

# China outlook report

## Third quarter of 2024



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The objective of China’s quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country’s banking sector, as well as the macroeconomic situation at the end of each quarter.

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# International overview

**Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.**

## Macroeconomic outlook

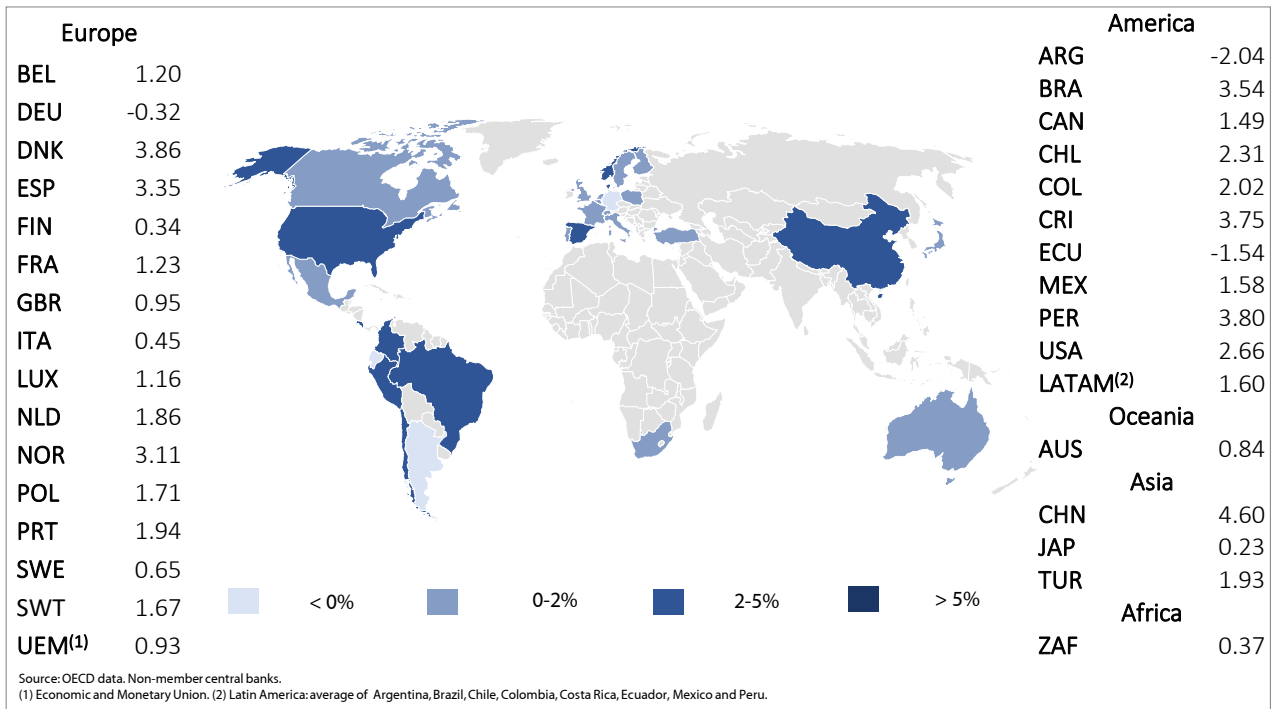
- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

## Other indicators and key risks

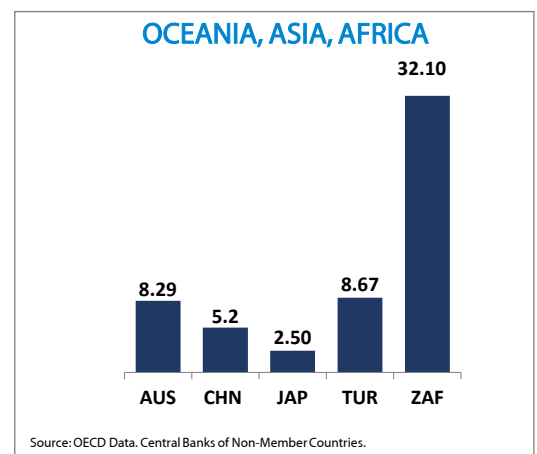
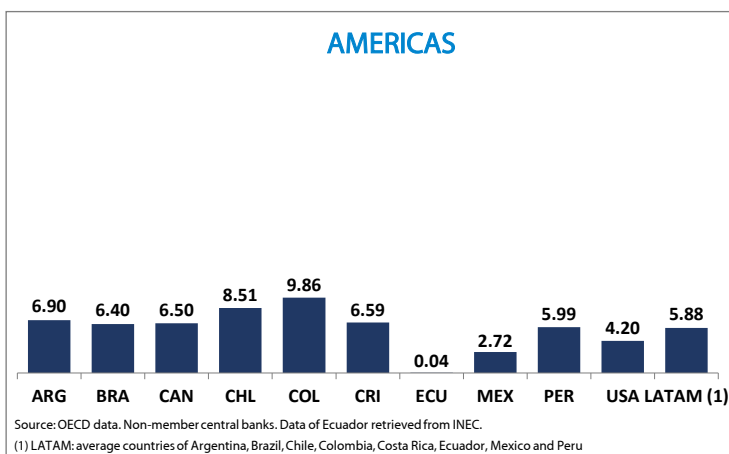
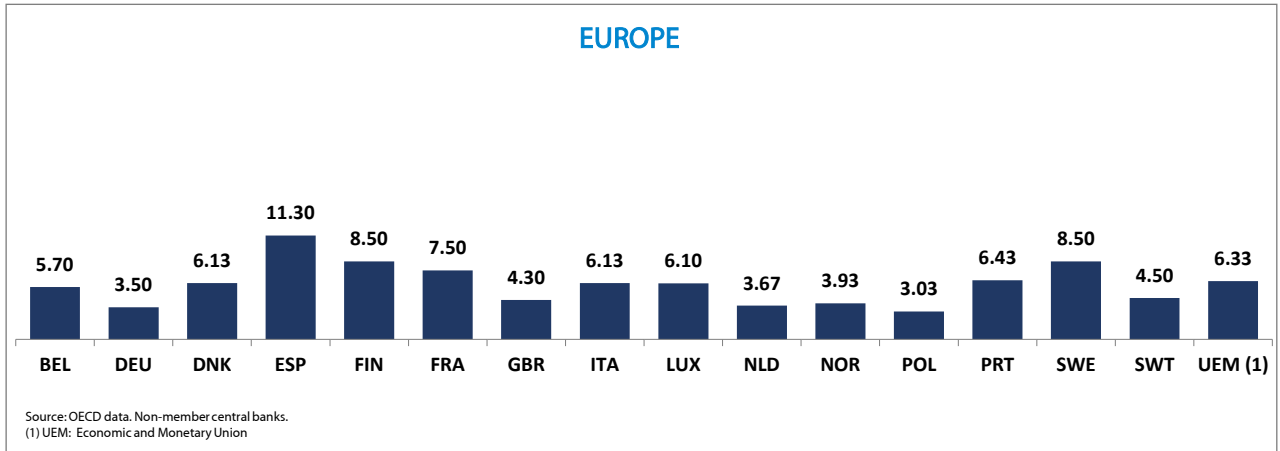
- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

(1) The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

## GDP (% , year-on-year growth)

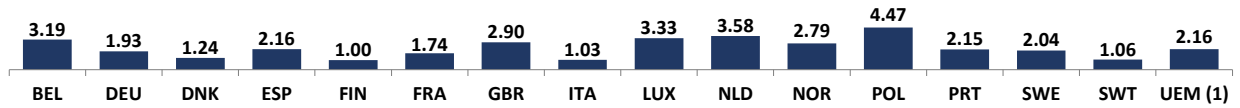


## Unemployment rate (%)



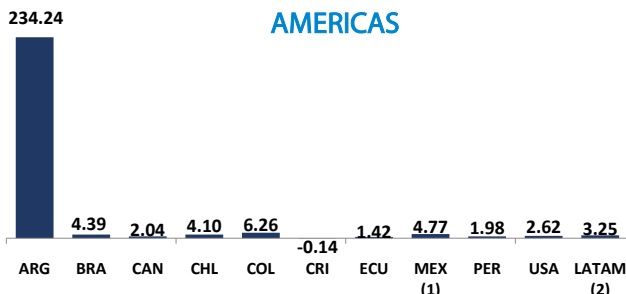
## Inflation rate (%)

### EUROPE



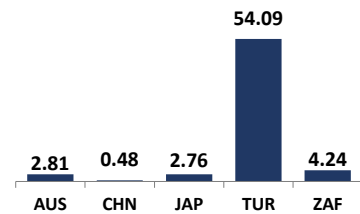
Source: OECD Data, Central Banks of Non-Member Countries.  
(1) Monetary and Economic Union

### AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.  
(1) Data from 2Q24. 3Q24 data not available.  
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

### OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

## Global Ratings and Exchange Rates

### LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
<b>EUROPE</b>			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
<b>AFRICA</b>			
ZAF	Ba2	BB-	BB-
<b>OCEANIA</b>			
AUS	Aaa	AAA	AAA
<b>ASIA</b>			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
<b>AMERICAS</b>			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

### EXCHANGE RATES 3Q24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

## 2. Macroeconomic view

***In the third quarter of 2024, China's economy expanded by 4.6% year-on-year, slightly below the 4.7% growth recorded in the previous quarter and marking the slowest pace since early 2024. This deceleration is attributed to subdued domestic demand, a protracted downturn in the property sector, and weakening export growth.***

**Main Macroeconomic Indicators (%)**

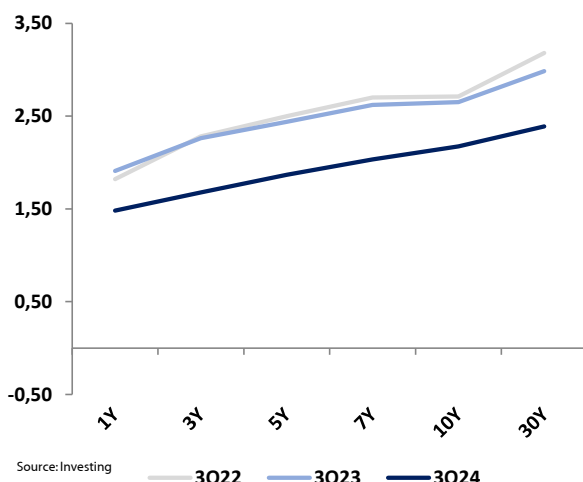
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	2024	2025
GDP	4.90	5.20	5.30	4.70	4.60	4.94	4.52
INFLATION							
CPI	-0.06	-0.32	-0.03	0.23	0.48	0.34	1.33
LABOUR MARKET							
UNEMPLOYMENT RATE	5.30	5.03	5.23	5.00	5.20	5.20	5.20
ACTIVITY	2019	2020	2021	2022	2023	2024	2025
GDP	6.15	1.95	8.78	3.00	5.20	4.94	4.52
DOMESTIC DEMAND	8.34	1.68	10.93	-34.75	n.a.	2.75	3.79
HOUSEHOLD CONSUMPTION	9.34	0.00	13.13	2.84	9.50		
PUBLIC CONSUMPTION	8.84	4.95	4.64	6.43	7.63		
CAPITAL FORMATION	5.10	2.64	4.84	4.85	2.77		
EXTERNAL DEMAND	61.58	121.68	17.98	30.32	-30.90		
INFLATION							
CPI	2.90	2.51	0.92	1.96	2.23	0.34	1.33
LABOUR MARKET							
UNEMPLOYMENT RATE	3.63	3.98	3.91	5.58	4.10	5.20	5.20
EMPLOYMENT*	-0.44	-0.51	-0.55	-1.74	0.94		

(1) The employment variable represents the year-on-year change in employment growth

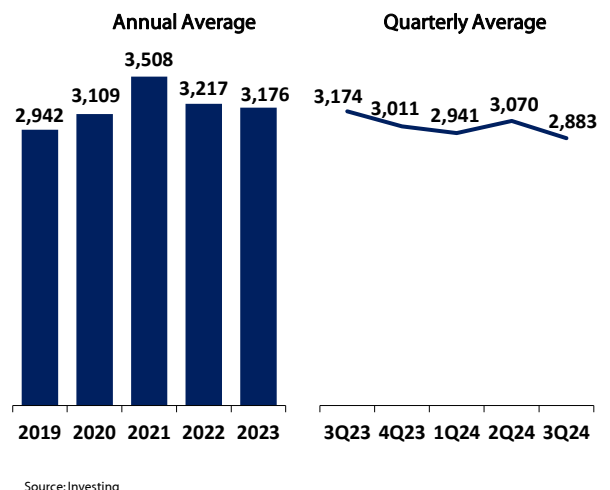
Source: Organization for Economic Co-operation and Development (OECD), National Bureau of Statistics of China. Projections OECD December 2024.

- Despite the slowdown in terms of GDP, officials remain confident in achieving the annual GDP growth target of around 5%, anticipating further stabilization in the fourth quarter. However, structural challenges, particularly in the real estate sector, persist, and the effectiveness of recent stimulus measures will be crucial in determining the trajectory of the economy
- The CPI remained relatively stable, with a marginal decrease of approximately 0.2% from the second to the third quarter. This stability reflects the balance between modest annual inflation and short-term deflationary trends observed during these months.
- In the third quarter of 2024 showed signs of labour market stabilization, with slight increases in general unemployment rates. The unemployment rate is expected to remain stable during 2024 and throughout 2025. However, youth unemployment remains a concern, necessitating continued monitoring and targeted policy interventions.
- The yield curve exhibited normal convexity, with long-term rates higher than short-term rates, suggesting market expectations of moderate economic growth and inflation.

**Treasury Yield Curves Rates (%)**



**SHCOMP**



### 3. Banking sector

**The Chinese banking sector experienced a decrease in the annual growth rate of total loans and deposits. Regarding the efficiency ratio, it worsened compared to both 1Q24 and 3Q23, while the NPL ratio slightly improved compared to the previous year and quarter. Regarding solvency, all ratios experienced annually increases. Additionally, PBoC lowered the interest rate at 3.35%, which is 0.10 p.p. lower than in 2Q24 and 3Q23.**

BANKING SECTOR CONTEXT 3Q24 (%)							
BUSINESS	3Q23	4Q23	1Q24	2Q24	3Q24	Var p.p. 2Q24	Var p.p. 3Q23
LOANS <sup>(1)</sup>	10.60	10.56	9.17	8.31	7.60	-0.71	-3.00
DEPOSITS <sup>(1)</sup>	9.69	9.63	7.58	5.97	7.06	1.09	-2.63
LTD RATIO	83.57	83.56	83.54	84.63	83.99	-0.64	0.42
EFFICIENCY							
EFFICIENCY RATIO	31.59	35.26	28.95	30.71	31.84	1.13	0.25
CREDIT RISK							
NPL RATIO	1.61	1.59	1.59	1.56	1.56	0.00	-0.05
SOLVENCY							
CET 1	10.36	10.54	10.77	10.74	10.86	0.12	0.50
LEVERAGE RATIO	6.73	6.79	6.76	6.78	6.77	-0.01	0.04
LIQUIDITY RATIO	65.15	67.88	68.66	72.38	75.09	2.71	9.94
LCR	143.54	151.60	150.84	150.70	153.29	2.59	9.75
RESULTS							
ROA	0.74	0.70	0.74	0.69	0.68	-0.01	-0.06
ROE	9.45	8.93	9.57	8.91	8.77	-0.14	-0.68
PBoC INTEREST RATE							
INTEREST RATE	3.45	3.45	3.45	3.45	3.35	-0.10	-0.10

Note: <sup>(1)</sup> The values for loans and deposits reflect their year-on-year growth rates.  
Source: China Banking and Insurance Regulatory Commission.

- During third quarter of the year, loans and deposits year-on-year growth rate decreased down to 7.60% and 7.06%, respectively, 3.00 p.p. and 2.63 p.p. lower than the same quarter last year. Moreover, loans growth rates have also decreased by 0.71 p.p., compared to 2Q24. On the other hand, deposits improved by 1.09 p.p., compared to the previous quarter. Furthermore, loans-to-deposits ratio (LTD ratio) increased yearly by 0.42 p.p., but decreased quarterly by 0.64 p.p.
- The efficiency ratio worsened by 1.13 p.p. compared to 2Q24 and by 0.25 p.p. compared to the previous year, reaching 31.84% during the third quarter of 2024.
- Regarding the non-performing loans ratio (NPL ratio), it remains constant compared to the previous quarter, and it improved compared to 3Q23 (-0.05 p.p.). For the third quarter of 2024, it stands at 1.56%, which shows a stable trend in the management of credit risk.
- In terms of solvency, during the third quarter of the year, the CET1 ratio improved by 0.50 p.p. compared to the same quarter of the previous year, amounting to 10.86%. The leverage ratio has also slightly increased by 0.04 p.p. compared to 3Q23, achieving 6.77%. On the other hand, liquidity ratio improved by 9.94 p.p. compared to 3Q23, recording 75.09%. Moreover, the LCR recorded 153.29%, representing an increase of 9.75 p.p. in comparison with the same quarter last year.
- In terms of return rates, ROA of the Chinese banking sector decreased by 0.06 p.p. compared to the same quarter of the previous year, amounting to 0.68%. Regarding ROE, it also decreased, reducing the ratio by 0.68 p.p. with respect to the same quarter of 2023, reaching a value of 8.77%.
- The People's Bank of China (PBoC) decreased its interest rate at 3.35% for the fourth consecutive quarter. This represents a decrease of 0.10 p.p. compared to the same quarter of the previous year.

## 4. Glossary

- ▶ **BUSINESS VOLUME:** The turnover volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **COVERAGE RATIO:** It is a ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- ▶ **CPI:** Consumer Price Index measures the evolution of the average cost of the basket of goods and services representative of household final consumption.
- ▶ **Efficiency Ratio:** (Non-interest expense - amortization of intangible assets) / (net interest income + non-interest income).
- ▶ **GDP:** Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LTD ratio:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **Non-Performing Loans Ratio:** Non-performing loans / net loans and assets.
- ▶ **Non-Performing Loans Coverage Ratio:** Loan loss allowance / non-performing loans.
- ▶ **OECD:** Organization for Economic Co-operation and Development.
- ▶ **Operating Expense:** Total non-interest expense.
- ▶ **p.p.:** percentage points.
- ▶ **Return On Equity (ROE):** Net Income / equity.
- ▶ **Return On Assets (ROA):** Net income / average total assets.
- ▶ **ICBC:** Industrial and Commercial Bank of China
- ▶ **ABC:** Agricultural Bank Of China
- ▶ **BoCom:** Bank of Communications
- ▶ **CMB:** China Merchants Bank

## 5. Appendix

### MACROECONOMIC OVERVIEW

- ▶ National Bureau of Statistics of China:  
<http://www.stats.gov.cn/english/>
- ▶ IMF: <http://www.imf.org/external/index.htm>
- ▶ Standard & Poor's:  
<http://www.standardandpoors.com/>
- ▶ Fitch Ratings:  
<http://www.fitchratings.es/>
- ▶ Moody's:  
<http://www.moody.com/>
- ▶ Organisation for Economic Co-operation and Development, OECD:  
<http://www.oecd.org/home/>

### FINANCIAL SECTOR

- ▶ National Financial Regulatory Administration  
[NFRA \(cbirc.gov.cn\)](http://www.cbirc.gov.cn/)

### ACRONYMS

- |                 |                       |                    |                      |                                |
|-----------------|-----------------------|--------------------|----------------------|--------------------------------|
| ▶ DEU - Germany | ▶ LUX - Luxembourg    | ▶ TUR - Turkey     | ▶ ECU - Ecuador      | ▶ ZAF - South Africa           |
| ▶ BEL - Belgium | ▶ NLD - Netherlands   | ▶ ARG - Argentina  | ▶ MEX - Mexico       | ▶ UEM- European Monetary Union |
| ▶ DIN - Denmark | ▶ NOR - Norway        | ▶ BRA - Brazil     | ▶ PER - Peru         |                                |
| ▶ ESP - Spain   | ▶ POL - Poland        | ▶ CAN - Canada     | ▶ USA- United States |                                |
| ▶ FIN - Finland | ▶ PRT - Portugal      | ▶ CHL - Chile      | ▶ AUS - Australia    |                                |
| ▶ FRA - France  | ▶ GBR- United Kingdom | ▶ COL - Colombia   | ▶ CHN - China        |                                |
| ▶ ITA - Italy   | ▶ SUE - Sweden        | ▶ CRI - Costa Rica | ▶ JAP - Japan        |                                |



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