

Macro Roundup Article

Headline: [China Economy Memo: Tempest in a Teapot or Crisis A-Brewing?](#)

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Tweet: According to @damienics and @hzsong, China is heading toward a protracted debt crisis which will see 40% of local government financing vehicles default with total losses of \$5T or ~30% of China's GDP. @MacroPoloChina

Summary: China is likely heading into a messy and protracted debt debacle that will be at least equal in magnitude to the state-owned enterprises (SOEs) debt drama in the late 1990s. Except the outcome this time will likely be a prolonged economic malaise. At a fundamental level, most if not all economic crises are essentially debt crises in various guises. China's is no exception. We believe the property sector crisis, which has largely peaked, is just a preview of the main event, which will see around 40% of local government financing vehicles (LGFVs) default on their debt. Defaults of this magnitude will affect regional banks that are most exposed to LGFV lending. We estimate total loss for LGFV creditors (including financial institutions such as banks and LGFV supplier/contractors) to be in the neighborhood of \$5 trillion, or ~30% of China's GDP. Related: Can China's Long-Term Growth Rate Exceed 2–3 Percent? and The Neoclassical Growth of China and China's Defeated Youth

Primary Topic: China

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

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