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Chinese think tank raises alarm over ‘poisonous’ debt, with no quick fixes in sight

Amount owed by governments, firms and people is more than double the nation’s GDP

Leverage in China has soared to alarming levels, with overall debt swelling to more than twice the size of the economy at the end of last year, a leading government-backed think tank said.

The amount owed by governments, non-financial businesses and households climbed nearly 11 percentage points over the year to 228 per cent of GDP, or 154 trillion yuan (HK$179 trillion), the National Institution for Finance and Development (NIFD) said in a report on Thursday.

The institution is among the first government-backed bodies to acknowledge the huge debt pile, and many economists say the total is still underestimated.

Bad loans to grow as disposal becomes harder, says chairman of China’s biggest ‘bad bank’

The debt-to-GDP ratio in the United States was 233 per cent last year.

According to 2015 third-quarter data from the Bank for International Settlements, emerging markets as a group had much lower levels of debt, at 175 per cent of GDP.

Economists at a forum hosted by the NIFD said China needed to rein in the “barbarous growth” of the debt and reverse the “poisonous” obsession with borrowing from banks, and also needed to clean up borrowing and lending among enterprises.

Estimates of China’s leverage ratio vary but there is consensus that the corporate sector, especially bloated state-owned enterprises, are the riskiest borrowers.

Data from the think tank showed the ratio for the non-financial corporate sector was 131 per cent, with nearly two-thirds of the corporate debt held by SOEs, which have made slower-than-expected progress on reform. “Deleveraging is the most urgent and most complicated issue in China,” senior World Bank economist Zhao Min said. “The debt crisis is not at the point of explosion but the risks are piling up.”

Yang Kaisheng, former president of the Industrial and Commercial Bank of China, said there was no need to be overly pessimistic. But he warned that banks held a large portion of corporate bonds that could carry risks given the lower corporate constraints on capital strength.

NIFD director Li Yang said there were six ways to stop the debt piling up but none was a quick fix. The remedies were: promoting economic growth, inducing inflation, offsetting bad debt with qualified assets, writing off debt, amassing assets and revaluating assets. “Given the downward pressure on the economy will persist over the long run, the overall leveraging ratio will continue to rise and we must be ready for a protracted war,” Li said. The think tank said the corporate leverage ratio rose to 131.2 per cent at the end of last year from 124 per cent a year earlier.

NIFD researcher Chang Xin said that if complex internal corporate debt chains were taken into account, the overall corporate leverage ratio would rise to 184 per cent.

“Many enterprises borrowed to pay interest and everybody counts on banks to keep lending so everyone can live on,” NIFD Division Chief, Zhang Xiaojing said. He then added, “It’s poison.”

Economists also said regulators should respect market rules, with last year’s government-backed bull stock run highlighting the dangers of favoring some sectors. And now, China’s banks face highest level of bad loans since 2004.

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