Macro Roundup Artcile

Headline: China's Debt Isn't The Problem

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Tweet: .@michaelxpettis argues that rising Chinese debt as a % of GDP is a symptom of losses associated with non-productive investments in property, infrastructure, and manufacturing; China's debt to GDP ratio is on par with the US.

Summary: The $47.5tn total debt pile has grown further in 2023, which might mean that China has now finally overtaken the US in debt-to-GDP terms. The surge in Chinese debt is not itself the problem but rather a symptom of the problem. The real problem is the cumulative but unrecognised losses associated with the misallocation of investment over the past decade into excess property, infrastructure, and, increasingly, manufacturing. Resolving China's debt problem is not just about resolving the liability side of the balance sheet. What matters more to the overall economy is that asset-side losses are distributed quickly and in ways that minimise financial distress costs. That is why restructuring liabilities must be about more than protecting the financial system. It must be designed to minimise additional losses. Related: Can China's Long-Term Growth Rate Exceed 2–3 Percent? and China Economy Memo: Tempest in a Teapot or Crisis A-Brewing? and The Debt Supercycle Comes to China

Primary Topic: China

Topics: Business Cycle, China, Financial Markets, GDP, Op-Ed/Blog Post

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