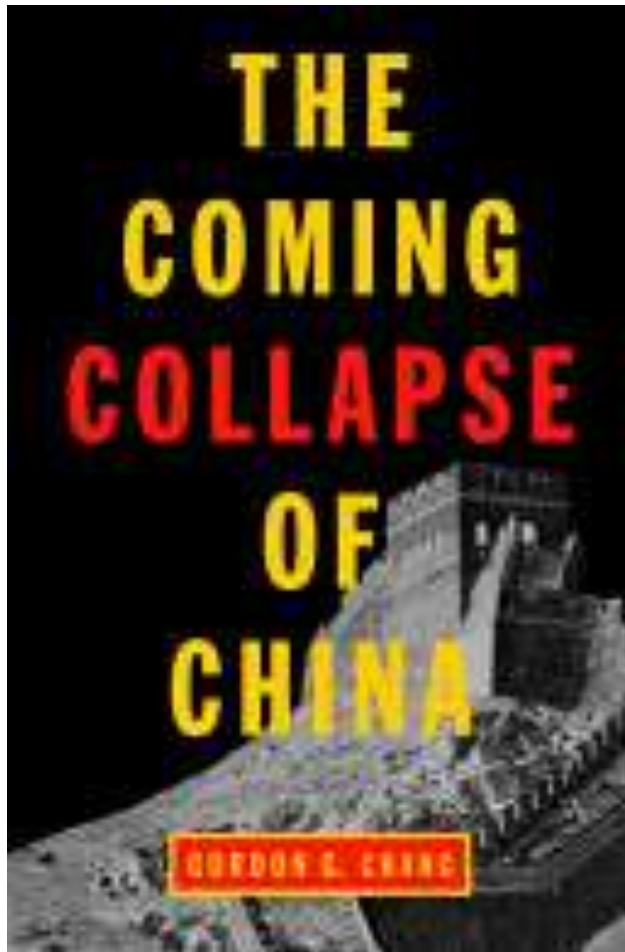


Does china have a debt crisis?

Professor Shaun Breslin
University of Warwick

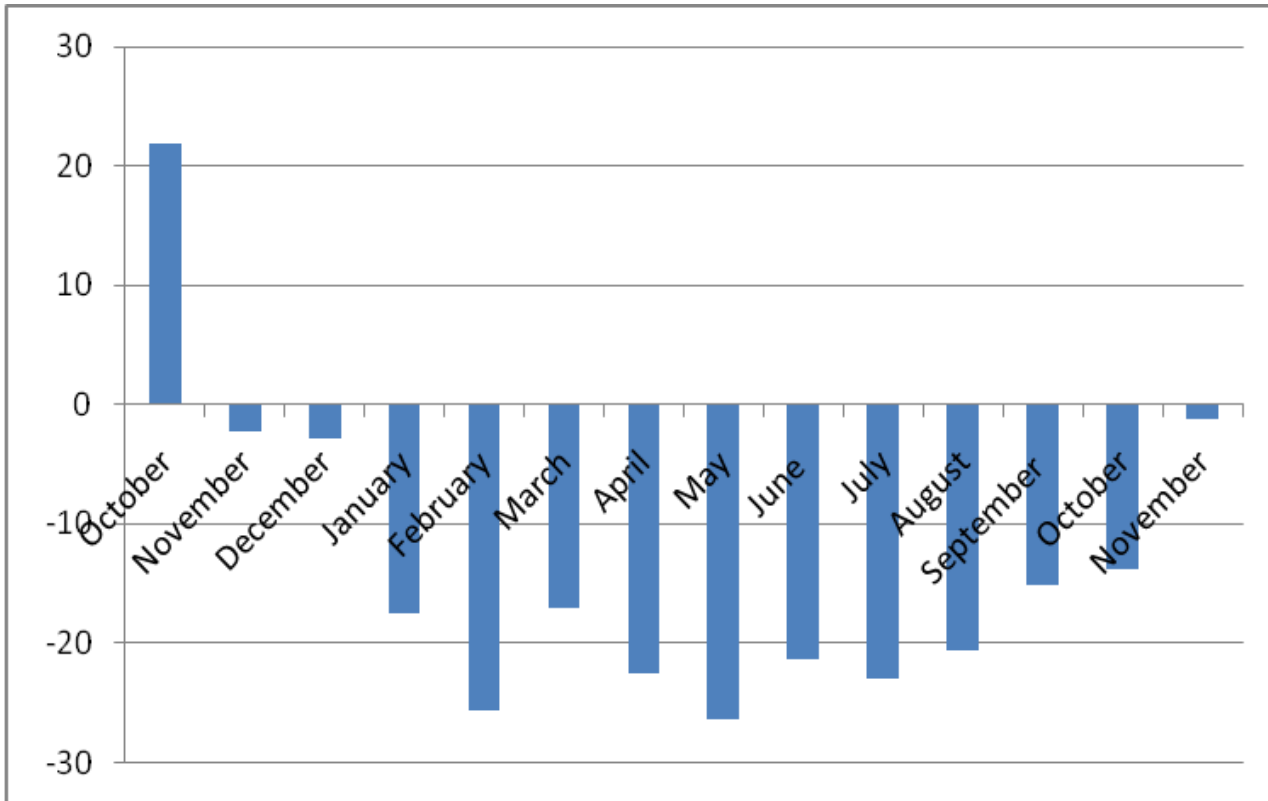




Cheng Siwwi

“Our version of the U.S. subprime crisis is the lending to local governments, which is causing defaults”

The Impact of the Crisis



Not a financial crisis but a potential crisis in the real economy

c.20 million net job losses by the summer of 2009 – mostly migrant workers

2009 new bank loans more than doubled to RMB9.6 trillion
2010 a further RMB7.96 trillion

Chovanec, the total provision of credit in China rose by US\$15 trillion in five years from the end of 2008 –equivalent to “the size of the entire U.S. commercial banking sector”

2013 total credit grew by 20 per cent despite a supposed tight monetary policy

The role of 10,000+地方融资平台公司

took half of loans lent in 2009
funded 80-90 per cent of local govt infrastructure projects

Growth of Debt (Again)

CBRC survey 2010 - 70 per cent of LGFV loans would not generate enough profit to meet their interest payments

NAO 2010 - LGFV debt just under RMB5 trillion with local governments holding slightly double that in direct liabilities to get to a combined total of RMB10.71 trillion

Victor Shih – all debt that will become the responsibility of local governments c.RMB20 trillion.

c.50% of GDP

Chinese Academy of Social Sciences - total local debt of RMB19.94 trillion in 2011

Nomura 2013 – LGDV debt **alone** had reached RMB19 trillion in 2012

NAO 2013 - local government debt had reached RMB17.9 trillion (10.6 trillion in direct liabilities and the rest in contingent debt that local governments could fall responsible for through guarantees

60% of debt to mature by end of 2015

Wang Changyong – liabilities over 150% of local government income in 2014

AND

New loans to roll over old loans
and now bonds to roll over loans

Will corporate debt become local government debt?

危机 ?

A solvable debt crisis

though with pain for some?

GITIC 1998

A crisis of local government financing?

An Irrational (?) financial/banking system?

A bubble economy?

Local Government Financing

Selling land use rights to raise local revenue

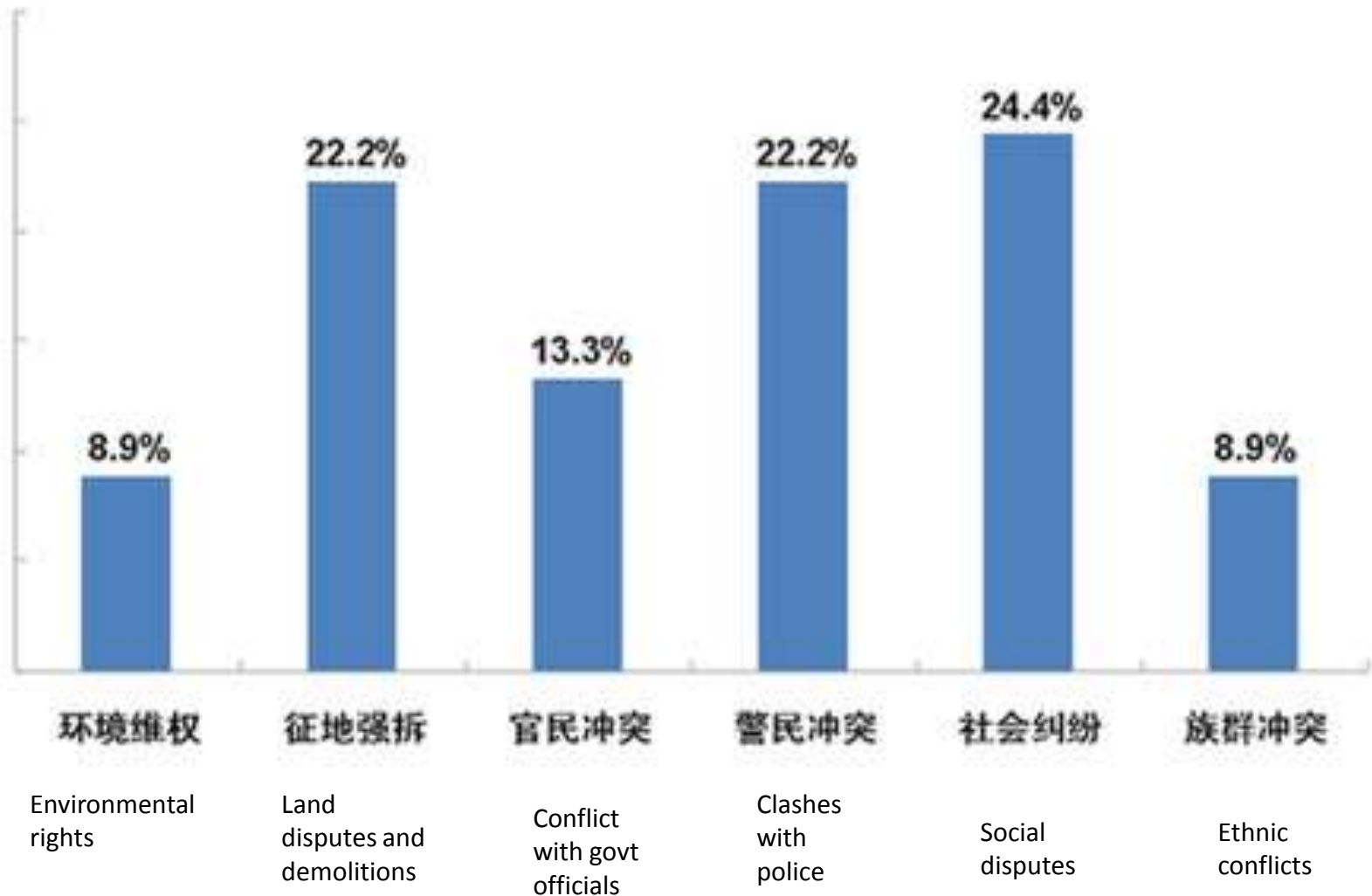
increased by over 40 per cent in 2009
by a further 100 per cent in 2010
by 14 per cent in 2011

NET income for local governments in 2011 over RMB1 trillion

fell back slightly in 2012

But still over 80 per cent of the expenditure of local
government-managed fund

Causes of Mass Incidents, 2012



Irrational (?) Banking System

Banks are good at

- supporting state industrial policy
- maintaining the state owned sector

- funding large as well as state enterprises

- sterilising foreign currency inflows

- providing protection in times of crises

Banks are bad at

- preventing moral hazard

- funding the small and the private

- rewarding savers

- financial repression

Into the Shadows

Sarah Hsu – c30% of all enterprise funding since the 90s

financial leasing (buying equipment to lease out), a small but growing number of private equity firms, financing guarantees, investment companies, online P2P lending, ponzi schemes underground banking and money laundering

a “positive role as a complement to the traditional banking system” in providing finance to “the real economy”

though collapsed in Wenzhou in 2012

The growth of semi-formal shadow banking

bank related trusts and wealth management products

hence credit growth in 2013 despite monetary tightening



The Third Plenum: A Reform Agenda?

new private banks

interest rate liberalisation

resources to be allocated according to market forces

strengthening property rights

breaking down monopolies

ending local protectionism

readjusting centre-local financial relations

fiscal reforms

Shadow banking regulation

but mainly aimed at trusts and banks?

A central control agenda?