This paper measures the instability of China's financial system by constructing a financial stress index and a financial condition index using various econometric methods. The paper also provides several leading indicators for monitoring China's financial instability.

My general impression is that the paper is not well motivated and lacks rigorous discussion of the calculated measures, and not recommended for publication.

Major comments:

1. The paper is not well motivated. The paper has a comprehensive introduction of the history of financial instability measurement, but how does the paper fits to the existing literature? It seems to me that the authors apply the existing methods to analyze China's financial market condition but does not say why the calculation of the Chinese market contributes to the literature. In my opinion, as China is a fast-growing country with many institutional reforms taken place over the past several decades, one of the ways to motivate the paper is to check the relevance of these instability measures to the changing institution, but for that purpose the paper needs major revision.

2. The choices variables for constructing indices need more explanation and discussion. For example, the authors calculate FSI by adopting risk spread, non-performing loans ratio, and overall loans-to-deposits ratio. But why are these four variables chosen? Why not others? Does this simply follows the convention of the literature, or designed specifically for China's inter-bank market? Are the calculated measures sensitive to any of the chosen variable? In my opinion, because China's financial market has experienced several major institutional changes over the years, these measures sometime may only reflects government's policy objective rather than the true financial market condition, but there is no rigorous discussion on the issue.

Minor comments:

1. The authors need to provide more explanations following each table. For example, by table 2 the authors conclude that “the CNFCI performs a little better than CNFSI”. But the authors do not explain explicitly what measures leads to the conclusion? Is it based on the comparison of Adjusted R2 and RMSE? Is the difference statistically important?

2. Section 3.1 provides a detailed introduction of China's financial system, but how are these background associated with the aim of the paper? Reading so much information may diversify the reader's attention from the key focus of the paper.

3. The construction method of the indices (Section 4) should be put before data sources, because it is logically more straightforward to choose data upon the adopted model.

4. In section 4.1.6, the author defines blue, orange and red systemic financial stress alarming signal by setting the cut-off point as 1, 1.5 and 2.5. Why choose these numbers? Similarly, in 4.2.2, the authors identify the episodes of systemic financial distress by setting the cut-off as CNFCI declines by 50% within 12 month. How is the "50%" chosen? The authors need more sensitivity analysis to show the robustness of the identification.

5. In section 4.3.1 the authors specify the dynamic model by lagging the variables by three periods. How is the lagged period chosen?

6. The conclusion is too long. It is better to cut it to one or two paragraphs.