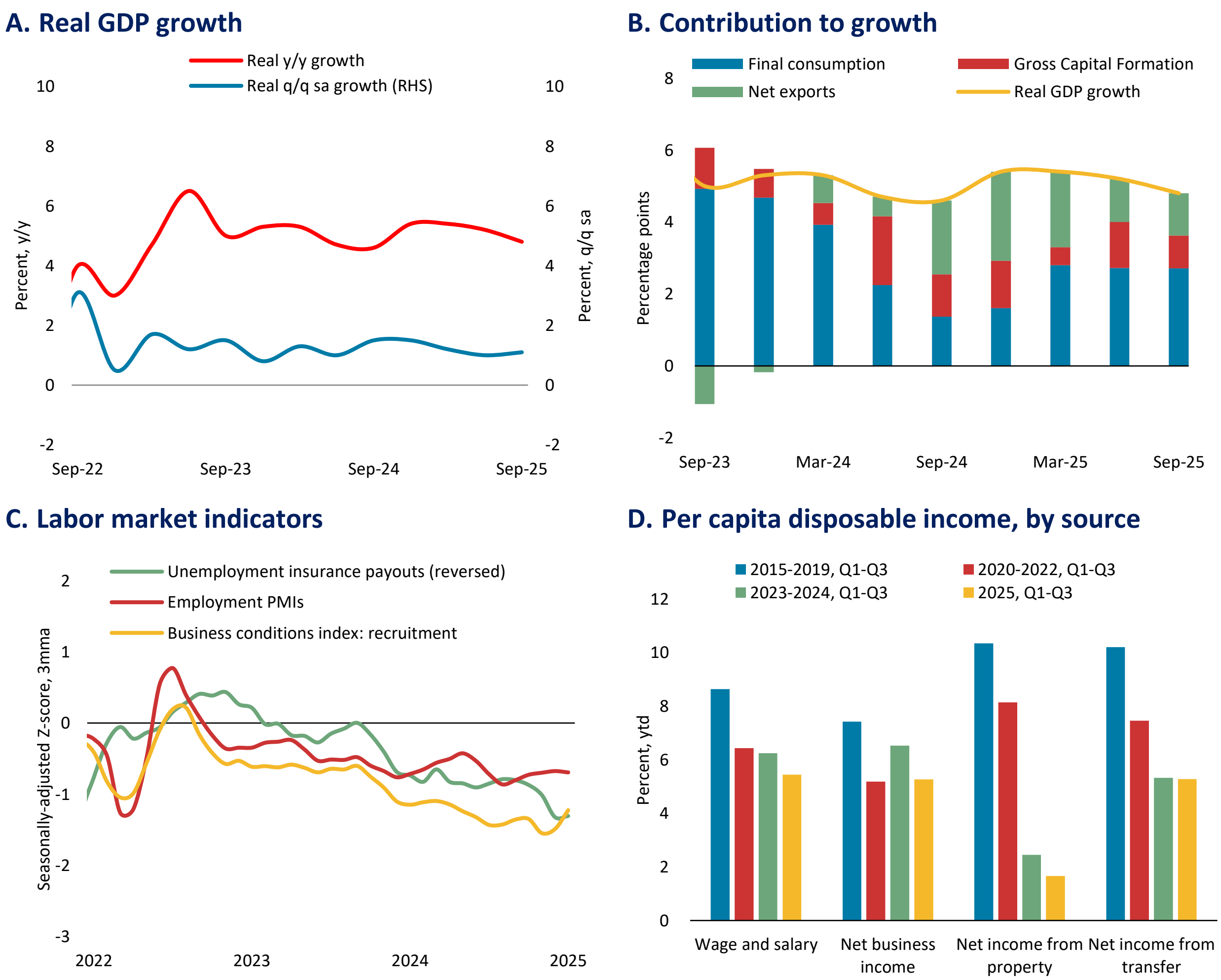
Muted household consumption growth reflects a soft labor market, a cooling housing market, and structural factors. Consumer spending has been shaped by cautious income expectations amid a soft labor market (Figure 1C and D). Although the urban unemployment rate has remained stable at around 5 percent, this partly reflects slower rural-to-urban migration in recent years. Job creation in construction and services has slowed, affecting opportunities for informal and migrant workers who have limited job security and social protection (World Bank, 2025a). Youth unemployment reached 17.7 percent in September, in part due to rapidly growing numbers of college graduates and slower job creation in high-skill services (World Bank, 2022). While the recently introduced fiscal subsidies for childcare, elderly care, and preschool education provide some support, progress in tackling the structural drivers of high precautionary saving such as gaps in social protection and income inequality has generally been gradual (World Bank, 2023a).

Investment growth moderated across sectors in the third quarter. While real estate investment continued to decline, spending on infrastructure moderated (see the following sections). Manufacturing investment also eased in Q3.[2] Subdued domestic demand has constrained industrial profit growth, which averaged 3.2 percent in the first nine months of 2025, following

[2] Fixed asset investment (FAI) data, adjusted using the GDP deflator, show that real manufacturing FAI fell by 1.3 percent y/y in July-October, compared with 8.3-percent growth in Q2. Although FAI statistics differ from the definitions in the national accounts, they are often used as proxy indicators of sectoral investment.

contractions in 2023 and 2024, reducing firms' incentives for capacity expansion. Trade uncertainty, as well as the authorities' efforts to curb excessive price declines in sectors such as steel, photovoltaics, and electric vehicles, have likely also contributed to a more cautious investment environment.

Figure 1. Growth was steady in Q3, but the soft labor market weighed on consumer demand

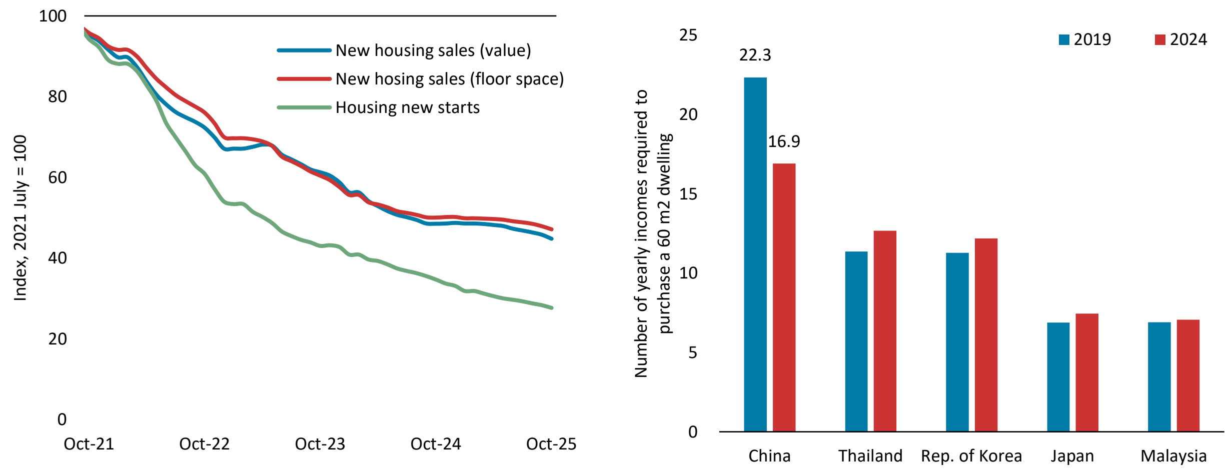


Source: China NBS, PBOC, Cheung Kong Graduate School of Business, World Bank staff estimates.
Note: In Figure C, the employment PMI is calculated as the average of the manufacturing and non-manufacturing employment PMIs. The business conditions index is from CKGSB, recruitment index reflects firms' expectations for employment over the next six months. In Figure D, we use nominal income growth.

The property market has experienced renewed weakness in recent months, owing to subdued consumer confidence and the diminishing impact of policy measures. Although measures introduced in September 2024—including lower mortgage rates, reduced down-payment requirements, and relaxed purchase restrictions—initially helped stabilize the market, their impact has waned amid household concerns over income prospects and expectations of further home price declines. New housing sales across 70 cities slipped to 53 percent below their 2021 peak in October (Figure 2A). Prices have declined by 11.9 percent for new homes and 20.2 percent for secondhand units from their July 2021 peak. Home prices have fallen substantially relative to household income during the property sector downturn. However, when compared with other Asian economies, the price-to-income ratio in China is still high, which suggests that there is scope for further price adjustment (Figure 2B).

Figure 2. The property sector experienced renewed weakness in Q3

A. Property sector indicators **B. Price-to-income ratio**



Source: China NBS, Korea Real Estate Board, Statistical Korea, Japan Statistical Bureau, Land Institute of Japan, Department of Statistics Malaysia, Ministry of Finance of Malaysia, National Statistical Office of Thailand, Thailand Real Estate Information Center, World Bank staff estimates.

Note: In Figure B, we use disposable income per capita and housing prices per square meter to estimate the price-to-income ratio. For Malaysia and Thailand, where only transaction values per unit are disclosed rather than per square meter, we approximate unit sizes by assuming an average of 117 m² for Malaysia and 98 m² for Thailand.

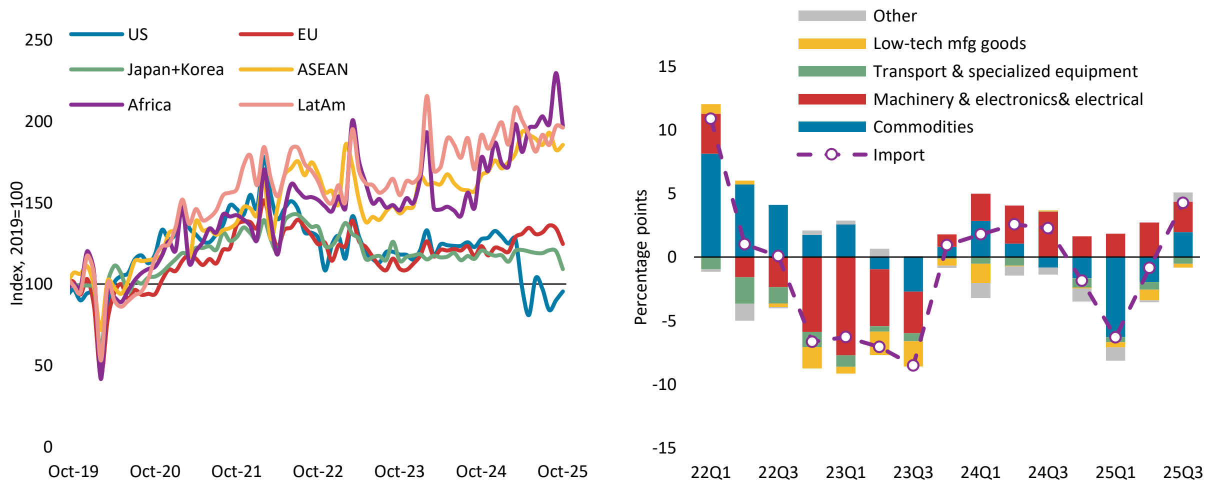
Shipments to emerging markets supported exports amid trade uncertainty

China's goods exports have remained resilient, supported by increased shipments to developing economies. Merchandise export growth moderated to 4.7 percent y/y in July-October but remained resilient. Growth was driven by stronger exports to developing countries, which helped offset a 27-percent decline in shipments to the United States (Figure 3A). Exports to ASEAN and Africa increased by 16 and 33 percent y/y, respectively. Medium-tech manufacturing goods, including vehicles, general and special machinery have led China's market share gains abroad in recent years.

Import growth accelerated in July-October 2025 on the back of robust demand for imported inputs and commodities. Merchandise imports expanded by 3.5 percent y/y in July-October, reversing a 2.7 percent contraction in Q2 (Figure 3B). Commodities accounted for almost half of overall growth, bolstered by stronger demand for industrial metals such as copper, aluminum, and steel—key inputs for major export sectors like electric vehicles, semiconductors, and renewable energy equipment—as well as a surge in gold prices. Meanwhile, higher growth in machinery, electronics, and electrical equipment imports reflected strong global tech momentum driven by AI-related demand and domestic equipment upgrades. As imports rebounded, the average monthly goods trade surplus narrowed marginally to US$95 billion in July-October.

Figure 3. Export growth has remained robust, despite trade policy uncertainty

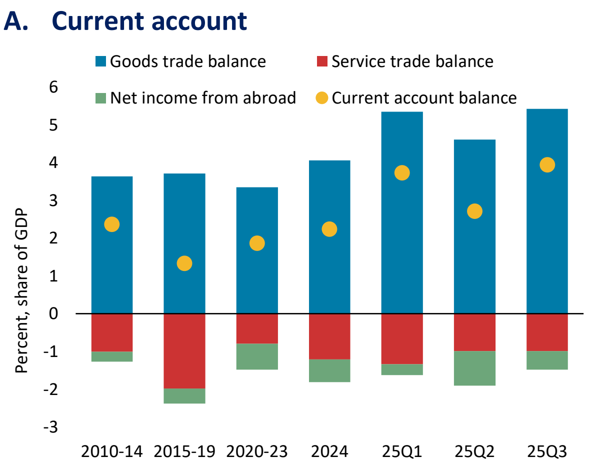
A. Export by destination **B. Import growth**



Source: China Customs; Haver Analytics; WTO Trade Remedies Data Portal; World Bank staff estimates.
Note: LatAm= Latin America.

A strong current account surplus was accompanied by capital outflows, reflecting portfolio diversification by Chinese investors and reductions in foreign holdings of Chinese bonds. Robust goods exports and sluggish imports lifted China's current account surplus to an estimated 3.5 percent of GDP in the first three quarters of 2025, compared with 2.2 percent in 2024. The services trade deficit narrowed due to higher inbound tourism after visa requirements were eased for many countries and stronger knowledge-intensive service exports, including telecommunications and IT services (Figure 4A). However, the current account surplus was more than offset by net capital outflows, primarily portfolio and other investment (Figure 4B). The outflows were driven by mainland investors' increased purchases of offshore equities and bonds following the expansion of the Southbound Bond Connect scheme to nonbank financial institutions such as securities firms. At the same time, foreign investors reduced their holdings of Chinese bonds amid expectations of slower growth in China and monetary policy divergence with other major economies.

Figure 4. Strong current account gains were offset by capital outflows



Source: SAFE; World Bank staff estimates.

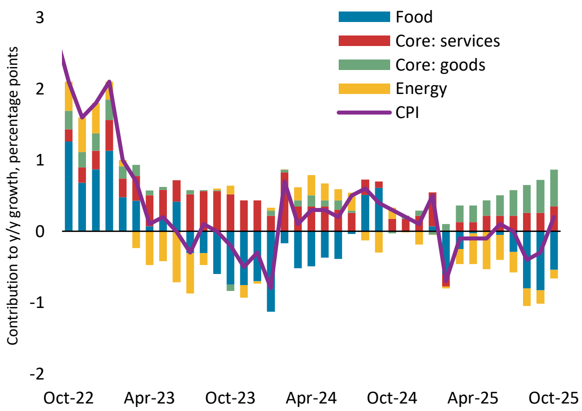
Inflation remains muted even as policy support helped boost some goods prices

Consumer price inflation has picked up in 2025 but remains very low amid subdued domestic demand. The headline Consumer Price Index (CPI) declined by 0.1 percent y/y in the first ten months of 2025, compared with a 0.2 percent increase in 2024 (Figure 5A). The decline was largely driven by lower food and energy prices. Core inflation (excluding food and energy prices) edged up to 0.7 percent in the first ten months of 2025, from 0.5 percent in 2024, but it is still well below the official target of 2 percent. Consumer goods subsidies provided a temporary boost to demand and prices for selected categories such as household appliances, but their effect began to fade in the third quarter. Support from monetary policy has been muted, as real interest rates remain high in an environment of near-zero inflation.

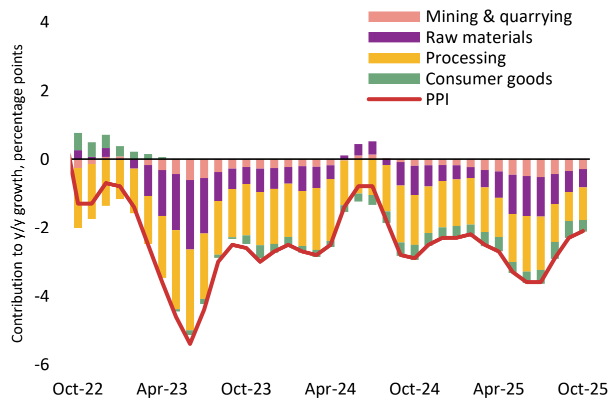
Policy efforts to curb excessive price competition have provided some relief to producer price declines. The producer price index (PPI) has been declining for more than three years, contracting by 2.8 percent y/y in the first ten months of 2025 (Figure 5B). Deflation in upstream sectors such as coal, steel, and ferrous metals persisted, given the contraction in property sector investment and declining global commodity prices. However, downward price pressures in those upstream sectors, as well as in some downstream sectors such as solar PV, batteries, and electric vehicles, has slowed as firms report reducing existing capacity and delaying new investment projects following guidance from the authorities. Despite less intense deflationary pressures in those sectors, weak domestic demand continues to depress overall PPI inflation.

Figure 5. Policy measures have provided only a modest boost to consumer and producer prices

A. CPI inflation



B. PPI inflation



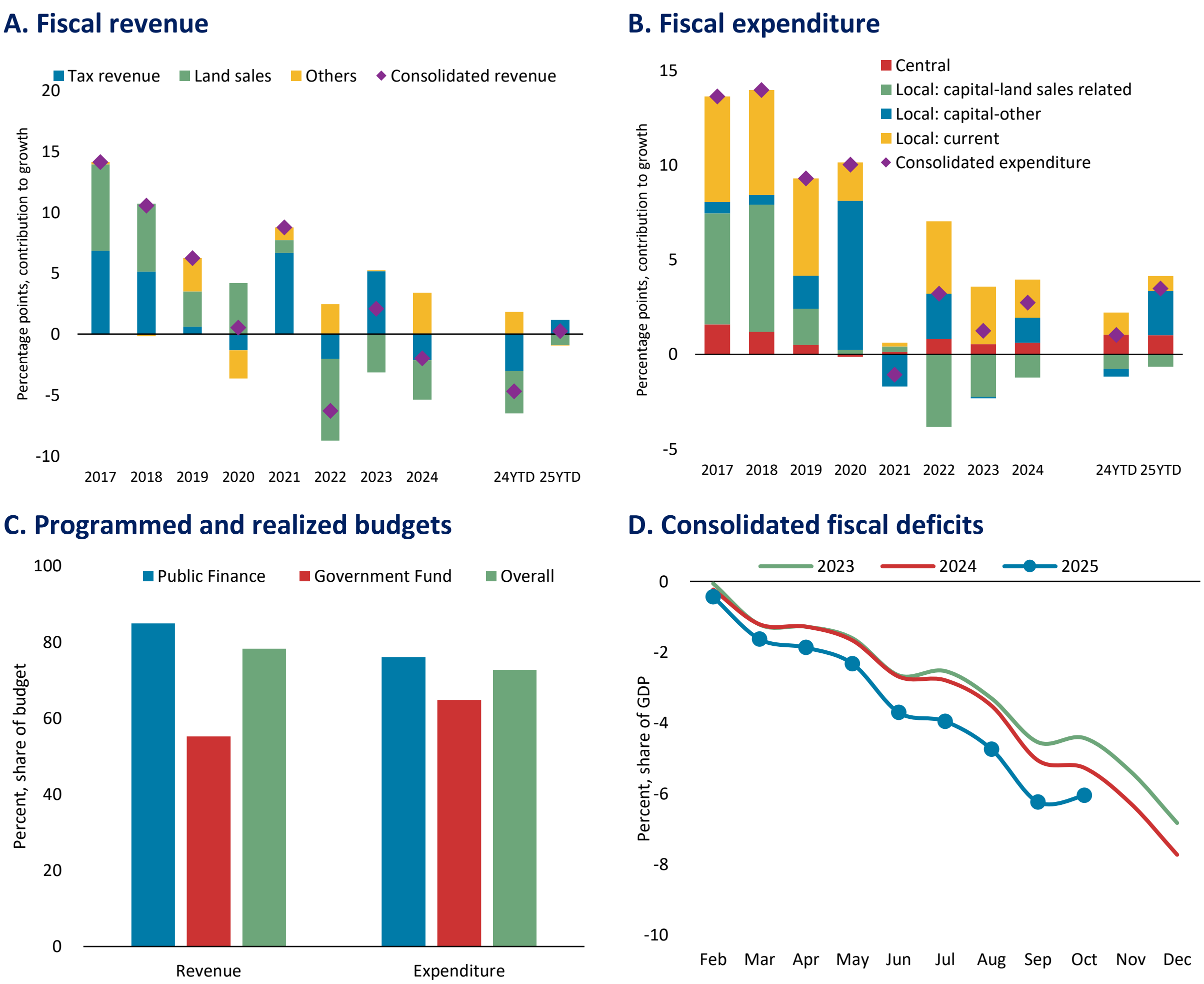
Source: NBS, World Bank staff estimates.

Easing revenues and rising debt have tightened fiscal space at the local level

Fiscal revenue growth has remained subdued in 2025, owing to the continued contraction in land lease revenues. After declining in 2024, consolidated revenue growth edged into positive territory in the first ten months of 2025, though only at 0.2 percent y/y, underpinned by a modest recovery in tax receipts (Figure 6A). Tax revenue rose by 1.7 percent y/y, as value added tax collection increased with the improvement in consumption in the first half of the year. The stock market rally (see below) boosted capital gains taxes, while expanded tax reporting for online platform workers likely contributed to higher personal income taxes. These increases more than offset the drag from land lease revenue, which fell by 7.4 percent y/y, extending a multi-year contraction and constraining local government finances.

Fiscal policy has been accommodative this year, with better budget execution than in 2024, but some local governments have faced constraints. Excluding the one-off central government capital injection into state-owned banks, the consolidated government expenditure grew by 3.5 percent y/y in the first ten months, compared with the 1.0-percent growth in the same period last year (Figure 6B). Local government capital spending improved this year, though budget execution was still somewhat below target with 72.7 percent of planned expenditure executed as of October (Figure 6C). Some local governments face financing constraints from declining land-lease revenues and a rapid rise in debt. Although on-budget local government debt, at 38 percent of GDP as of October, is moderate, it has risen by more than 15 ppts of GDP since 2020 (Box 1). Even as low government interest rates (of 2.0 percent for the average 10-year local government bond) have meant that debt servicing costs are manageable, consecutive and growing fiscal deficits in recent years have likely limited the spending flexibility of some local governments. To supplement local fiscal resources, the authorities announced in October an increase of RMB 500 billion (0.5 percent of GDP) in the local government bond quota for the fourth quarter. As expenditure growth outpaced revenues, the consolidated fiscal deficit widened to 6.1 percent of GDP by October, up from 5.3 percent a year earlier (Figure 6D).

Figure 6. Fiscal pressures on local governments have intensified due to lower land lease revenue and higher debt



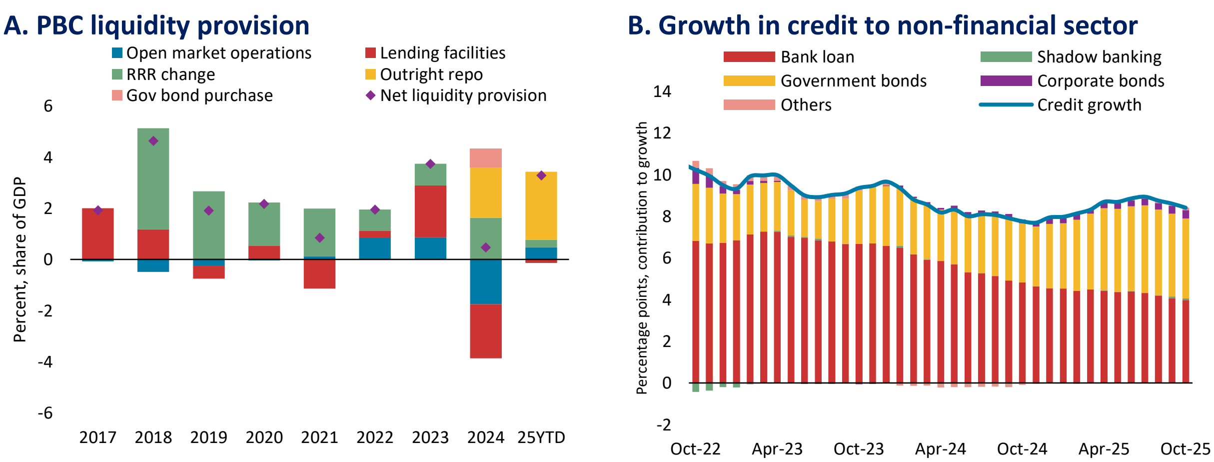
Source: Ministry of Finance; World Bank staff estimates.
Note: Other includes fees, fines and leasing of state-owned assets in PFB and non-land lease revenue from GFB. Panel B: expenditure excludes the one-off central government capital injection into state-owned banks.

Private credit demand continued to soften despite monetary easing

Monetary policy has remained supportive, mainly through liquidity provision. The People's Bank of China (PBC) provided net liquidity of 3.3 percent of GDP in the first three quarters (Figure 7A). Meanwhile, key policy rates and lending rates were held steady in Q3, with the benchmark 1-year and 5-year loan prime rates at 3.0 and 3.5 percent, respectively, following a modest 10-basis-point (bps) reduction in Q2. The decision to refrain from larger interest rate cuts amid subdued demand likely reflects concerns over financial stability stemming from compressed bank net interest margins (NIMs) and potentially widening interest rate differentials with major advanced economies that could increase capital outflows.

Despite favorable liquidity conditions, non-financial sector credit expansion remained subdued on soft private sector demand. Credit to the non-financial sector grew by 8.7 percent y/y in July-October, slightly below the 8.8 percent growth in Q2 (Figure 7B). Nearly half of the increase came from government bond purchases, while bank loan growth slowed to 6.4 percent y/y as private credit demand softened. The sharpest decline in growth was in medium- and long-term loans, pointing to cautious investment sentiment. This reflects weak profits, trade uncertainty, and efforts to limit capacity expansion in some industries to prevent further price declines. Household borrowing remained constrained due to weak homebuyer sentiment and subdued income expectations. This combination of ample liquidity and muted credit appetite has placed pressure on banks' margins, shaping profitability and overall financial performance.

Figure 7. Government bond purchases drove credit growth, while household and corporate demand remained weak



Source: PBC; World Bank staff estimates.

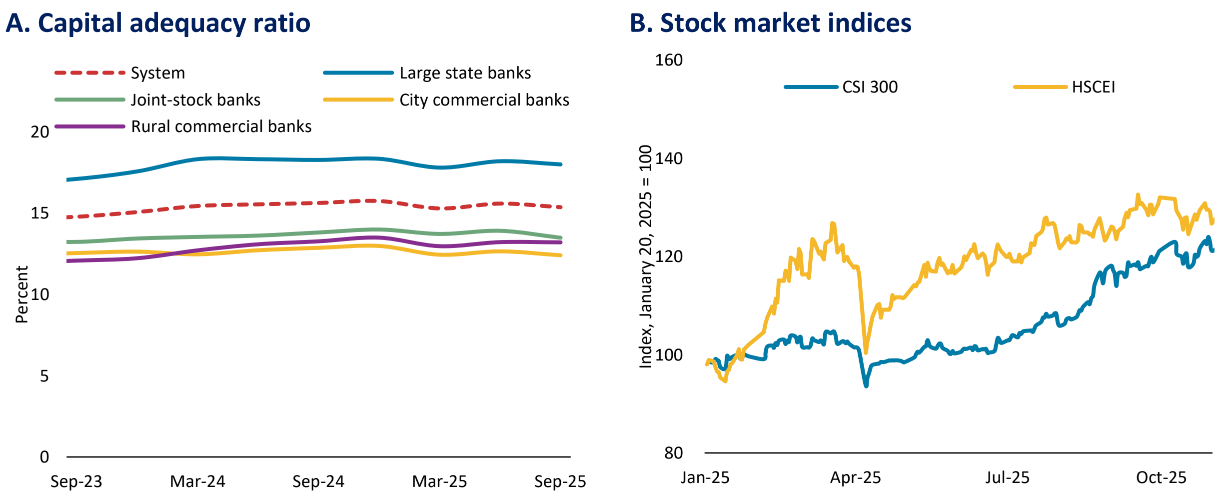
Banking sector profitability moderated, even as asset quality continued to improve. The system-wide NIM declined to 1.42 percent in September 2025, 11 bps lower than in the same month last year. While lending rates fell after the Loan Prime Rate cut in May, funding costs adjusted more slowly, narrowing the interest-rate spread and weighing on margins. Nonetheless, large state banks outperformed other banking groups in maintaining margins. Stronger non-interest income, supported by buoyant equity markets and rising demand for wealth management products, partly offset weaker interest earnings. Despite lower NIMs, asset quality remained stable, with the system-wide non-performing loan (NPL) ratio easing by 4 bps to 1.52

percent by September. Improvements were broad-based, led by rural commercial banks, reflecting consolidation efforts and earlier NPL disposals. The loan loss provision coverage ratio was 207 percent for the system, while rural banks' coverage increased 1,140 bps to 160 percent.

Banks have maintained sound capital buffers in 2025, with overall positions broadly unchanged from the same period a year earlier. In 2024, the Ministry of Finance strengthened the capital base of four large state-owned banks through equity injections. However, slower capital accumulation from retained earnings—due to reduced profitability caused by narrowing NIMs—has tempered further improvement. Consequently, the aggregate capital adequacy ratio held steady at 15.4 percent in the first three quarters of 2025, after accounting for the continued expansion in total assets (Figure 8A).

China's equity markets posted strong gains in 2025 amid favorable liquidity conditions, relatively low asset valuations, and a tech rally. The CSI 300 and HSCEI climbed 21.2 and 26.7 percent, respectively, between January and October 2025, largely driven by tech stocks (Figure 8B). Equity inflows were underpinned by low asset valuations—before the rally, the CSI 300's trailing P/E hovered near 13, well below historical peaks (above 22).

Figure 8. Bank capital buffers remained stable while equity markets posted solid gains



Source: PBC, CEIC.

Box 1. Local government debt and regional income disparities

Over the past decade, China has seen a rapid build-up of government debt, particularly at the local level. While total government direct (or on-budget) debt, at 61 percent of GDP in 2024, is below that of several advanced economies, it has grown rapidly at a compound annual rate of 14 percent since 2015. Within this, local government direct debt accounts for 35 percent of GDP in 2024 (58 percent of total government debt) and has grown rapidly since the COVID-19 pandemic. This predominantly reflects the growth in 'special debt', which is typically used to finance public investment projects, as opposed to 'general debt' used to finance recurrent expenditures (Figure 9A). Beyond official on-budget debt, China has also seen rapid growth in off-budget debt, with the outstanding debt of local government financing vehicles (LGFVs) estimated at 46 percent of GDP in 2023 (IMF, 2025). Off-budget debt poses contingent liability risks for the government and may undermine market confidence in fiscal sustainability.

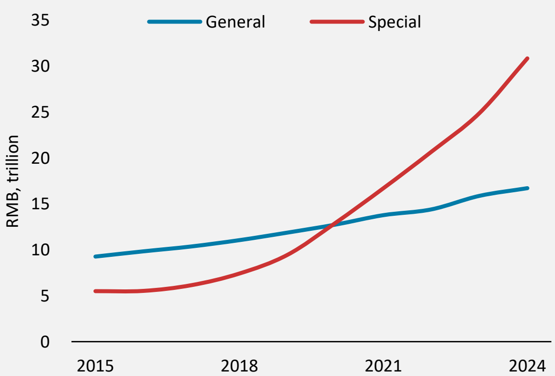
Large fiscal deficits and rapid growth of local government debt have been more pronounced in less well-off provinces in the north and west of China. In contrast, more affluent east coast regions have the lowest debt ratios (Figure 9B). Rapid debt accumulation in lower-income regions reflects large fiscal deficits over the past decade, and particularly since the COVID-19 pandemic (Figure 9C). These high fiscal deficits reflect factors including large public investments to support regional growth, growing current expenditure, and reduced revenues due to declining land lease incomes.

The build-up of local government debt poses challenges for the continued development of lagging regions and could widen regional income disparities. Income catch-up, measured as the ratio of regional GDP per capita to the average of the two richest municipalities, Beijing and Shanghai, was rapid in the 2000s. However, this catch-up stalled in the mid-2010s and has even reversed since 2022. Twelve regions that have been classified by the authorities as high debt risk regions already had lower incomes on average than other provinces in 2000, and this disparity has since widened (Figure 9D) (Xinhua, 2024). In several provinces, interest expenses exceed 10 percent of revenues. Payment difficulties among some local governments worsened in 2024, as the heavy reliance on land lease revenues left many local governments and LGFVs vulnerable to the property downturn. High debt could constrain growth and contribute to a further widening of regional income disparities.

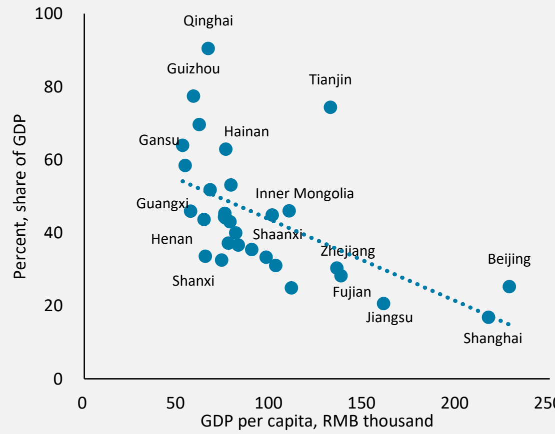
Recognizing these risks, the government has taken several measures to stabilize and restructure local government debt, although further efforts may be needed to fully address the scale of the problem. In 2023, the authorities imposed restrictions on public investment and LGFV borrowing for twelve regions identified as high debt risk regions (Xinhua, 2024). In addition, an RMB 10 trillion debt swap program was launched in 2024 to convert off-budget debt into lower-cost on-budget debt. This program has improved the transparency of contingent liabilities and lowered interest expenses and local refinancing risks. Nevertheless, it will not necessarily reduce the overall (official and off-budget) debt burden of local governments. To further repair local government balance sheets and mitigate the risks of high debt service payments constraining fiscal space, further measures may be needed to reduce the stock of debt, including restructuring unsustainable debt. The government has also taken measures to address underlying limitations with the central-local fiscal framework, including by raising the share of general fiscal transfers and transferring the collection of consumption tax to local governments. However, further measures are likely to be needed to expand local government revenues sufficiently to fully compensate for the sharp decline in land lease revenues and to finance growing social spending needs.

Figure 9. Local governments in lower-income provinces face fiscal challenges that could widen regional disparities

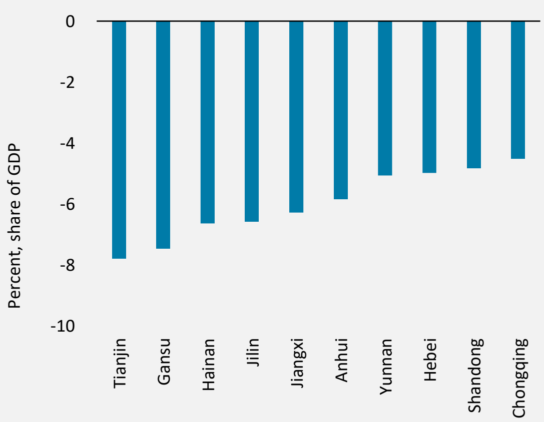
A. Local government debt by type



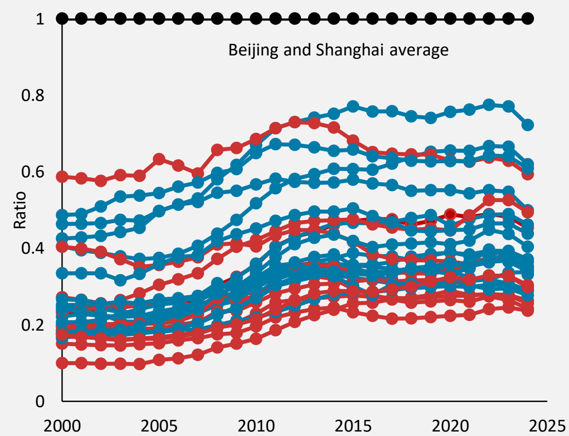
B. Local government debt to GDP ratio and GDP per capita in 2024



C. Top ten regions with largest fiscal deficits on average from 2020 to 2024



D. Ratio of regional GDP per capita to the average for Beijing and Shanghai, by region (dark red=12 high debt risk regions)



Source: World Bank staff estimates based on MoF and NBS data.

Note: Local government debt is the official total of general and special government outstanding debt. GDP per capita is measured using the registered resident population, as opposed to the hukou population. Fiscal deficits include revenues from the general public budget, the government fund budget and transfers from the central government to local governments. In Figure D, 12 high debt risk provinces were classified by the authorities in 2023, including Tianjin, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, Ningxia, and Inner Mongolia, which exited the list in July 2025 (Chen, 2025).

II. Outlook, Risks, and Policy Implications

Outlook and risks

China's GDP growth is estimated at 4.9 percent in 2025 and projected at 4.4 percent in 2026 (Table 1). Consumer spending growth is expected to remain subdued, due to a soft labor market and further decline in property prices. Investment will receive a modest boost from the additional fiscal stimulus announced in October and from some stability in global trade policy following recent announcements of partial tariff adjustments. However, weak profit growth and continued adjustment in the property sector could hinder a strong rebound. Export growth is expected to moderate from current levels, though lower trade tariffs after October, compared to earlier in 2025, are expected to offer support. Monetary policy is expected to stay moderately accommodative, aiming to support growth while balancing easing measures with financial stability objectives. The consolidated fiscal deficit is assumed to remain sizable but to narrow by 0.5 percent of GDP to reduce fiscal risks.

Table 1. China selected economic indicators, 2022-2027

Annual percent change unless indicated otherwise	2022	2023	2024	2025f	2026f	2027f
Real GDP growth, at constant market prices	3.1	5.4	5.0	4.9	4.4	4.2
Private Consumption	1.7	9.0	5.2	5.1	4.9	4.8
Government Consumption	5.3	7.3	1.0	4.5	4.3	4.2
Gross Fixed Capital Formation	3.4	4.5	3.0	3.3	3.4	3.5
Exports, Goods and Services	-1.9	1.1	11.5	5.4	3.2	1.9
Imports, Goods and Services	-5.1	5.6	4.3	1.1	1.0	0.9
Real GDP growth, at constant factor prices	3.1	5.4	5.0	4.9	4.4	4.2
Agriculture	4.2	4.0	3.5	3.4	3.2	3.0
Industry	2.3	4.4	5.3	4.7	3.9	3.6
Services	3.6	6.3	5.0	5.2	4.9	4.7
Inflation (Consumer price index)	2.0	0.2	0.2	0.3	1.0	1.5
Current account balance (% of GDP)	2.4	1.4	2.2	2.5	1.3	0.3
Net foreign direct investment, Inflow (% of GDP)	-0.1	-0.8	-0.9	-0.5	-0.2	-0.1
Consolidated fiscal balance (% of GDP)*	-6.1	-5.5	-6.5	-8.2	-7.7	-7.0
Government debt (% of GDP)	49.4	54.7	63.0	70.8	77.7	82.2
Primary balance (% of GDP)	-5.1	-4.5	-5.5	-7.3	-6.7	-6.0

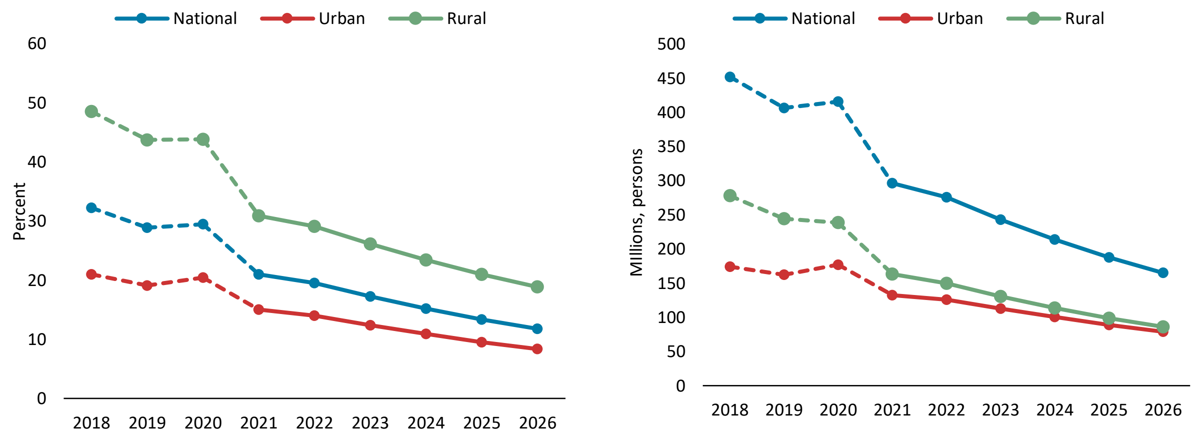
Source: World Bank.

Note: f = forecast (baseline). * World Bank staff estimates.

Poverty reduction has continued in China, but the pace is expected to moderate in line with slower economic growth. Extreme poverty, as defined by the national poverty threshold, has effectively been eliminated. In 2024, an estimated 15.2 percent of the population—equivalent to 214 million people—lived on less than US$8.30/day (2021 PPP), a higher living standard benchmark used as a reference by the World Bank to compare progress across upper-middle-income countries.[3] The pace of poverty reduction at this higher benchmark slowed from an estimated 29 million people in 2024 to 27 million in 2025, and is expected to decline further to 22 million and 20 million, respectively, in 2026 and 2027, due to the slower economic growth projected for these years (Figure 10A and B).

Figure 10. Poverty reduction will continue, albeit slower than in previous years

A. Poverty rate (US$8.30 per person per day) **B. Number of poor** (US$8.30 per person per day)



Source: World Bank staff estimates using tabulated data from NBS and World Bank's GDP growth projections.
Note: Last grouped data available to calculate poverty is for 2021. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass-through 0.85 to per capita household consumption.

Risks to the outlook are broadly balanced. Externally, trade policy uncertainty remains. Domestically, the property sector downturn could deepen, while compressed profit margins could lead to postponed investment, further softening the labor market and weighing on consumption. On the upside, higher-than-expected fiscal spending in 2026, including stronger measures to enhance social protection, and more decisive efforts to stabilize the property sector could lift growth above baseline projections.

Policy implications

China's policy priority is to strengthen domestic demand amid uncertainty in the external environment while also addressing the structural headwinds that weigh on growth. China could complement short-term stimulus with reforms that can help address long-term drivers of low household consumption, subdued private investment, and local government financial

[3] In June 2025, the World Bank updated the three global poverty lines it uses to monitor global poverty and compare poverty reduction progress across countries. The update reflects changes in the cost of living and consumption patterns worldwide using the 2021 purchasing power parity (PPP) rates and recent revisions to national poverty lines by many countries. The new international poverty line has been updated to US$3/day while the lines for lower middle-income countries and upper middle-income countries have been updated to US$4.2/day and US$8.3/day respectively. Poverty rates for China at the new benchmark of US$8.30/day in 2021 PPP are slightly higher than those reported in previous World Bank reports using US$6.85/day in 2017 PPP.

constraints. Tackling these challenges requires a combination of policies that (i) enhance social protection, (ii) revitalize private investment, (iii) facilitate property-sector adjustment, and (iv) strengthen fiscal sustainability at the subnational level. Together, these measures would support structural rebalancing, laying the foundation for more resilient long-term growth.

First, stronger social protection measures could help reduce household precautionary saving (see also the Special Focus) and stimulate consumer demand. Expanding access to unemployment insurance and basic health coverage would enhance protection against financial risks. Today, unemployment insurance covers only 47 percent of urban employees, mainly in the formal sector, and provides little protection for migrant workers. Rural migrants and informal workers also receive average pension of only RMB 223 per month, equivalent to just 12 percent of per capita rural income, compared to formal urban employees' replacement rate of 41 percent, covered under China's mandatory contributory pension scheme. Expanding the coverage of the latter scheme to rural migrant workers and those in new forms of employment such as gig workers and gradually raising the benefits of the voluntary (social) pension scheme for rural residents would strengthen household confidence, reduce the need for precautionary saving, and lift spending among households with a higher propensity to consume.

Second, strengthening the fiscal resources of local governments could provide room to raise social spending and mitigate fiscal sustainability risks. The reliance on land lease revenues has left many local governments vulnerable to the property downturn. A more sustainable fiscal architecture could combine higher general-purpose transfers with a broader and more stable local tax base. The central government could increase unconditional transfers and make them predictable. Accelerating implementation of the planned shift in excise tax collection toward the point of consumption—assigning collection authority to local governments—will support revenue retention at the local level. Over the medium term, introducing local taxes such as a recurrent property tax, once the housing market stabilizes, and granting local governments limited discretion to levy surcharges on shared taxes like VAT or corporate income tax, could further strengthen their fiscal autonomy and revenue generation capacity (World Bank, 2025). Greater local revenue capacity would give subnational governments more flexibility to allocate spending in line with local priorities, including higher social spending needs.

Third, strengthening business confidence will require a better and more predictable enabling environment for firms. China has made progress in improving its business environment over the past decade, including by shortening the time needed to obtain operating licenses (6 days in China compared with 28 days in upper-middle-income countries), construction permits (42 days compared with 56 days), and electrical connections (6 days compared with 49 days) (World Bank, 2025b). However, there is regional divergence in the quality of the business environment between the first-tier cities and the rest, as well as between types of firm ownership (Wang, Gang and Li, 2024). Consistent policy implementation across regions and limited administrative discretion that may distort competition would help reduce these disparities. China unveiled an initiative to promote a unified national market with efforts to eliminate local protectionism, regional barriers, and unfair practices in market access, bidding, and government procurement (Xinhua, 2025). If implemented effectively, measures that enhance regulatory coherence and competition would improve the efficiency of resource allocation, ultimately supporting private sector confidence and investment.

Fourth, stabilizing the property sector could help restore confidence. Allowing a more market-based adjustment of home prices could help reduce unsold inventory. Strengthening the use of the insolvency framework can support the orderly exit of non-viable firms, while debt restructuring would help viable developers attract fresh capital and complete unfinished projects. Additionally, accelerating asset resolution through asset management companies would help clear distressed developer assets, enabling banks with large property exposure to repair their own balance sheets and redirect credit towards more productive investment across the economy.

The forthcoming 15th Five-Year Plan (FYP) provides an opportunity to embed these reforms within a coherent agenda for high-quality development. Guidance issued after the Fourth Plenum in October recognized that the challenges outlined above—including the need to strengthen domestic demand—will need to be addressed for China to meet its growth and development objectives.[4] It also identified a broader set of priorities, including industrial upgrading, home-grown innovation, investment in human capital, addressing demographic shifts, more balanced regional development, "common prosperity", and the green transition as additional priorities. To place the economy on a sustainable, inclusive, and resilient medium-term trajectory, the 15th FYP, expected in March 2026, will need to set out carefully planned polices and to navigate potentially competing objectives such as supporting investments in industry while simultaneously aiming to raise the share of consumption in GDP.

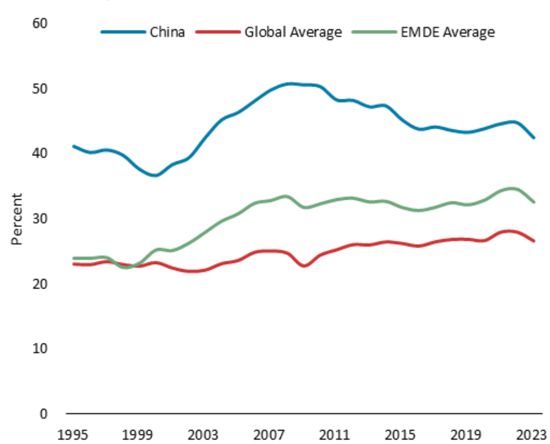
[4] See the State Council of the People's Republic of China (2025).

III. Special Focus: Household Savings and Financial Intermediation in China

China's high household savings matter for rebalancing domestic demand

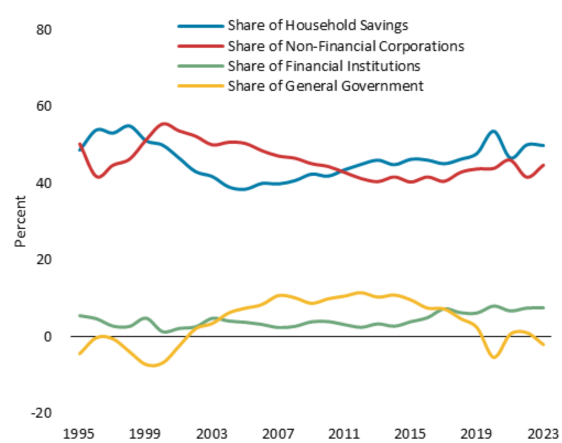
China's gross domestic savings have remained high for decades, well above global and emerging market averages. Savings have consistently exceeded 30 percent of GDP since the 1980s and reached 43 percent in 2023 (Figure 11).[5] Households contribute about half of total domestic savings (Figure 12),[6] and their saving rate, at 31.3 percent of disposable income in 2023, is significantly higher than the OECD average of 5.4 percent. This has direct macroeconomic implications. High household savings mean that a smaller share of income is used for consumption, and this has contributed to the weakness in domestic demand documented in Part I of this Update. The macroeconomic determinants of this behavior, including demographic change, social protection gaps, income inequality, and the effects of the property downturn on household wealth and confidence, are discussed earlier in this report and in previous issues of the China Economic Update. This Special Focus therefore provides only a brief summary of these determinants and concentrates instead on how household saving behavior shapes patterns of financial intermediation, with consequences for consumption, investment, and resource allocation.

Figure 11. Gross domestic saving rates by country groups



Sources: CEIC and WB staff calculations.

Figure 12. Composition of domestic savings



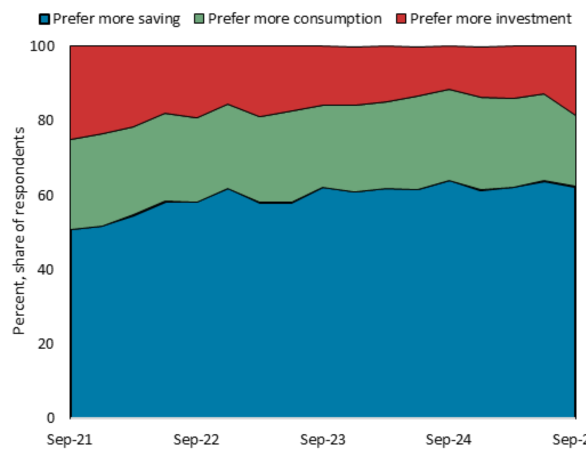
Sources: CEIC and WB staff calculations.

[5] Domestic saving is defined as Gross Domestic Product (GDP) less total final consumption expenditure.
[6] Household saving is defined as household disposable income less total household consumption expenditure.

Demographic change, limitations to the social safety net, and income inequality are key structural determinants of China's high household savings rate. China is aging rapidly, life expectancy is rising, and families rely on their own resources to meet old-age and healthcare needs. Despite improvements in coverage, pension, health, and unemployment insurance schemes offer uneven protection, especially for migrant and informal workers. These gaps heighten households' reliance on precautionary savings for old-age income, out-of-pocket medical and education expenses, preparation for home purchases, risk of job loss, and other shocks. In addition, high income inequality has further elevated aggregate savings, as wealthier households typically save a larger share of their income (World Bank, 2023b).

Recent economic conditions have reinforced these structural factors, with a steady rise in household preference for saving pointing to growing risk aversion. Softer labor-market prospects, slower wage growth, and falling property prices have weighed on household sentiment. Elevated job, income, and wealth uncertainty have likely contributed to the rise in precautionary saving since 2020. Surveys show a persistent preference for saving over consumption. The PBC's Urban Depositor Surveys from the second and third quarters of 2025 showed that 63.8 and 62.3 percent of respondents, respectively, favored additional savings over spending or investments (Figure 13). Together, these long- and short-term factors help explain why the household saving rate has remained elevated and why consumption growth has been subdued.

Figure 13. Urban depositors' willingness to consume, save, and invest



Sources: CEIC, PBC, WB Staff calculations.

How household savings flow through the financial system

A closer look at the composition of household balance sheets can reveal how households make saving decisions. Housing is by far the dominant household asset in China, accounting for 47 percent of household assets in 2022 (Table 2). Financial assets make up the remainder, and the bulk of these—23 percent in 2022—are held in the form of bank deposits rather than diversified financial portfolios. Insurance products, investment funds, and equities play a smaller role. Each asset class carries distinct advantages and constraints, and together they shape how households respond to economic uncertainty, changes in income expectations, and fluctuations in financial returns.

Table 2. Structure of household balance sheet

% shares	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Non-financial Assets	54.2	51.9	51.5	51.7	51.5	54.9	54.9	54.5	52.8	50.8
Housing (urban and rural)	49.8	47.5	47.3	47.6	47.4	50.9	51.2	50.9	49.4	47.4
Automobiles	3.2	3.3	3.3	3.3	3.4	3.3	3.1	2.9	2.8	2.9
Rural Household Productive Fixed Asset	1.2	1.1	0.9	0.8	0.7	0.7	0.7	0.6	0.5	0.5
Financial Assets	45.8	48.1	48.5	48.3	48.5	45.1	45.1	45.5	47.2	49.2
Currency and Deposits	22.5	21.9	20.9	20.2	20.2	20.0	20.5	21.4	21.9	24.7
Currency	2.0	1.8	1.7	1.6	1.6	1.4	1.4	1.4	1.4	1.6
Deposits	20.5	20.0	19.2	18.5	18.6	18.6	19.2	20.0	20.5	23.1
Bonds	2.4	2.4	2.4	2.7	2.9	3.1	3.5	3.9	4.3	4.3
Equities and Investment Funds	17.5	20.1	21.2	21.2	21.0	17.6	16.6	15.7	16.5	15.4
Equities and shares	12.7	13.9	14.0	14.1	13.5	11.5	10.7	9.9	10.3	9.6
Funds	4.8	6.1	7.2	7.1	7.4	6.2	5.9	5.8	6.2	5.8
Insurance	3.4	3.7	4.0	4.3	4.4	4.4	4.4	4.6	4.6	4.8

Source: CEIC.

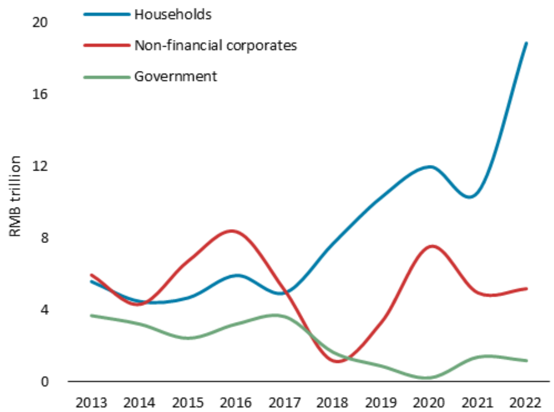
Housing has long served as the primary store of value for Chinese households, but the recent property sector downturn has weakened this role. Home purchases were historically supported by rising prices, limited alternative investment options, and strong preferences for ownership. However, declines in home prices since 2021 have weakened household balance sheets. Declining sales and lower rental yields have reduced the perceived liquidity and reliability of housing as a store of wealth. Faced with declining home values and heightened uncertainty about future prices, many households have responded by increasing liquid savings such as bank deposits.

Bank deposits form the second major pillar of household wealth—they are a liquid and safe asset but yield low returns. Flow-of-funds data show that households are net lenders to the banking system, and their deposits account for a substantial share of bank liabilities (Figure 14). Deposits far exceed household loans. At around RMB 165 trillion (122 percent of GDP) in September 2025, household deposits were 5 times higher than retail mortgage loans and twice as large as total retail loans, according to data from the PBC. The dominance of banks in China's financial market reinforces these patterns. Banks account for three-quarters of total financial assets, and household deposits represent a stable, low-cost source of funding. Until interest rates were liberalized in 2015, bank deposit rates in China were capped, resulting in low or sometimes negative real returns on deposits (Figure 15). Although interest-rate liberalization has advanced, both deposit and lending rates remain influenced by guidance from the authorities regarding volumes, sectoral allocation, cost of credit, and cost of deposits. Hence, Chinese households continue to earn low real returns on savings.

Other financial assets, including insurance products, investment funds, and equities, play a smaller role in household portfolios. Although China is the world's second largest insurance market in terms of gross premiums written, the insurance penetration ratio (defined as the ratio of gross premiums to GDP) is relatively low at about 4 percent, compared to an average of 7.8

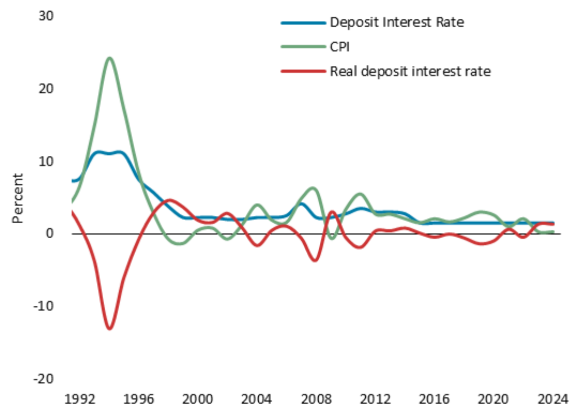
percent in advanced economies (Fang and Xu 2023). Life insurance products—a savings alternative—have grown faster, but the penetration ratio at slightly below 3 percent in 2022 is still below the average for peer economies of 4.5 percent.[7] Household holdings of equities and investment funds have grown from RMB 42.4 trillion (57 percent of GDP) in 2016 to RMB 86.7 trillion in 2022 (72 percent of GDP), but they have not kept pace with the expansion of deposits, and their share of total household assets fell to 15.4 percent in 2022. Holdings of bonds are relatively small and growing at a very slow pace.

Figure 14. Deposit inflows into banks by source



Sources: NBS Flow of Funds, WB staff calculations.

Figure 15. Real deposit rates



Source: CEIC, PBC, WB Staff calculations.

The relatively limited presence of domestic institutional investors—investment and pension funds, insurers, and professional financial advisors—may have contributed to households making higher-risk investments. These include equity and quasi-banking products such as wealth management products, trust products, or peer-to-peer lending products. Households may have sometimes made these investments without adequate financial literacy. Furthermore, retail investors numbered around 220 million and held one third of all A-share holdings in 2022, compared to 22 percent held by institutional investors. Reportedly, retail investors also account for around 90 percent of daily market turnover, a very high proportion by global standards. Retail participation in equity markets tends to be pro-cyclical and concentrated in periods of rapid price appreciation rather than as part of stable, long-term saving strategies. Even so, the long-term average net return on stock market investments by Chinese households has been close to zero in real terms over 2000-18 (Allen et al. 2024). All of these factors limit the ability of diversified

[7] The peer group includes the largest insurance markets (US, Japan, UK, France, Germany, and South Korea), markets with similar insurance premium to GDP ratio (Norway, Morocco, India, Luxembourg, Cyprus, and Nepal); markets with similar GDP per capita (Argentina, Kazakhstan, Russia, Saint Lucia, Dominican Republic, and Malaysia), Hong Kong SAR, Macao SAR, other high-savings rate Asian jurisdictions, and other large developing countries (Brazil, South Africa, Mexico and Türkiye).

financial products to serve as substitutes for property or deposits as safe and reliable saving vehicles.

The composition of household balance sheets and the structure of financial markets influence each other, and this interdependence has implications for macroeconomic rebalancing. A financial system built on large household deposits provides banks with ample low-cost funding, but it can also weaken price signals and allow for patterns of capital allocation that have not always aligned with productivity trends. The sustained expansion of credit and the investment it supports has been a key driver of China's remarkable growth story. However, the marginal return on capital has declined over the years, as China's stock of capital, particularly infrastructure and real estate, has grown.[8] The continuous increase in the capital output ratio, that is, the amount of capital needed to produce one unit of output, has been an indication of resource misallocation and diminishing productivity of investments. The combination of declining returns on capital and policies to direct low-cost credit to priority sectors[9] could continue to suppress returns on household savings.

Low returns on deposits and other investments, in turn, can affect households' incentives to save or consume. Standard economic theory predicts that low real returns on savings should encourage households to save less and consume more today, because postponing consumption becomes less attractive. However, there is some evidence that Chinese households diverge from this pattern—they may be saving to reach a buffer for retirement or to insure against large and unpredictable expenses, the so-called "target saving hypothesis". When expected returns fall, the future value of accumulated savings also declines, and households respond by saving more rather than less. Estimates based on provincial data for China showed that increases (decreases) in real interest rates are associated with (higher) lower household saving rates (Nabar, 2011; Chamon and Prasad, 2010). Slower wage growth, uncertain employment prospects, and the correction in property values reinforce this behavior. In this way, deposits continue to absorb a large share of household saving, even during periods when real financial returns are low.

Implications for domestic demand and priorities for financial rebalancing

The household balance-sheet patterns described above have important implications both for China's short-term consumption outlook and for the structural rebalancing of the economy. With declining home prices, weaker income growth, and limited reliable long-term financial

[8] See World Bank and Development Research Center of the State Council (2019).

[9] Low-cost credit has been channeled to priority sectors—including advanced manufacturing, strategic emerging industries linked to "new productive forces," and green development—through structural credit facilities (World Bank, 2025a).

instruments, households may rely more heavily on bank deposits to manage uncertainty. If households prioritize liquidity and security, lower interest rates and ample liquidity may only partially influence spending decisions. In the current downturn, precautionary saving motives may be weakening the traditional channels through which monetary policy stimulates demand. From a longer-term perspective, the mobilization of large volumes of household deposits to provide banks with stable and low-cost funding has contributed to over-reliance on investment for growth. Policy interventions to diversify household saving options, expand consumer credit, deepen capital markets, and allow more market-based allocation of finance could help reduce household precautionary saving and mitigate macroeconomic imbalances.

Diversifying saving options for households

Strengthening the financial system's ability to support rebalancing will require widening the range of savings instruments available to households. Expanding non-bank intermediaries—including private pensions, life insurance, and professionally managed investment funds such as mutual funds—would provide households with more long-term saving options, help them meet saving goals, and reduce precautionary saving, thereby boosting consumption.

The introduction of private pension schemes in 2022 to complement the public pension scheme marked a significant policy shift.[10] The liberalization of the insurance market and further opening of the financial markets to foreign investors can be expected to increase competition and innovation, offering new products for retirement and unforeseen contingencies. Authorities could also consider raising contribution limits for private pensions and implementing public awareness programs to increase participation. By 2024, participation had increased substantially to 60 million people but remains low relative to the size of the labor force. Broader reforms of the pension savings system, such as simplifying portability rules for pension savings across providers and provinces and centralizing regulations and management of savers' accounts and saving products, could further support household financial security.

Deeper and more transparent capital markets could encourage households and institutional investors to diversify their portfolios. Although this market segment is still developing, equities and investment funds are increasingly important channels for household savings. China's stock markets are attractive compared to other emerging markets due to their relatively low valuations and growth potential. Improved market-based price formation for capital and firm value, and greater participation by professional institutional investors could enhance the attractiveness of

[10] China launched a private pension scheme (Pillar 3) in November 2022 as a pilot program in 36 cities and regions. This voluntary, government-supported, and market-oriented system was designed to complement the existing basic state pension and enterprise annuity plans to address the challenges of a rapidly aging population.

China's equity markets. Policy measures such as encouraging regular dividends by state-owned enterprises, offering tax incentives for long-term savings, and expanding wealth management services can motivate households to shift savings from deposits and real estate to stocks, raising returns and reducing the propensity to save.

Expanding consumer credit through digital innovation

Advancements in digital and innovative finance can broaden household access to lending, which can help smooth consumption and improve household liquidity. China leads in digital finance, especially mobile payments, but further deployment—such as Buy Now, Pay Later (BNPL) services—can stimulate household consumption. BNPL is integrated into platforms like Alipay, WeChat Pay, and JD.com, and evidence suggests it increases consumer spending, especially in underserved areas.

New data sources such as utility payments and AI-driven credit assessments such as the Ant Group's "310" micro-loan model and Zhima Credit can expand responsible consumer lending. Maximizing fintech's potential requires a supportive regulatory environment, robust oversight, and stronger financial literacy to mitigate risks such as over-indebtedness and impulsive spending.

Enhancing resource allocation

Full liberalization of interest rates is key to improving allocative efficiency. Moving away from government guidance will allow banks to make more market-based lending decisions, directing resources to the most productive investments and imposing greater discipline in borrower selection. Fully liberalized interest rates will also help households reach saving targets more efficiently, reducing excessive saving and increasing consumption. Enhancing corporate governance and risk-based decision-making within banks is crucial for improving resource allocation.

Managing policy tradeoffs

The commitment to these reforms must be matched by careful sequencing and strong oversight, as there are tradeoffs (Table 3). For example, expanding consumer finance could increase spending but may also lead to higher household debt and lower bank deposits. Broader access to consumer credit requires safeguards to prevent over-indebtedness. Interest rate liberalization could increase household returns on deposits, but it would also expose borrowers to higher loan costs and increased volatility. Banks gain flexibility but would face higher funding costs and competition for depositors. Expanding household investment in capital markets would diversify savings and may raise returns, but it would also increase exposure to volatility and reduce deposit funding for banks. This underscores the importance of investor protection, as well as strong oversight of the financial stability implications of higher bank funding costs, increased risk of investment capital losses in markets, and others.

Aligning financial-sector reforms with broader efforts to strengthen social protection, as discussed in Part II of the report, will reinforce the shift toward a more consumption-driven growth path. By improving confidence, diversifying savings channels, and enhancing capital allocation, financial-sector reforms can help address some of the structural roots of high precautionary savings and support a more balanced trajectory for China's economy.

Table 3. Selected policy trade-offs

Policy Measure	Expected positive impact	Tradeoffs to be managed
Diversifying saving options for households	Give households more options to deploy their savings, earn higher returns, meet their target savings more easily, and reduce the propensity to save	Increased household exposure to risk; banks may see less funding from deposits, more from wholesale market finance – with financial stability implications
Expanding consumer credit through digital innovation	Increase in consumer spending; increased demand for personal loans, credit cards, and mortgages; higher household spending translates into higher corporate revenues, investments, and wages paid to households	Potential increase in overall level of household debt; decline in net worth of household balance sheets and its role as net funder of financial sector; decline in household savings and a "search for yield" may reduce the volume of bank deposits
Enhancing resource allocation	Increased access for households to a more diverse range of financial products; increased returns on their financial savings	Higher rates on mortgages and consumer and corporate loans; greater household and firm exposure to interest rate volatility
	Full flexibility for banks in setting rates on both deposits and loans	More competition may result in higher funding costs for banks, putting, ceteris paribus, pressure on profitability

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