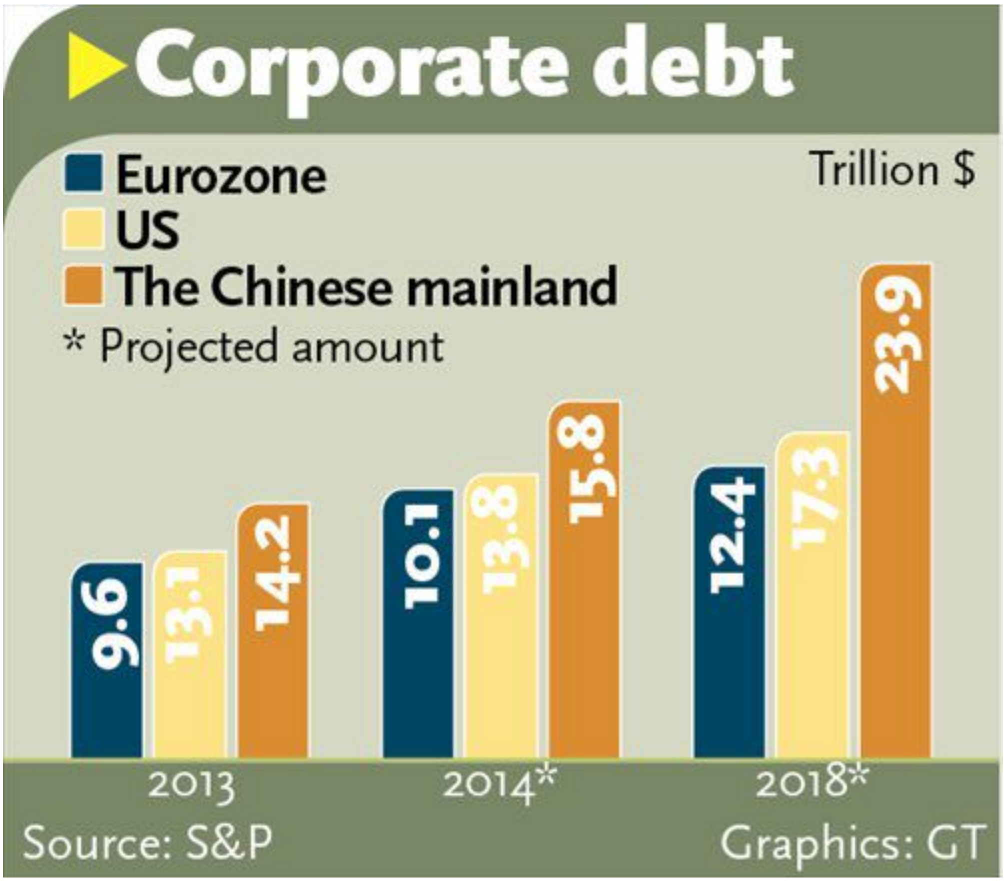
China surpasses US as world's top corporate borrower

By Liang Fei Source:Global Times Published: 2014-6-16 23:43:09

A night view of a business district in Ningbo, East China's Zhejiang Province. Photo: IC



Corporate debt

The Chinese mainland has surpassed the US as the world's top corporate borrower, and higher debt risk in the world's second-largest economy may mean greater risk for the world, a report said on Monday.

However, Chinese economists noted that the debt risk in China's corporate sector is still well under control.

Nonfinancial corporate debt in the Chinese market was estimated at around $14.2 trillion by the end of 2013, overtaking the $13.1 trillion debt owed by the US corporations, a progress happening sooner than expected, said a report from the Standard & Poor's Ratings Services on Monday.

The report expects that by the end of 2018 debt needs of mainland companies will reach $23.9 trillion - around one-third of the almost $60 trillion of global refinancing and new debt needs.

"It [the mainland surpassing the US as the largest corporate borrower] is not surprising at all, as the [size of] mainland non-service sector has already surpassed that of the US," Tian Yun, an economist with the China Society of Macroeconomics under the **National Development and Reform Commission**, told the Global Times on Monday.

Cash flow and leverage at mainland corporations has worsened after 2009, and debt risks in the property and steel sectors remain a particular concern, the report said.

Private companies are facing more challenging financing conditions - highlighted by China's first corporate bond default case of Shanghai Chaori Solar Energy Science and Technology Co in March and another case of default of leading private steel maker Shanxi Haixin Iron and Steel Group.

"The capital market has been sluggish during the past few years, leading to the fast growth in corporate debts," Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges, told the Global Times Monday.

Experts noted that the rapid growth in debt reflected some problems of the Chinese economy, but the size of the debt is still in a safe range and will not cause major risks as the economy remains stable.

"The problems of the Chinese economy are institutional and structural," Tian said, "By addressing these issues, debt risks can be managed."

Tian further noted that most corporate debts in China are internal debts, thus debt problems in the country will have limited impact on the rest of the world.

The report also said a possible contraction in "shadowing banking" will be detrimental to businesses as general.

But Xu noted that China's tighter supervision of the "shadow banking" sector will make it more transparent and better-regulated, which will reduce the potential risks in the sector.

Local governments face massive debt repayment pressure

China's local governments are facing huge debt repayment pressure this year with 2.4 trillion yuan ($390 billion) of debts due in 2014, China Business News reported Monday.

From 2009 to 2013, China issued 94 local government bonds raising 850 billion yuan, the report said.

With another 400 billion yuan worth of bonds to be issued this year, the total financing since 2009 will reach 1.25 trillion yuan, according to the report.

However, the total local government debt is much higher than the amount raised through the bonds, the report said, noting that major debt came from bank loans.

Although the central government has stated several times that the overall debt risk is under control, the statistics from China's **National Audit Office** show that some local governments have a debt-asset ratio of more that 100 percent and are facing huge repayment pressure, the report said.

Market analysts hold the view that local governments may borrow new debts to pay for the old ones.

The central government allowed local authorities to raise funds since 2009 in the wake of the global financial crisis, while the central government also issued bonds and repaid debts on behalf of the local governments, a practice criticized by some as not conforming to market economy principles.

As the bond issuing backed by the central government is limited and could not fully meet the local needs, the local governments also turned to opaque financing channels including shadow banking activities, the report said.

Despite the big debt pileup, no local government default has so far taken place.