WEEK 6 · MODULE 4

China’s Money and Bond Markets

Financial Institutions and Markets · MF50004.01

Prof. Jiajun Jiang · School of Economics, Fudan University · Fall 2026

Where we left off

From central-bank operations to market outcomes

We have studied policy rates, settlement and bond valuation. The question now is how China’s market institutions transmit funding conditions and allocate credit.

Three institutional questions

How does the money market transmit policy? What does bond-market segmentation change? How do local-government support, ratings and defaults affect credit pricing?

This lecture

Unit	Main questions	Time
1 · Money markets	Market development, liberalisation and monetary transmission	45 min
2 · Bond markets	Segmentation and local-government debt	50 min
3 · Corporate credit	Ratings, default history and market effects	40 min

Why institutions use short-term funding

Money markets provide short-term funding, usually for up to one year.

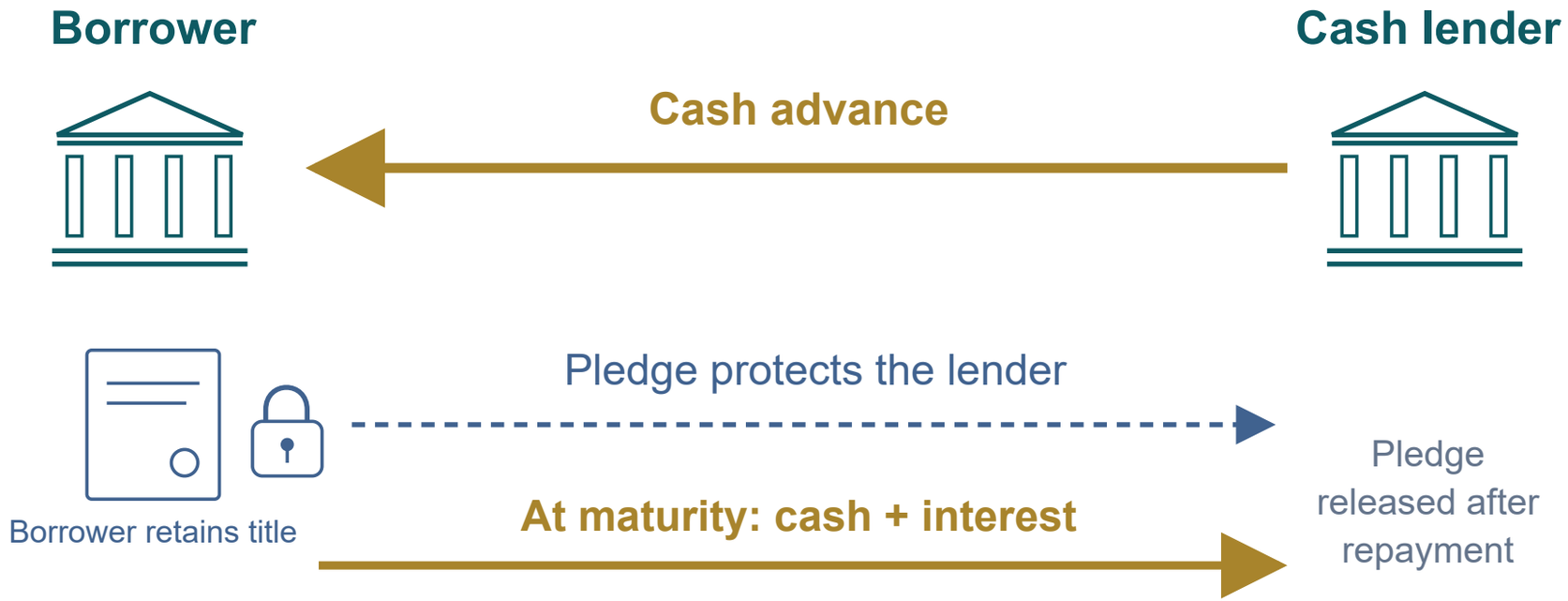
Borrower	Cash is needed for…	Cash arrives from…
Bank	Outgoing payments	Incoming deposits or repayments
Securities dealer	Buying bonds for inventory	Selling those bonds
Company	Wages and supplier bills	Customer payments

Short-term borrowing covers the gap between outgoing and incoming payments.

The main instruments in China’s money market

Contract	Debtor	Protection
Pledged repo	Borrower	Bonds pledged
Unsecured interbank loan	Borrower	Counterparty credit
Negotiable certificate of deposit (NCD)	Issuing bank	Bank claim
Commercial paper / short-term note	Company	Corporate resources
Bank acceptance	Accepting bank	Accepted payment obligation

Pledged repo: borrow cash against bonds



Pledged repo: title stays with the borrower. Outright repo: title transfers with an agreed reverse transaction.

The lender advances cash against an agreed value of eligible collateral.

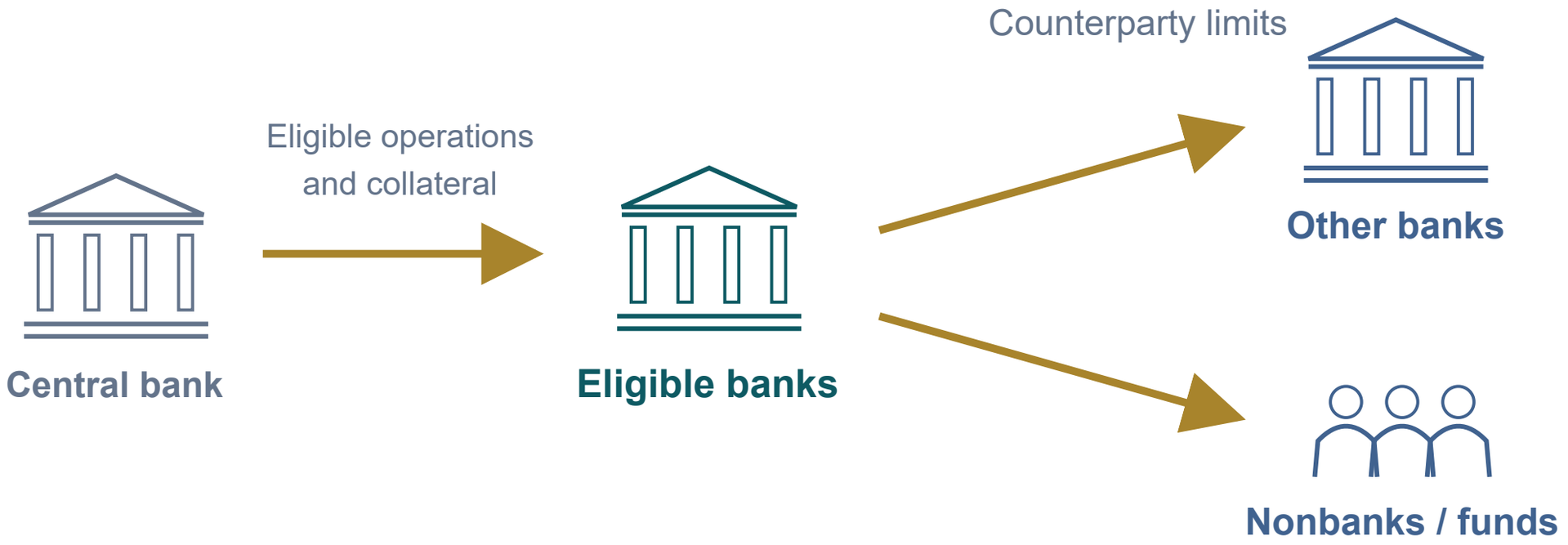
Haircut: the collateral value excluded from funding. Illustration: RMB 100 at a 5% haircut supports RMB 95.

The reform sequence: benchmarks, bank pricing and policy signals

Date	Development	Role
1996–97	Interbank lending and repo rates liberalised	Market pricing of wholesale funds
2007	Shibor launched	Quoted unsecured benchmark
2013–15	General loan floor and deposit ceiling removed	More freedom in customer pricing
2019	Loan Prime Rate (LPR) mechanism reformed	Link loan pricing to funding conditions
2024	Seven-day reverse-repo operation rate clarified as the main policy rate	A clearer central-bank price signal

PBoC benchmark-reform account(2020); monetary-policy reports; Pan Gongsheng(2024,2026).

Bank and nonbank funding access



A lender’s credit limit and collateral requirements determine access to its funding.

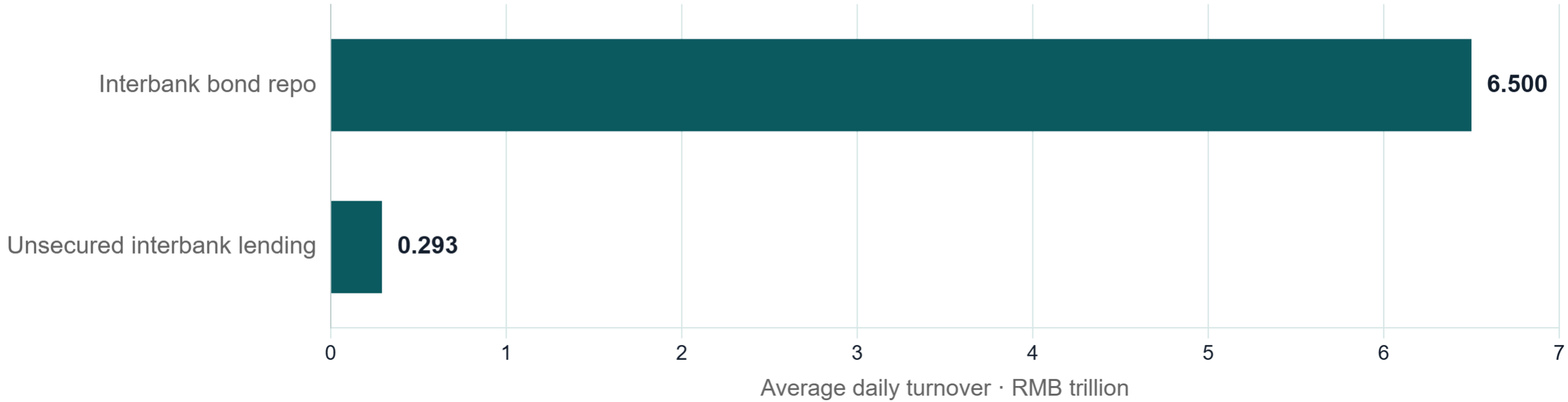
The policy rate and the traded market rates

Rate	Who determines it?	What it measures or does
7-day reverse-repo operation rate	PBoC	Price on central-bank operations; main policy-rate role
DR007	Actual seven-day secured trades	Depository-institution funding against specified collateral
DR001	Actual overnight secured trades	Overnight depository-institution funding
Shibor	Panel-bank quotations	Unsecured funding benchmark at several maturities
R007	Broader seven-day secured trades	A wider participant and collateral pool

PBoC benchmark-reform paper(2020); RBA(2024); Pan Gongsheng,19 October 2026.

Repo and unsecured interbank lending

Average daily turnover · September 2026 · RMB trillion



22.2× repo turnover relative to unsecured interbank lending

The same cash can finance successive transactions during the month.

PBoC, September 2026 Financial Market Report, reproduced by CNAFC on27 October 2026. Daily turnover, RMB trillion.

Wholesale funding changes a bank's incentives

Funding source	Who supplies it?	Consequence for the bank
Customer deposits	Households and firms	Customer relationships and deposit competition matter
Interbank borrowing and repo	Eligible banks and other institutions	Funding responds to counterparty limits and market conditions
Negotiable certificates of deposit	Institutional investors, including funds	A market price and a date for repayment or refinancing

Market funding can strengthen price transmission while increasing exposure to refinancing conditions.

PBoC NCD rules; Ji, Zhang, Niu & Ma, PBC Working Paper 2016/4. Research findings are the authors' views.

China’s money funds and the rise of Yu’e Bao

Date	Milestone	Why it matters
2003	China’s first money market fund: HuaAn Cash Fuli	The investment product predates payment apps
2013	Yu’e Bao connects Alipay users to Tianhong Zenglibao	Small retail balances gain convenient fund access
2018	Yu’e Bao adds other fund managers	The distribution platform becomes broader than one fund

Household deposits can return to banks as institutional fund investments.

HuaAn(2004); Tianhong 2013 annual report; Ant Group 2020 prospectus.

What the 2013 cash squeeze revealed

20 June 2013 · overnight Shibor

13.44%

Funding pressure

Seasonal cash needs, slower foreign-exchange inflows and short-term funding of longer-lived assets.

Policy lesson

Predictable operations, liquidity distribution and communication matter for rate control.

BIS, September 2013; PBoC reports; Bank of Chongqing 2013 prospectus.

Policy rates and market targets: the U.S. and China

	United States	China
Policy decision	Target range for overnight federal funds	7-day reverse-repo operation rate
Observed market rate	Effective federal funds rate (EFFR)	DR007 historically; DR001 increasingly central
Underlying market	Unsecured overnight funding	Secured repo funding
Implementation	Administered rates, especially interest on reserve balances (IORB)	Liquidity operations and interest-rate management

19 October 2026 update

Pan described DR001 as the de facto operating target. Main policy operations still had seven-day maturities; an overnight switch was under study.

Federal Reserve and New York Fed; RBA(2024); Pan Gongsheng,19 October 2026.

UNIT 2 · 50 MINUTES

Bond-market segmentation and local-government debt

Products, market size, trading, implicit guarantees and debt resolution

Why China developed two bond-market segments

1997: banks redirected to the interbank market ·2010: exchange cash-bond pilots ·2019: broader bank access

Product	Interbank	Exchange
Government and selected financial bonds	Major institutional market	Eligible issues also trade here
MTNs, CP/SCP and private placement notes	Non-financial enterprise debt-financing instruments	Interbank products; exchange debt uses separate instruments
Company bonds and convertibles	Primarily exchange-market products	Core exchange products
Enterprise bonds	Can retain trading here	Can retain trading here

MTN: medium-term note · CP/SCP: commercial paper / super-short-term commercial paper · CSRC: China Securities Regulatory Commission

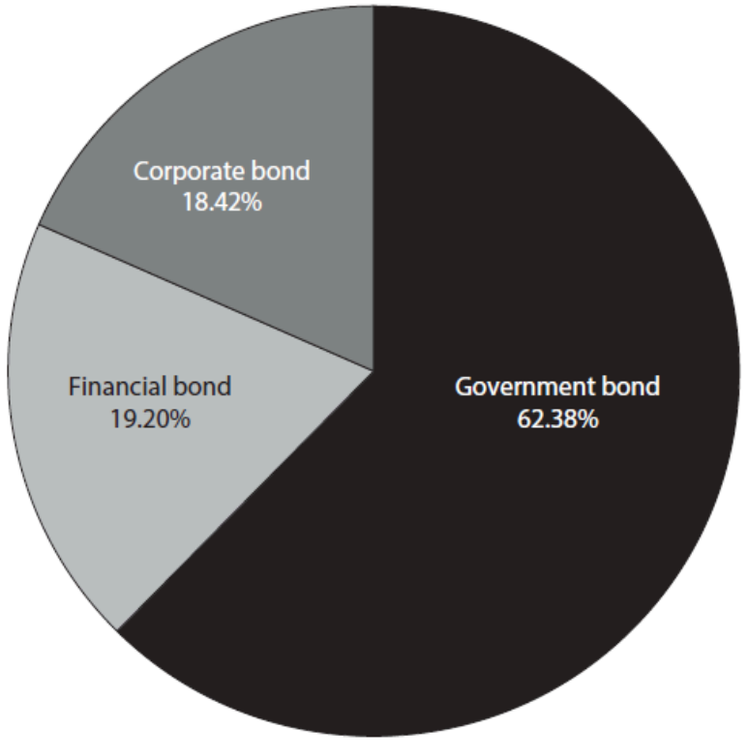
2023 change

Enterprise-bond applications: exchange review and CSRC registration. Trading can still span both segments.

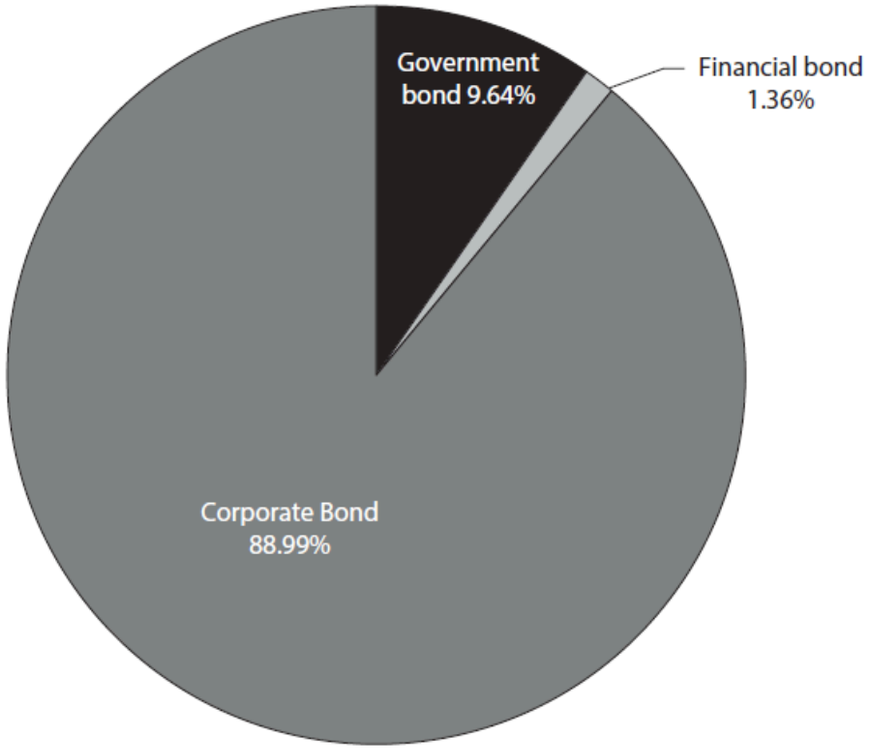
Handbook(2020),ch.5; NAFMII history; CSRC bank-access and enterprise-bond notices.

The product mix differs across the two segments

Panel A: 2019 Chinese interbank market bond composition



Panel B: 2019 Chinese exchange market bond composition



The interbank portfolio was government-heavy; the exchange portfolio was corporate-heavy.

Historical snapshot:31 December 2019. Handbook(2020),Fig.5.4; CCDC,SHCH,ChinaClear.

Market size, turnover and trading frequency

November 2025	Interbank	Exchange
Month-end bonds in custody · RMB tn	173.0	23.2
Cash-bond trading during the month · RMB tn	30.5	3.8
Trading ÷ month-end custody · rough monthly activity ratio	17.6%	16.4%

Trading frequency

How often trades occur, and how many bonds trade.

Execution and depth

How much can be traded promptly, at what spread and price impact.

The ratios are close. This snapshot does not establish higher exchange turnover.

PBoC,November 2025 Financial Market Report. Historical trading-pattern discussion:Handbook(2020),Fig.5.5 and Table5.3.

Why a price gap can persist across markets

Access and custody
Different eligible investors, accounts and transfer procedures

→

Trading and funding
Counterparties, repo eligibility and collateral terms differ

→

Prices and liquidity
The same payment claim can provide different services

Comparison with the United States

U.S. corporate bonds also trade mainly over the counter. China's two main segments combine distinct participation, custody and collateral arrangements, creating additional barriers to cross-market trading.

Cross-market arbitrage requires access, funding and an executable transfer.

Handbook(2020),ch.5; Chen etal.(2023); FINRA. Price example is illustrative.

Losing repo eligibility raises the yield investors require

Core finding

The bond keeps the same promised payments but loses a financing use. Investors pay less for it, so its yield rises.

Illustration: RMB 100 collateral value	Cash that can be borrowed
0% haircut	RMB 100
100% haircut	RMB 0

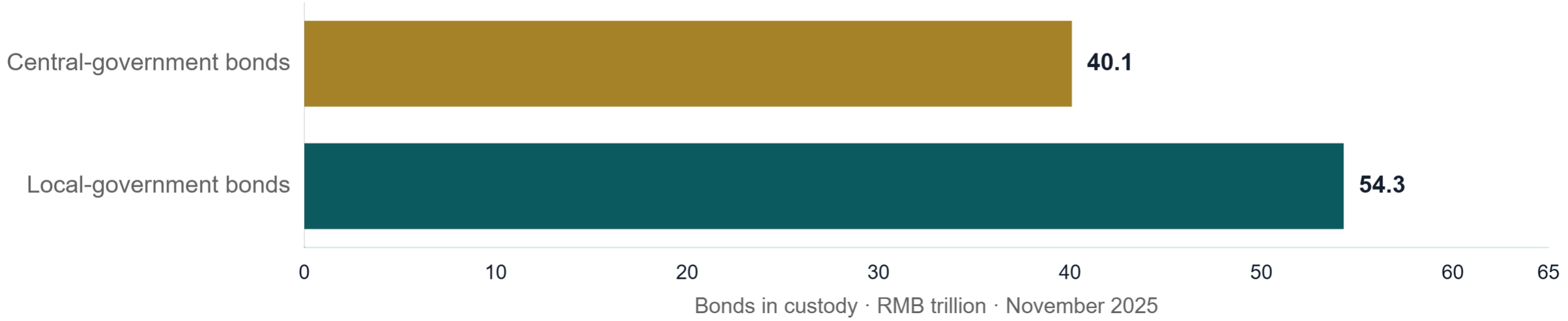
Published estimate: 39–85bp higher yields for a normalised 0%→100% haircut increase.

China,December 2014: selected AA+/AA bonds lost exchange repo eligibility; the same bonds also traded in the interbank market.

Chen,Chen,He,Liu & Xie(2023),Journal of Finance. Published normalised estimate; arithmetic illustration.

Local bonds are the larger part of government bond financing

Government bonds in custody · end-November 2025 · RMB trillion



57.5% Local share of central + local government bonds

Latest local-government debt: RMB 60.7tn at end-September 2026, including RMB 60.5tn of bonds. This later total has a different date.

PBoC, November 2025 financial-market report; Ministry of Finance, September 2026 debt report.

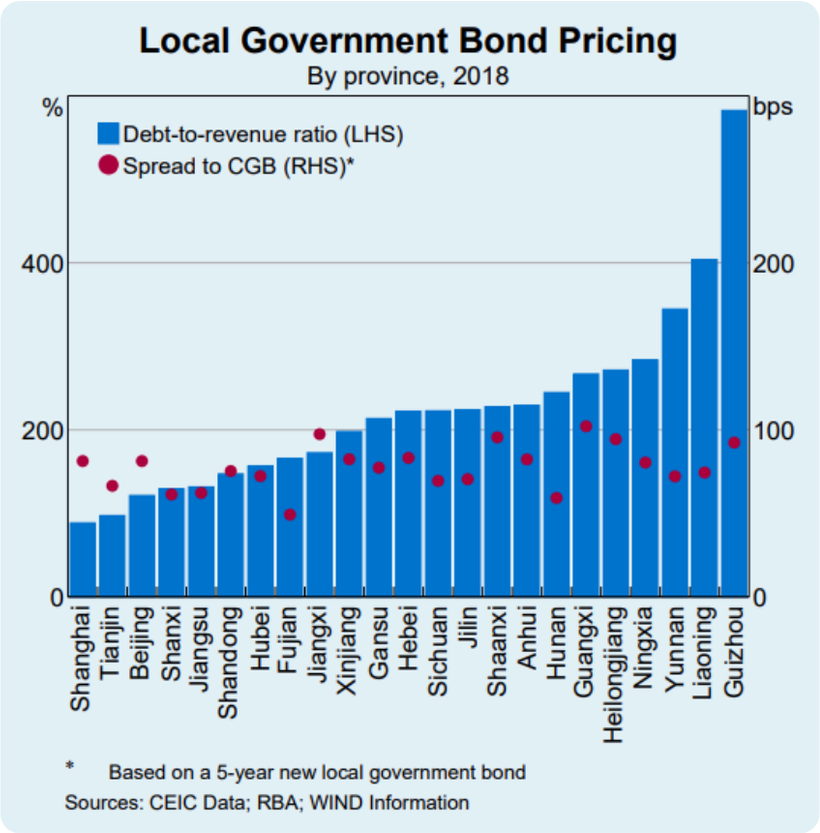
Why local governments financed projects through companies

Financing pressure	Institutional response
Infrastructure responsibilities exceeded available budget resources	A local government established a financing vehicle (LGFV)
Direct government borrowing was tightly restricted	The company borrowed from banks and bond investors
Projects needed assets and expected repayment resources	Land-use rights, public assets and fiscal support backed financing
Investment expanded after the global financial crisis	Borrowing grew faster than many projects' operating cash flows

A project can have high public value while generating little cash for its creditors.

Handbook (2020), Ch. 8; Budget Law (1994); State Council document No. 43 (2014).

Expected public support links local debt to bank balance sheets



Two related channels

- Government bonds: fiscal burdens and observed spreads differ across provinces
- LGFV borrowing: investors assess project cash flow and expected public support
- Banks: large exposures connect local repayment stress to the financial system

Expected support affects financing costs; the legal borrower determines the contractual claim.

Historical 2018 figure: CEIC, RBA, Wind, via original Lecture 8; Handbook, Ch. 8.

Why replace old local debt with government bonds?

New bond investors
Buy provincial bonds

→

Provincial government
Uses proceeds for eligible old debt

→

Old creditors
Receive repayment

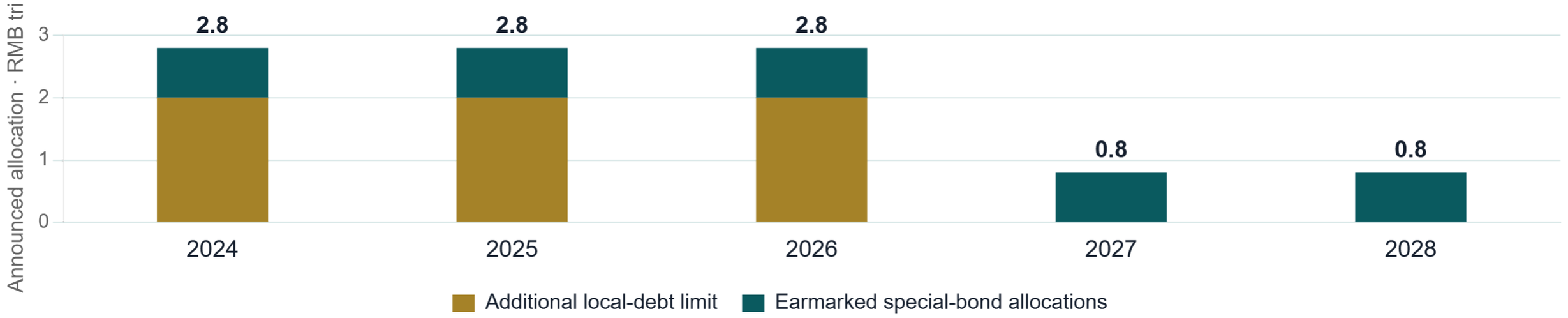
Before replacement	After replacement
Bank loans and other eligible obligations; near-term repayments	Explicit government bonds; longer repayment schedule
Higher financing costs and opaque fiscal exposure	Potential interest savings and clearer budget recognition
Existing principal is owed to old creditors	Principal remains owed to the new bond investors

Refinancing creates time and cash-flow relief. Future fiscal resources still have to service the debt.

Ministry of Finance, debt-replacement explanations (2015, 2019, 2024).

Two rounds of replacement addressed different debt stocks

2015–18: RMB 12.2tn issued for non-bond obligations recognised as government debt at end-2014.



November 2024 design: RMB 6tn of new debt limits + RMB 4tn from special-bond allocations. The chart shows the announced schedule.

Ministry of Finance, 2019 reply and 8 November 2024 debt-resolution announcement.

The euro-area crisis and China’s local debt: a comparison

Dimension	China’s local debt	Euro-area debt crisis
Currency and fiscal authority	One national fiscal state; local governments cannot issue currency	Common currency and ECB; national fiscal authorities
Debtors and banks	Provincial governments and separate LGFV companies; bank exposure	National sovereigns and banks; stress passed in both directions
Debt treatment	Eligible old obligations refinanced with explicit local bonds	Official loans and maturity relief; Greek private-creditor haircuts
Institutional response	Debt limits, budget recognition and controls on new hidden debt	Conditional assistance; central-bank backstop; stronger bank oversight

European response: EFSF/ESM assistance · Greek restructuring (2012) · ECB’s OMT commitment (2012, unused) · banking union.

ESM, programme and restructuring records; ECB, OMT decision (2012) and subsequent assessments.

What, if anything, can China learn from Europe’s response?

OPEN DISCUSSION · 6 MINUTES

Which European response could help address China’s local-government debt problem? What would have to change for it to work?

Build your argument

1. Identify the problem the response would address.
2. Explain who provides funding or bears losses.
3. Identify a Chinese institution that helps or limits its use.

You may argue for a useful lesson, a modified approach, or limited applicability.

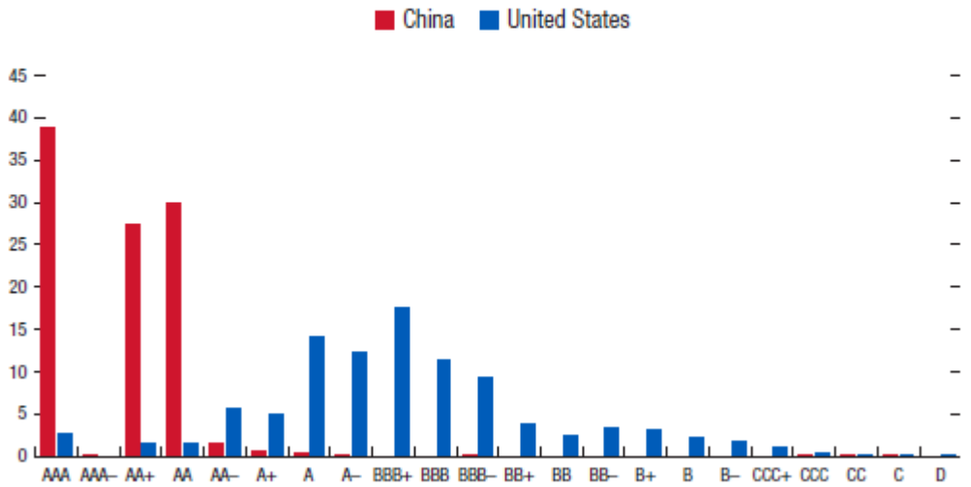
UNIT 3 · 40 MINUTES

Credit ratings, defaults and market discipline

Rating information, default history and the repricing of support

What does a credit rating tell the investor?

Figure 4.9. Credit Bond Ratings Distribution: China and the United States, 2017
(Percent)



Source: Bloomberg L.P. 2017.

An opinion on creditworthiness

- A relative assessment, not a guaranteed payment
- Depends on the rating scale and assessed support
- A cluster at the top leaves little differentiation within that cluster

The same rating symbol need not represent the same risk across domestic and global scales.

Historical comparison: 2017. IMF (2019), Fig. 4.9; Bloomberg L.P.; Jiang & Packer (2017).

High domestic ratings still contain information

6–7 notches

AVERAGE DOMESTIC/GLOBAL RATING GAP AMONG JOINTLY RATED FIRMS IN JIANG & PACKER'S STUDY

WHY RATINGS CLUSTER

Issuer selection, support expectations, investor eligibility and rating-agency incentives shape the distribution.

WHAT THE EVIDENCE SAYS

Both domestic and global ratings were reflected in bond prices, despite their different scales.

Default prediction requires a separate test: ratings before distress, subsequent missed payments and downgrade lead times.

Ratings can contain information while leaving important risks unresolved.

Jiang & Packer (2017), BIS Working Paper 648; Handbook (2020), ch. 5.

China’s default history: five changes in expectations

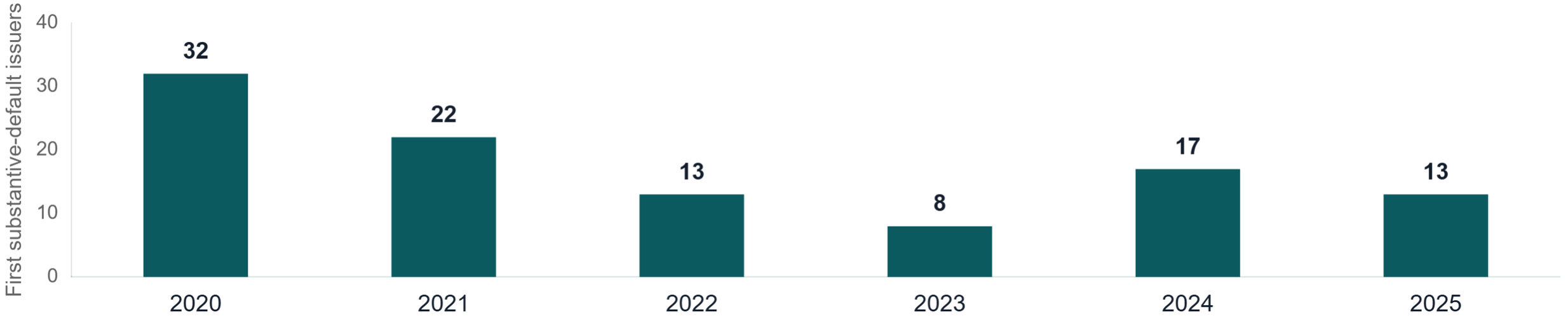
Episode	What creditors learned
2014 · Chaori Solar	A publicly issued onshore corporate bond can miss payment
2015 · Baoding Tianwei	State ownership does not ensure timely payment
2018–19 · Private-sector wave	Refinancing conditions can expose weak issuers
2020 · Yongcheng and other SOEs	High domestic ratings and support expectations need reassessment
2021 onward · Property stress	Sector-wide funding problems reach offshore as well as onshore claims

A missed payment, a restructuring and an eventual recovery are different events.

Issuer disclosures and rating-agency records; Handbook (2020), ch. 5; Geng & Pan (2024).

Recent defaults: fewer new issuers than in 2020–21

First substantive-default issuers · domestic bonds · annual count



RMB 33.7bn
2024 AMOUNT FALLING INTO DEFAULT

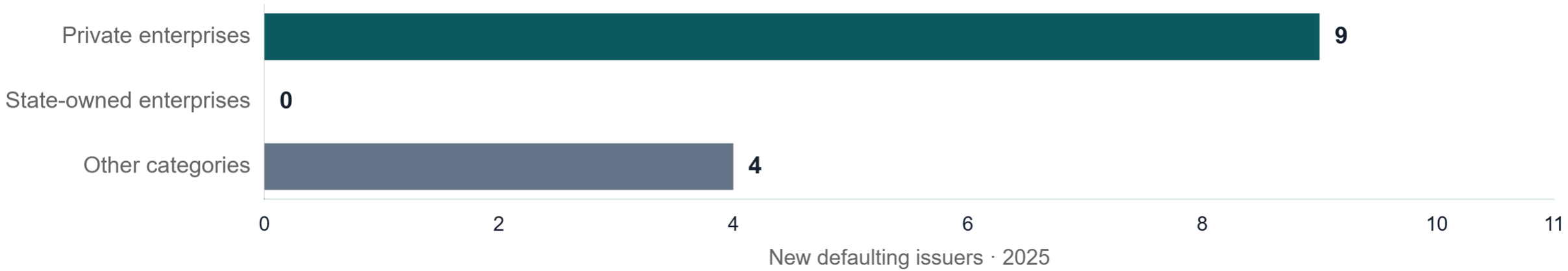
RMB 23.4bn
2025 AMOUNT FALLING INTO DEFAULT

2026 Jan–Sep update, separate Pengyuan definition: 16 credit-risk bonds = 10 extensions + 5 substantive defaults + 1 waived covenant event.

Lianhe, 2025 annual review, Fig. 1.1 (2020–23 counts read from bars); Pengyuan, 22 October 2026.

Private firms account for most new defaulting issuers in 2025

13 first substantive-default issuers · domestic bonds · Lianhe classification



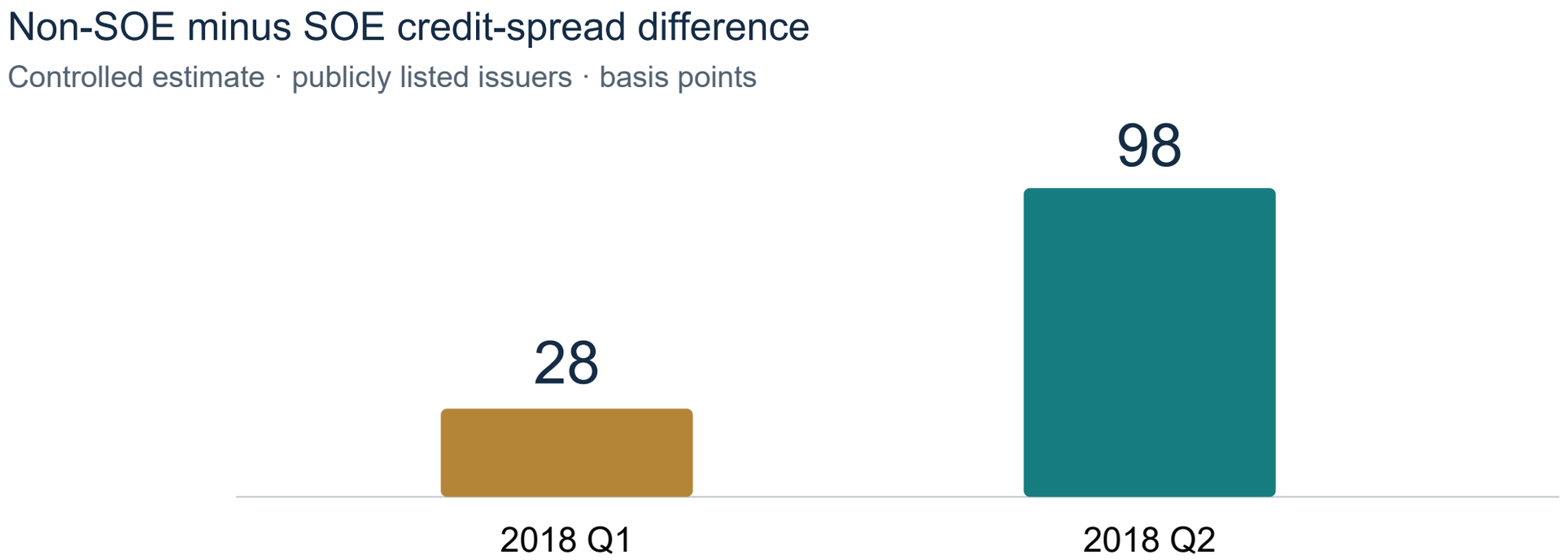
Private enterprises	State-owned enterprises	Other ownership categories
9 issuers · 69.2%	0 issuers · 0%	4 issuers · 30.8%

Other = foreign-owned and public-company categories in the source. “Public company” here does not mean state ownership.

Composition of defaults is different from the default probability within each ownership group.

Lianhe, 2025 annual review, ownership discussion; issuer counts, not bond counts or debt amounts.

The SOE credit-spread advantage widened in 2018



Source: Geng & Pan (2024), JF; accepted manuscript, pp. 2 and 12. Not a Yongcheng event estimate.

Liquidity pressure can widen the value of an expected backstop even when its strength does not change.

Geng & Pan (2024), Journal of Finance 79(5), 3041–3103; accepted manuscript, pp. 2 and 12.

LGFV debt stress can appear outside the public bond market

ZUNYI ROAD AND BRIDGE · DECEMBER 2022	RMB 15.594bn of bank loans restructured
NEW SCHEDULE	20 years: interest-only for the first 10, principal repaid over the next 10
PUBLIC BONDS	Explicitly excluded from this restructuring

Instrument	What establishes the event?
Bank-loan restructuring	Zunyi: principal repayments shifted into the future
Financing-lease payment default	Shuicheng Water: missed payments from 2021; local urban-investment guarantor faced enforcement
Public-bond payment default	Neither example establishes a missed public-bond payment

Pengyuan notices filed with SSE: 17 January 2023 (Zunyi); 1 November 2022 (Shuicheng).

Yongcheng: AAA rating, state ownership and default

BEFORE DEFAULT	Henan SOE; rated AAA before the event
10 NOVEMBER 2020	RMB 1bn, 270-day note missed principal and interest at maturity
2021 INVESTIGATION	Parent-controlled receivables had been classified as cash

RMB 27.174bn
CASH OVERSTATEMENT AT 30 SEPTEMBER 2020

57.86%
OF THE DISCLOSED CASH BALANCE

Check accessible issuer cash, refinancing needs and the evidence behind expected support.

Lead underwriters (November 2020); Lianhe rating-action record; CSRC Administrative Decision No. 44 (2021).

Main takeaways

Institutional feature	Why it matters
Bank-centred money markets	Access and collateral shape funding and monetary transmission
Two bond-market segments	Trading and collateral rules can sustain price differences
Local government and LGFV borrowing	Legal obligations, fiscal resources and expected support differ
Debt resolution	Refinancing, loss allocation and future borrowing incentives require separate analysis
Ratings and defaults	Use the rating scale, event definition and issuer cash flows together

Before Next Class

Required

Mishkin & Eakins, Chapter 13: stock markets. Revisit Chapters 11–12 for the instrument definitions used here.

Optional

Handbook of China’s Financial System, Chapters4,5 and8; Chen etal.(2023) on pledgeability; Geng & Pan(2024) on support and credit pricing.

Next topic: stock markets, 2 and 5 November.

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- Jiang & Packer (2017), BIS Working Paper648, domestic and global ratings in China.
- Lianhe (2026), 2025 bond-default review; Pengyuan (October 2026), January–September credit-risk review.
- ESM, conditional assistance and Greek restructuring; ECB, OMT decision (2012).
- Pengyuan, Shuicheng lease-payment/guarantee notice (2022); Zunyi bank-loan restructuring notice (2023).

APPENDIX

Optional reference pages

Definitions and calculation checks

Appendix: benchmark and instrument glossary

Term	Meaning
DR007 / R007	Transaction-weighted seven-day pledged-repo rates for different populations
FDR007 / FR007	Repo fixing benchmarks; construction differs from DR/R weighted averages
Shibor	Panel-bank quotation benchmark for unsecured wholesale RMB funding
NCD	Negotiable certificate of deposit issued by an eligible bank
MTN / SCP	Medium-term note / super-short-term commercial paper
LGFV / SOE	Local government financing vehicle / state-owned enterprise
CGB	China government bond

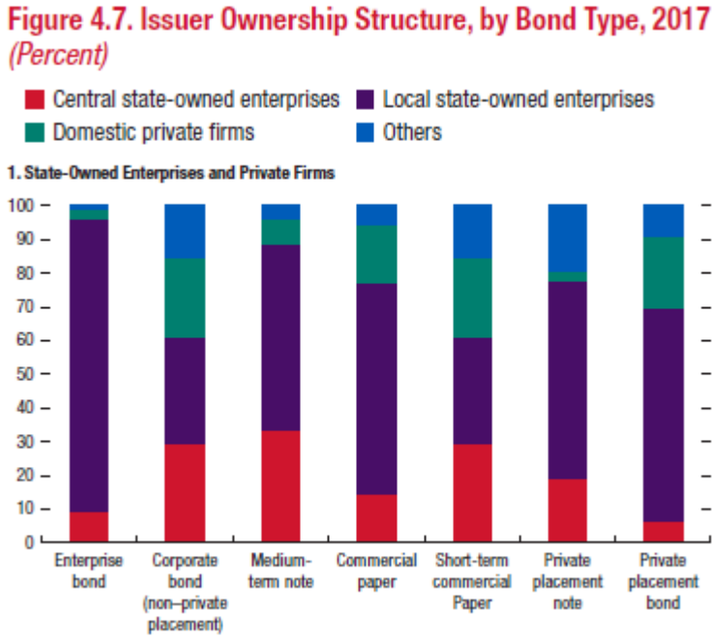
Appendix: verify the arithmetic and the measurement

Example	Calculation	Interpretation
Repo/unsecured turnover	$6.5 \div 0.29254 \approx 22.2$	Same daily frequency, September 2026
Holding concentration	$85.3-54.2=31.1\%$; $100-85.3=14.7\%$	Remaining groups in the same credit-bond population
Cash capacity	$100\times(1-5\%)=95$; $100\times(1-10\%)=90$	Hypothetical collateral/refinancing amounts, RMB million
Price and haircut change	$98\times(1-10\%)=88.2$; $95-88.2=6.8$	Optional combined shock, RMB million
Annual interest saving	$100\times(6\%-3\%)=3$	Illustration, RMB million; principal remains 100

Appendix: a short international instrument comparison

General instrument	Useful comparison	Limit of the analogy
Treasury bill	Short-term sovereign financing	Issuance and investor arrangements differ by country
Repo	Collateral-supported short-term funding	Title transfer and pledged structures differ
Negotiable bank certificate	Tradable bank funding claim	Eligibility, tenor and protections follow local rules
Commercial paper	Short-term corporate funding	Legal product categories and maturities differ
Municipal/subnational bond	Borrowing below the central-government level	US tax and federal arrangements cannot be transplanted to China

Appendix: Who issues China’s corporate credit?



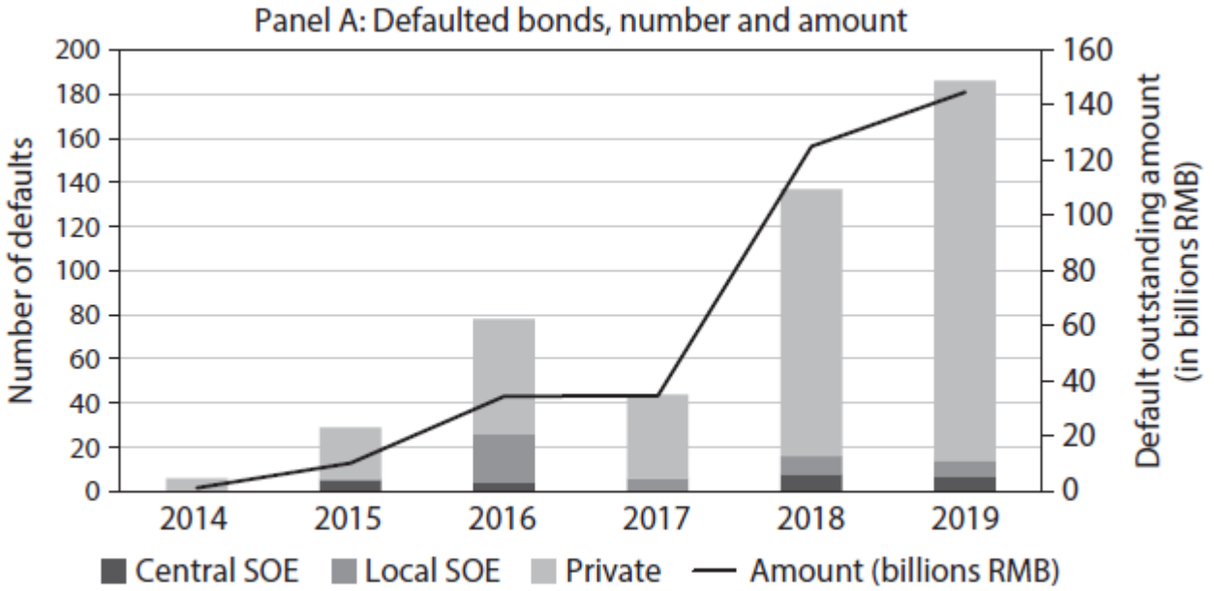
Ownership and product are different

- State-owned enterprises (SOEs) were prominent across several product categories
- Private issuers also used company bonds and financing notes
- Ownership affects expected support and refinancing access

State-owned issuers dominated many product categories; the product label itself did not determine ownership.

Historical snapshot: 2017. IMF (2019), Fig. 4.7; Bloomberg L.P.; original Lecture 8 figure.

Appendix: Defaults rose sharply in 2018–19



Read both axes

Bars count defaulted bonds. The line measures principal amount, in RMB billions. Neither is an issuer default probability.

Historical series: 2014–2019. Handbook (2020), Fig. 5.8, Panel A; Wind.