

Macro Roundup Article

Headline: [Trillions in Hidden Debt Drove China's Growth. Now It Threatens Its Future](#)

Article Link: <https://www.wsj.com/world/china/china-economy-debt-borrowing-33f08b5e>

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| Publication | Wall Street Journal |
| Publication Date | July 15, 2024 |

Tweet: Economists estimate that Chinese local government financing vehicles (LGFVs) have debt of “somewhere between \$7-11T, about twice the size of China’s central government debt” and that \$800B is at high risk of default. @WSJ

Summary: Chinese cities discovered decades ago that they could take on debt through state-owned entities known as local government financing vehicles (LGFVs), to fund sewers, streets and the like. Because the debts don’t appear on government ledgers—only on the LGFV books—cities were able to sidestep borrowing limits. Economists estimate the size off-the-books debt is somewhere between \$7-11T, about twice the size of China’s central government debt. The total amount isn’t known—likely not even to Beijing, say bankers and economists—because of the opaqueness surrounding the financial arrangements that allowed the debt to balloon. As much as \$800 billion of that debt is at a high risk of default, economists say. If the financing vehicles can’t meet their obligations, Beijing could either pay for bailouts, which might create a bigger problem by encouraging unsound borrowing. Or it could allow insolvent funding vehicles to go belly up, exposing Chinese banks to serious losses and potentially spurring a credit crunch that would further erode economic growth. Rhodium Group found that only a fifth of nearly 2,900 LGFVs it reviewed last year had enough cash to cover their short term debt obligations and interest payments.

Related Articles: [The Rise and Fall of LGFVs and China Economy Memo: Tempest in a Teapot or Crisis A-Brewing?](#) and [China’s Debt Isn’t The Problem](#)

Primary Topic: China

Topics: Business Cycle, China, GDP, Growth, News article

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