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Macro Roundup Artcile

Headline: The Rise and Fall of LGFVs

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Publication	Cogitations
Publication Date	June 13, 2024

Tweet: Interest-bearing debt of China's ~12,000 local government financing vehicles (LGFVs) has grown from 13% of GDP in 2014 to 48% in 2023. @JonathonPSine finds their average borrowing cost of 5% far outpaces their 1% return on assets.

Summary: There are nearly 12,000 local government financing vehicles (LGFVs) in China, collectively, they are gargantuan. As of 2020, according to bottom-up surveys of LGFV financials, aggregated assets and liabilities equal 120% and 75% of China's GDP, respectively. LGFV's financial situation is, to put it frankly, very bad. In aggregate, earnings (before interest, taxes, and depreciation, i.e., EBITDA) do not cover even their interest payments. Including government subsidies only occasionally pushes the interest coverage ratio above one. Moreover, the average borrowing cost for LGFVs, 5% or so, far outpaces their 1% return on assets, posing obvious sustainability problems. Cash flows paint an equally troubling portrait. Every year 80 to 90% of LGFV spending is funded by new debt. On the whole, LGFVs operating inflows do not come close to covering operating expenses. New debt is routinely added simply to make up the gap and sustain current operations.

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Primary Topic: China

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