

Financial Instability in China?

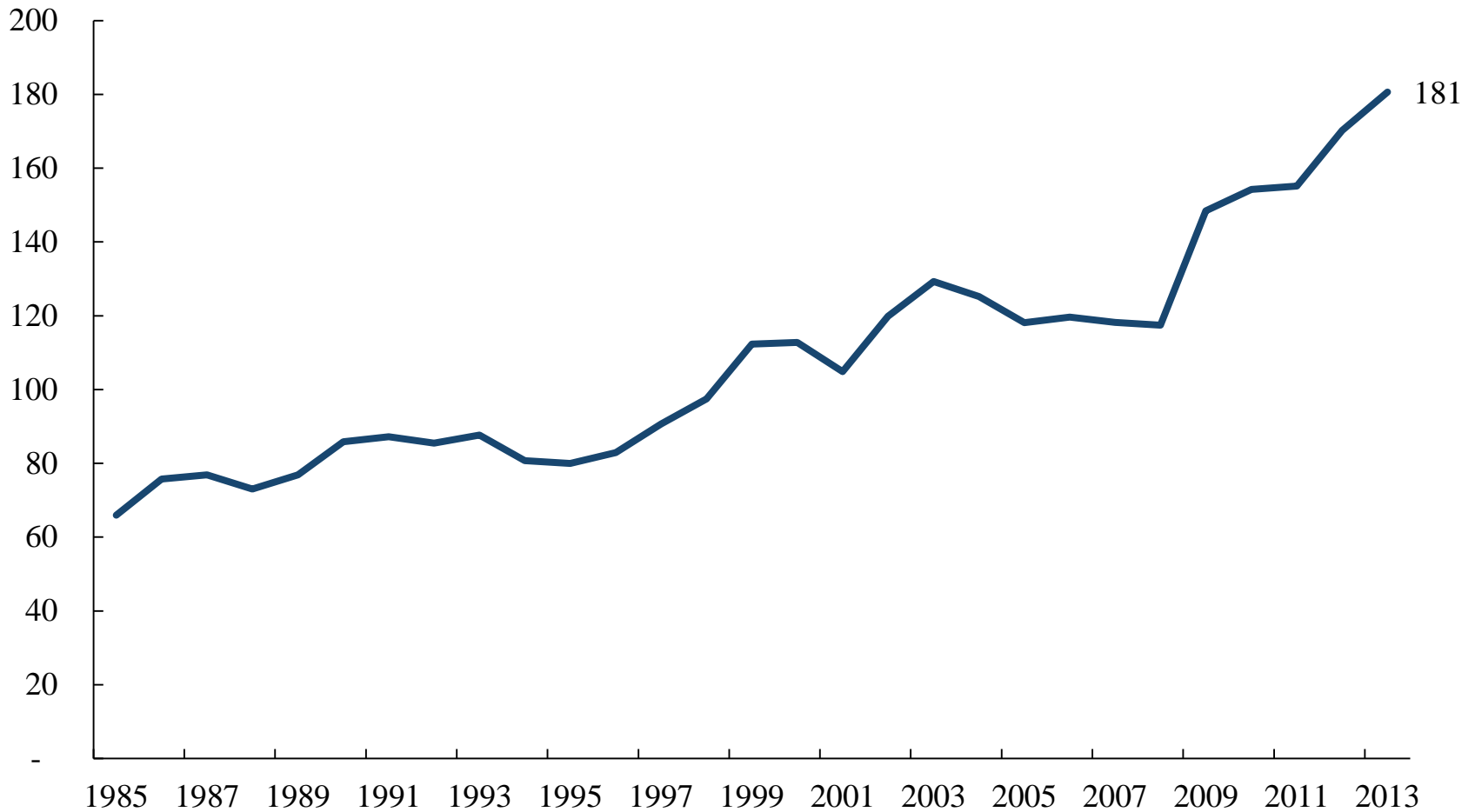
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Nicholas R. Lardy
Anthony M. Solomon Senior Fellow
Peterson Institute for International Economics

Credit has grown rapidly...

Credit to the non-financial private sector, 1985-2013

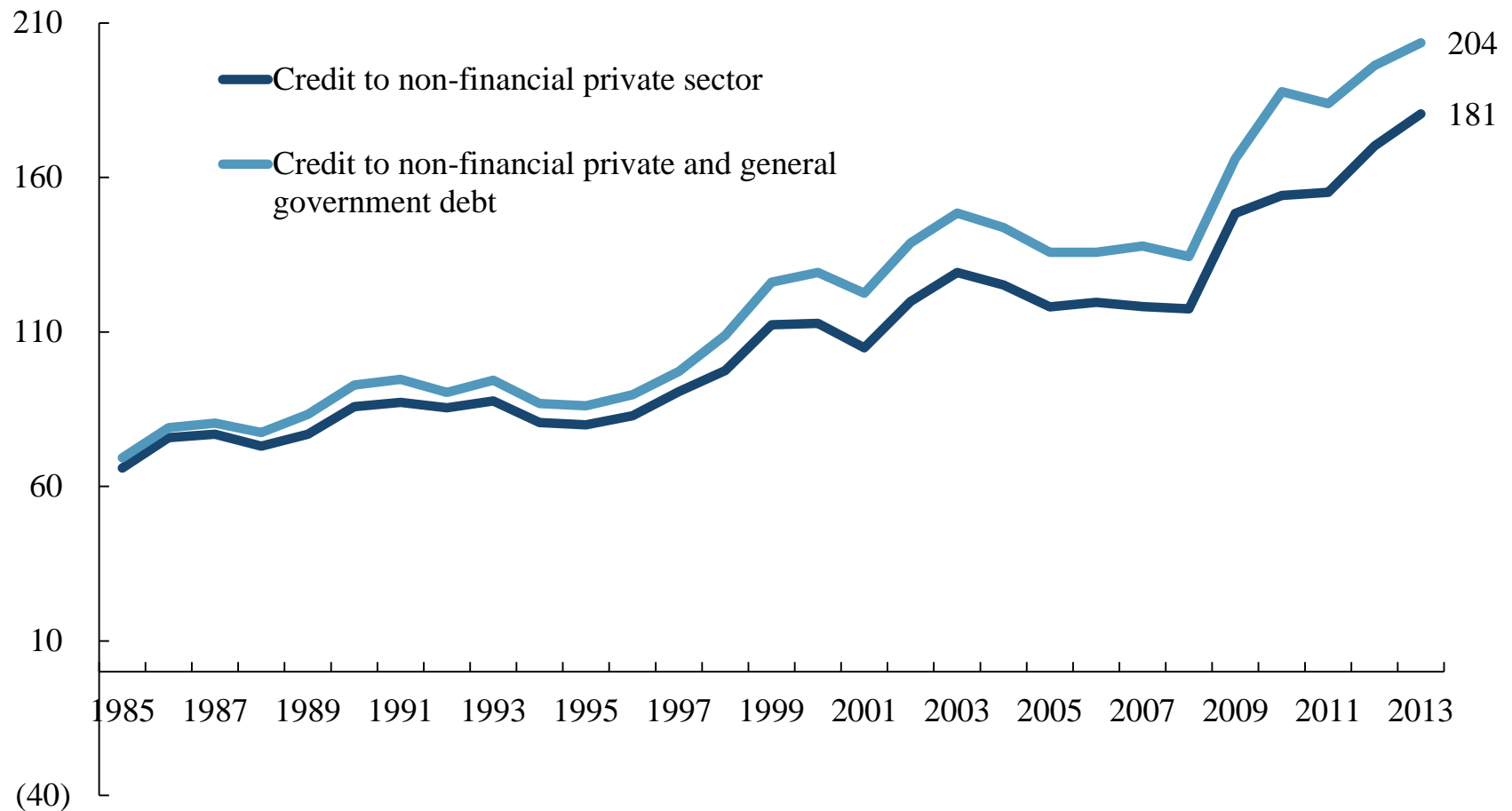
Percent of GDP



...including government debt...

Credit to the private and public sector, 1985-2013

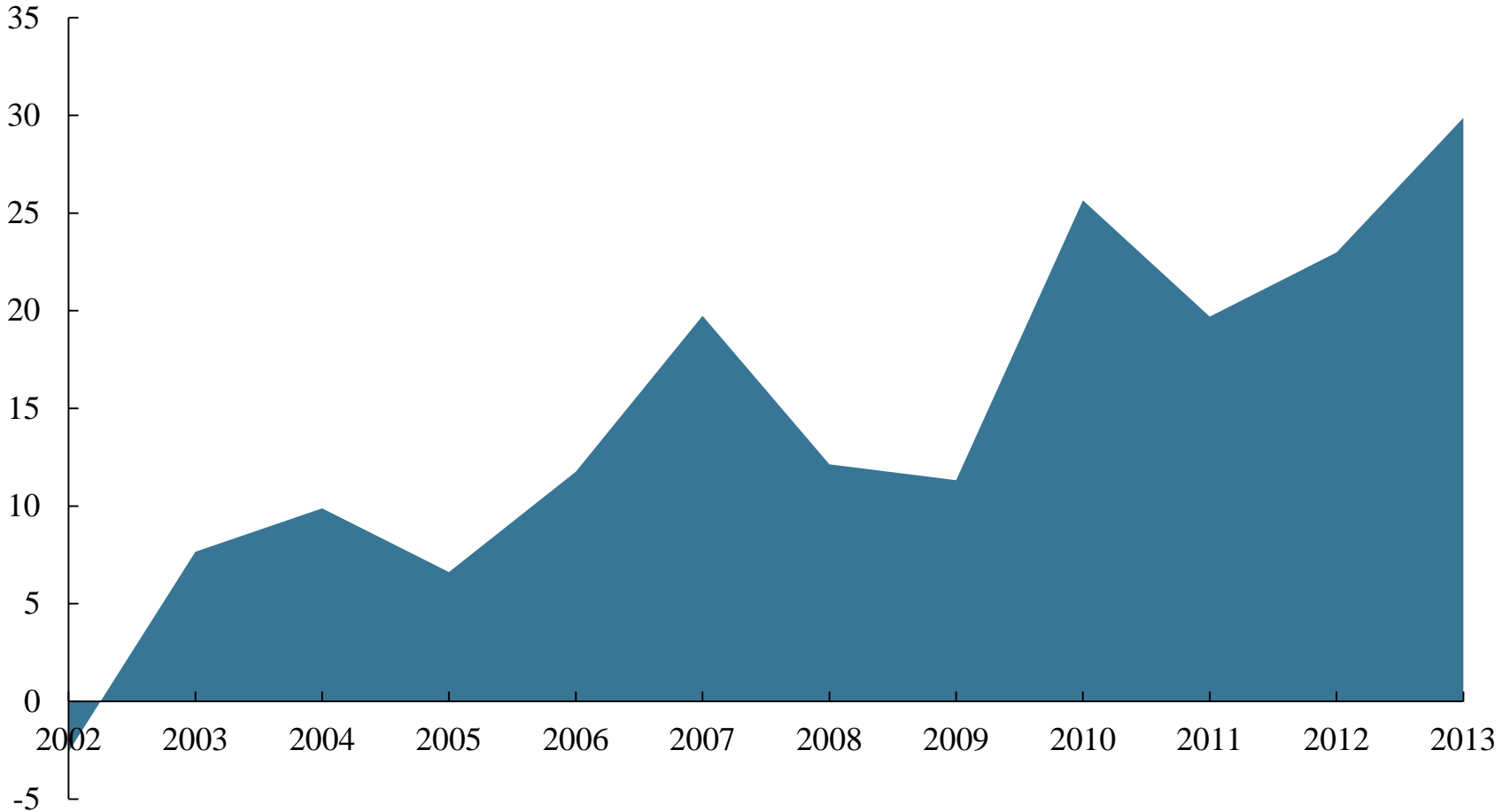
Percent of GDP



...and shadow banking is now a major source of funding

Non-bank lending, 2002-2013

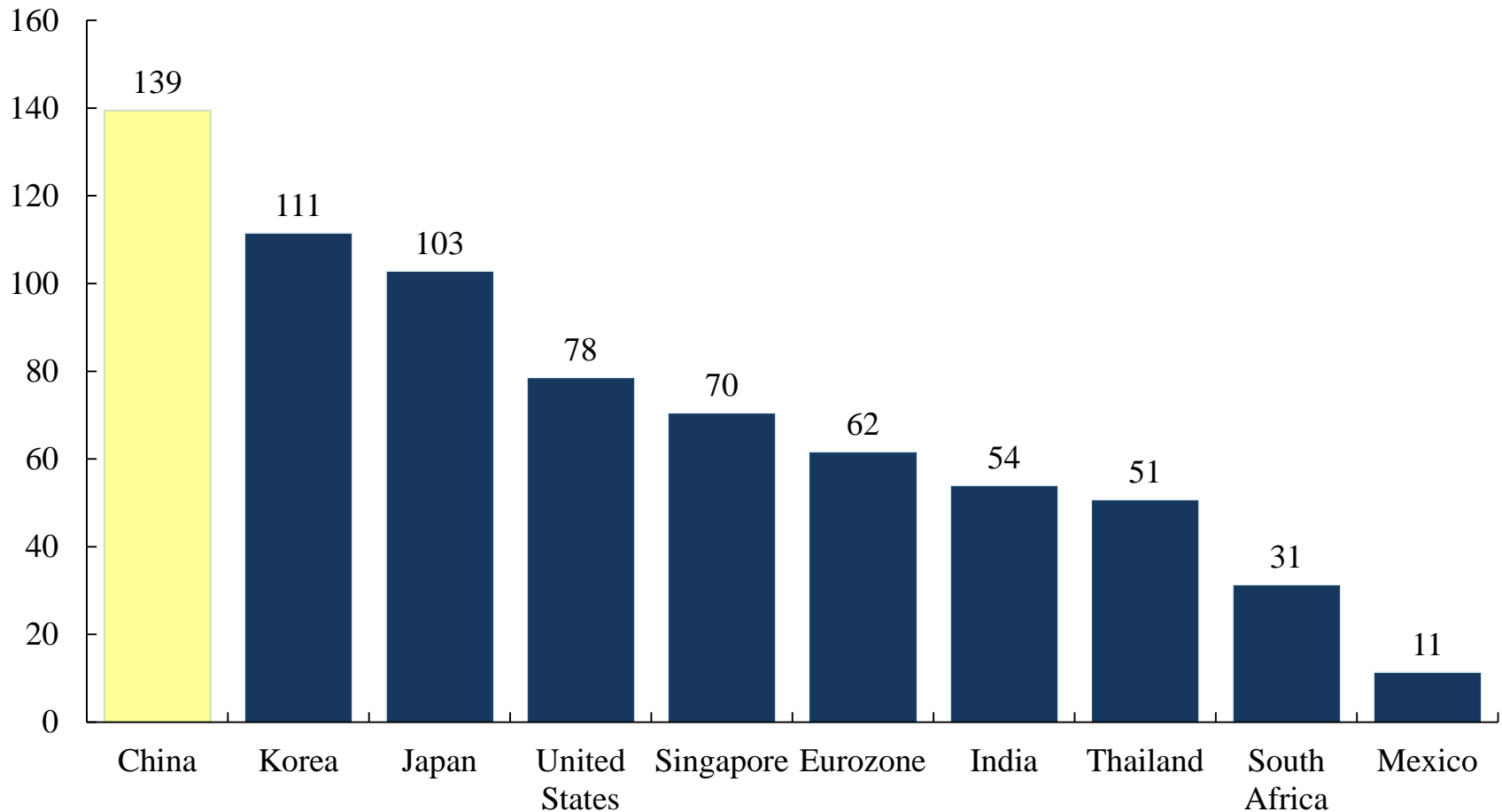
Percent of total social financing



Corporate leverage is extremely high...

Credit to non-financial corporations, 2012

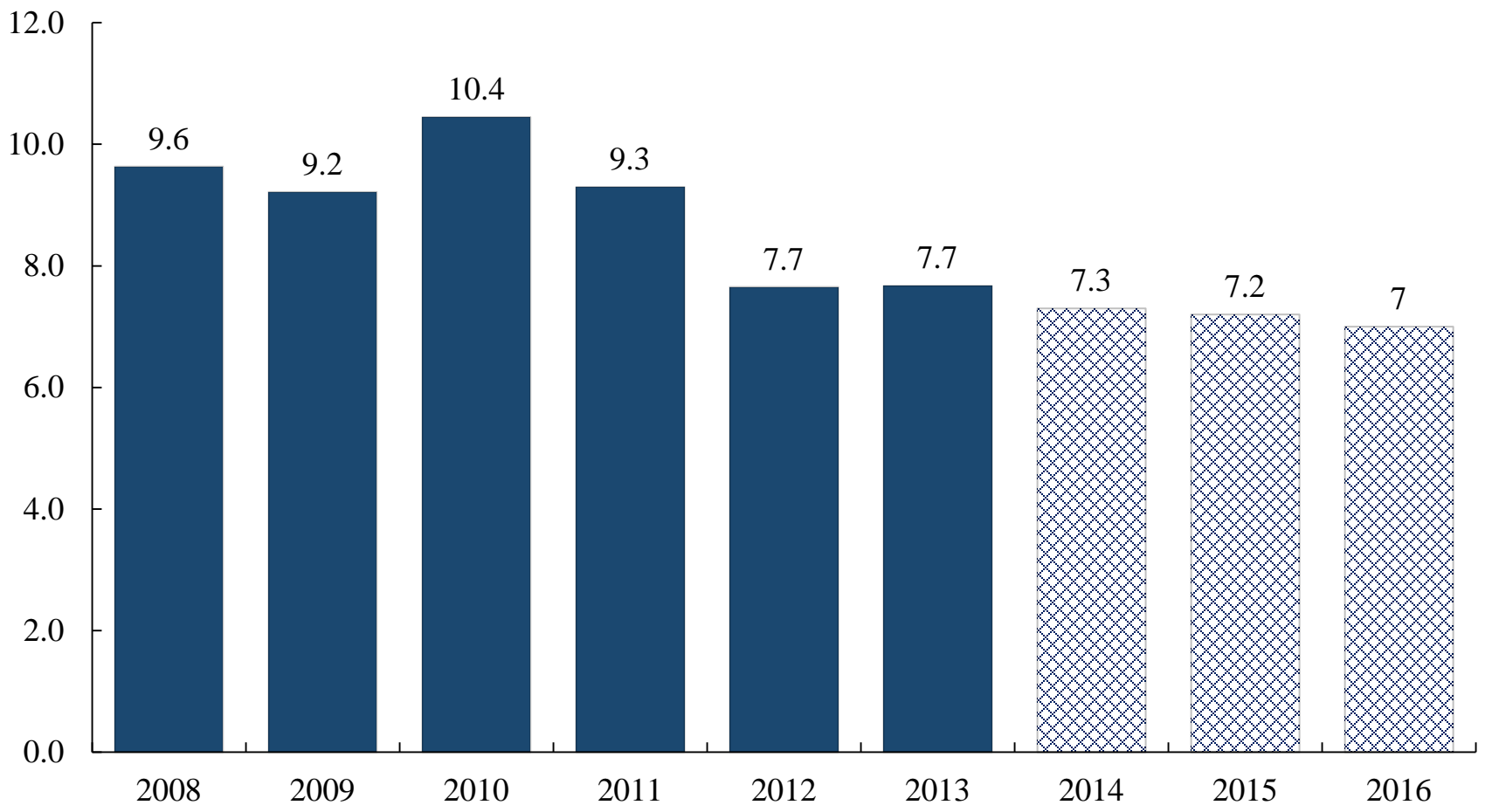
Percent of GDP



...and growth is slowing

Real GDP growth, 2008-2016

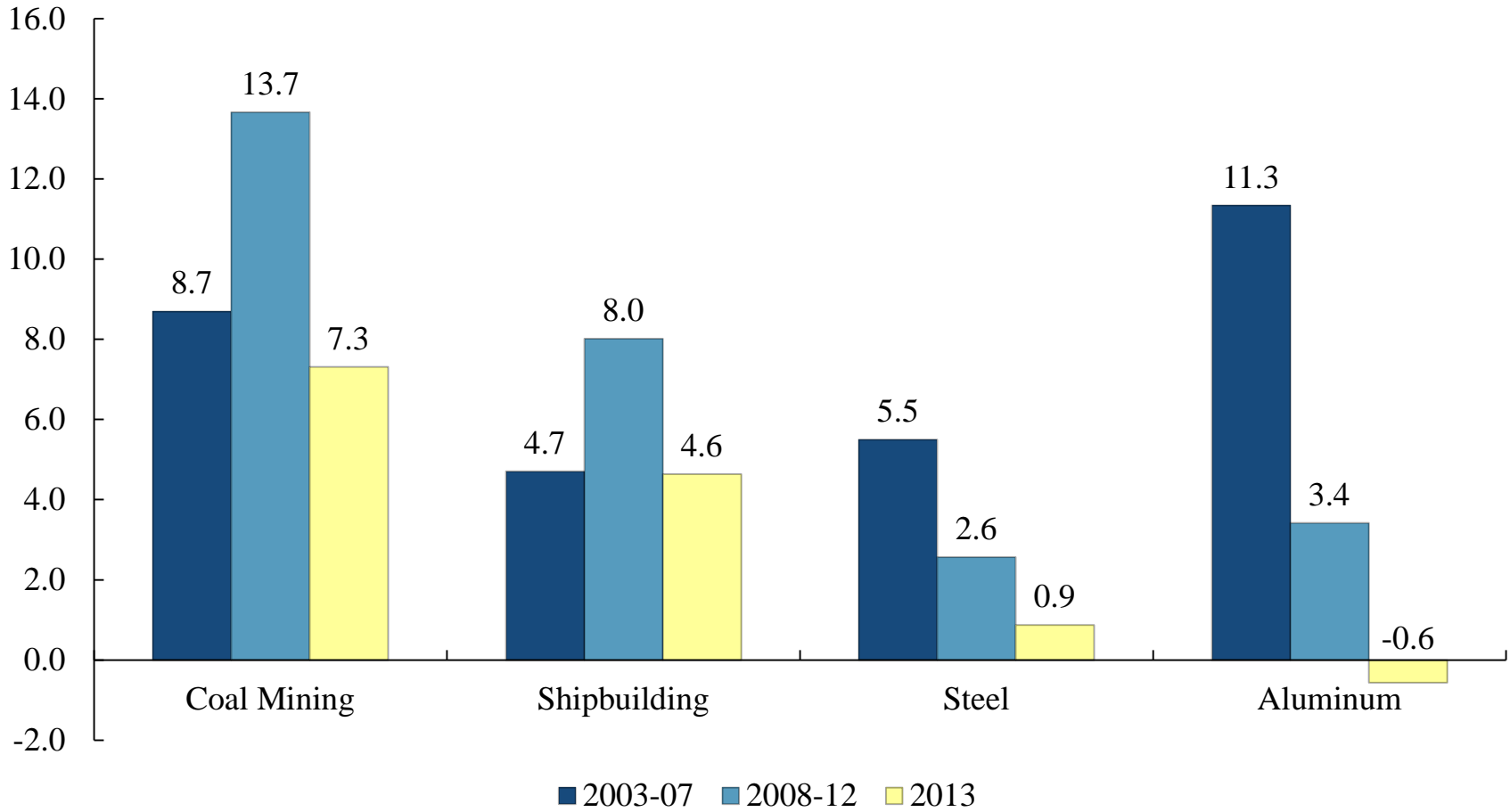
Growth Year over Year



Certain sectors have been severely affected

EBT Margins, 2003-2013

Percent



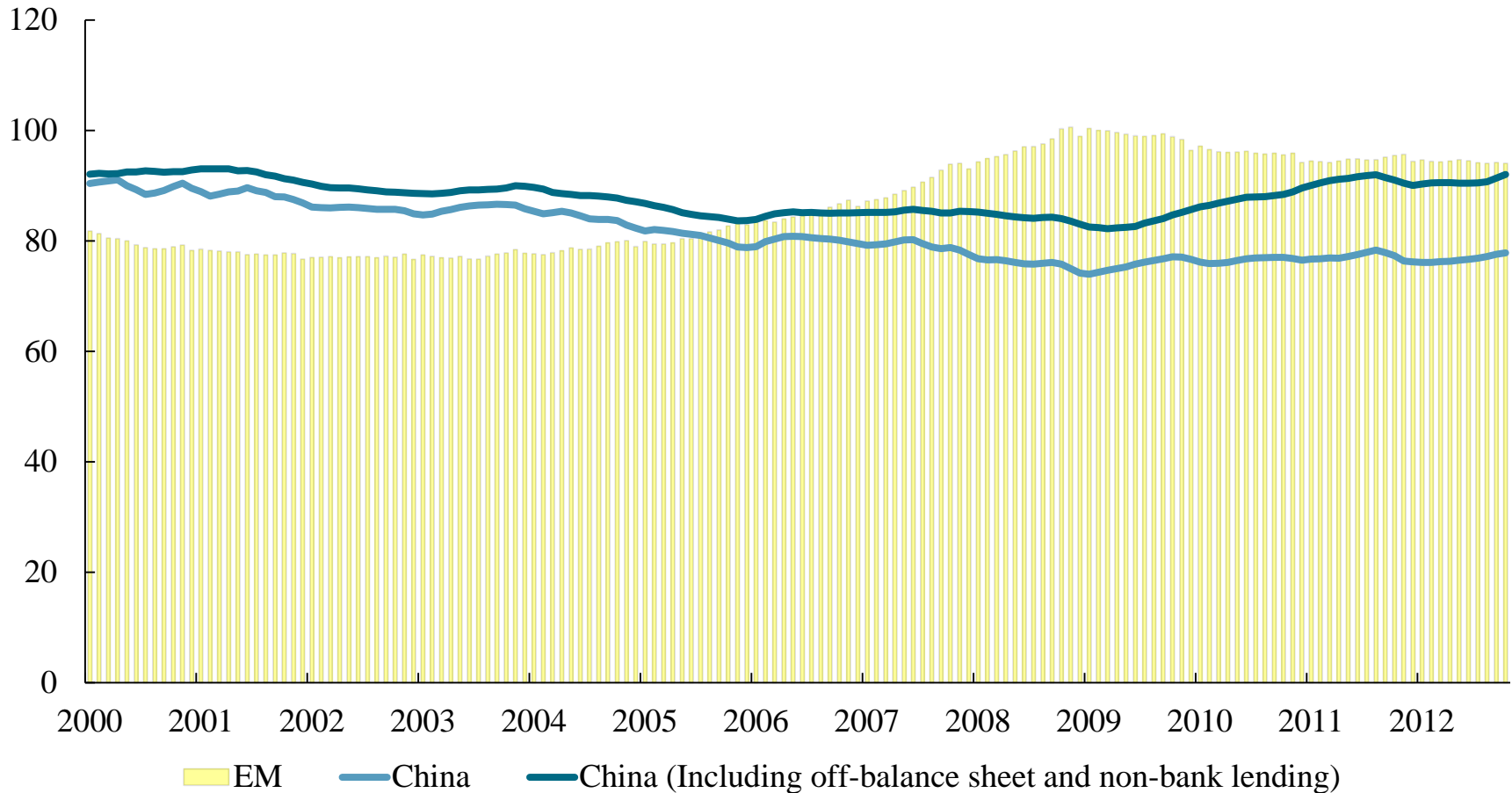
Defaults are rising

- **December 2012** – Default of Huaxia WMP tied to a Henan entrepreneur
- **March 2013** – Suntech Power defaults on overseas USD bonds
- **January 2014** – near default of China Credit Trust loan to Zhengfu Energy Group
- **March 2014** – Chaori Solar defaults on exchange-traded corporate bond

Yet credit is still well funded

Total credit to private sector/deposit ratio, 2000-2012

Total credit to private sector/deposits

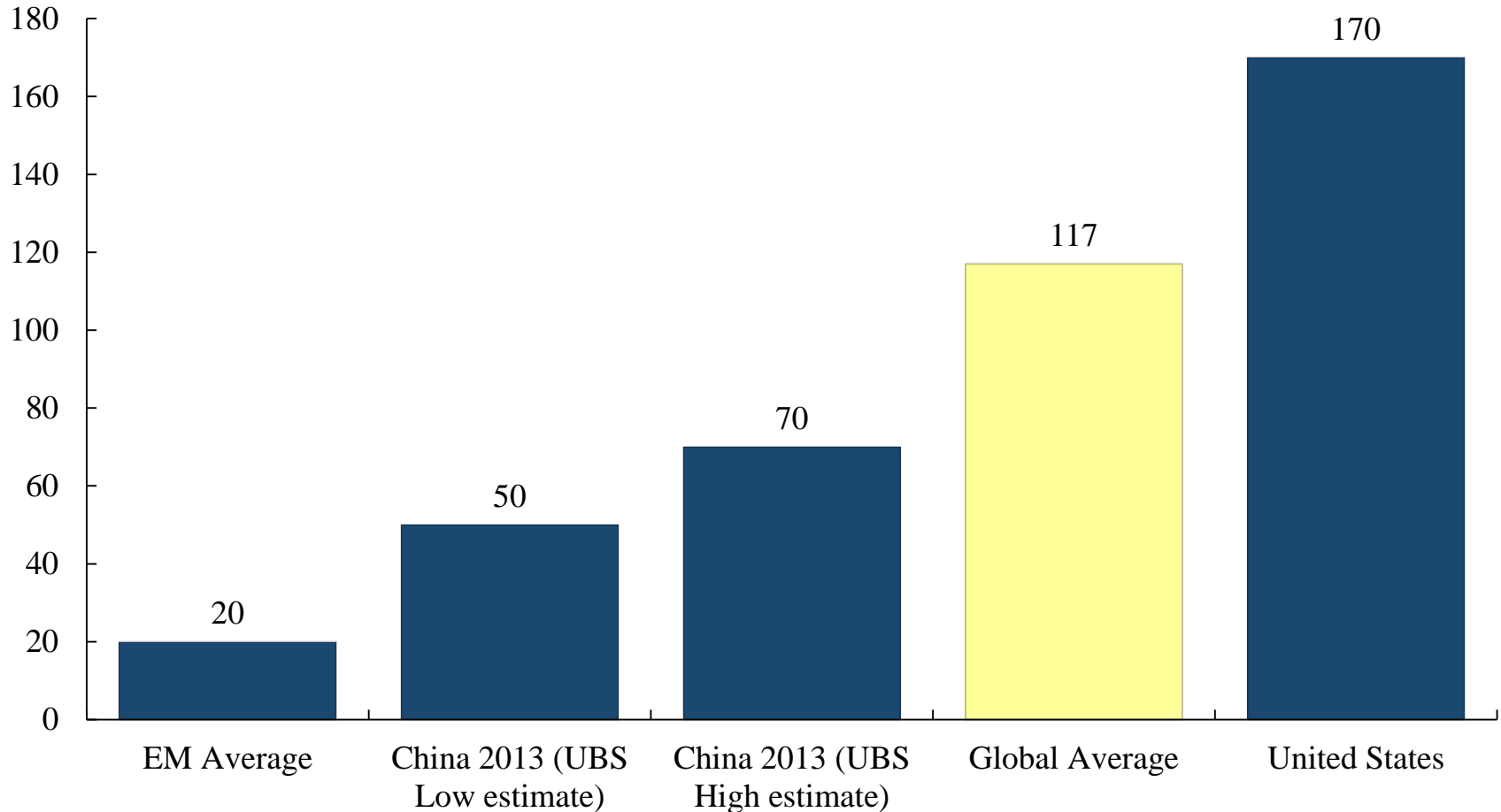


Source: Jon Anderson

...shadow bank is small relative to DMs...

Credit from non-bank sources, 2012

Percent of GDP

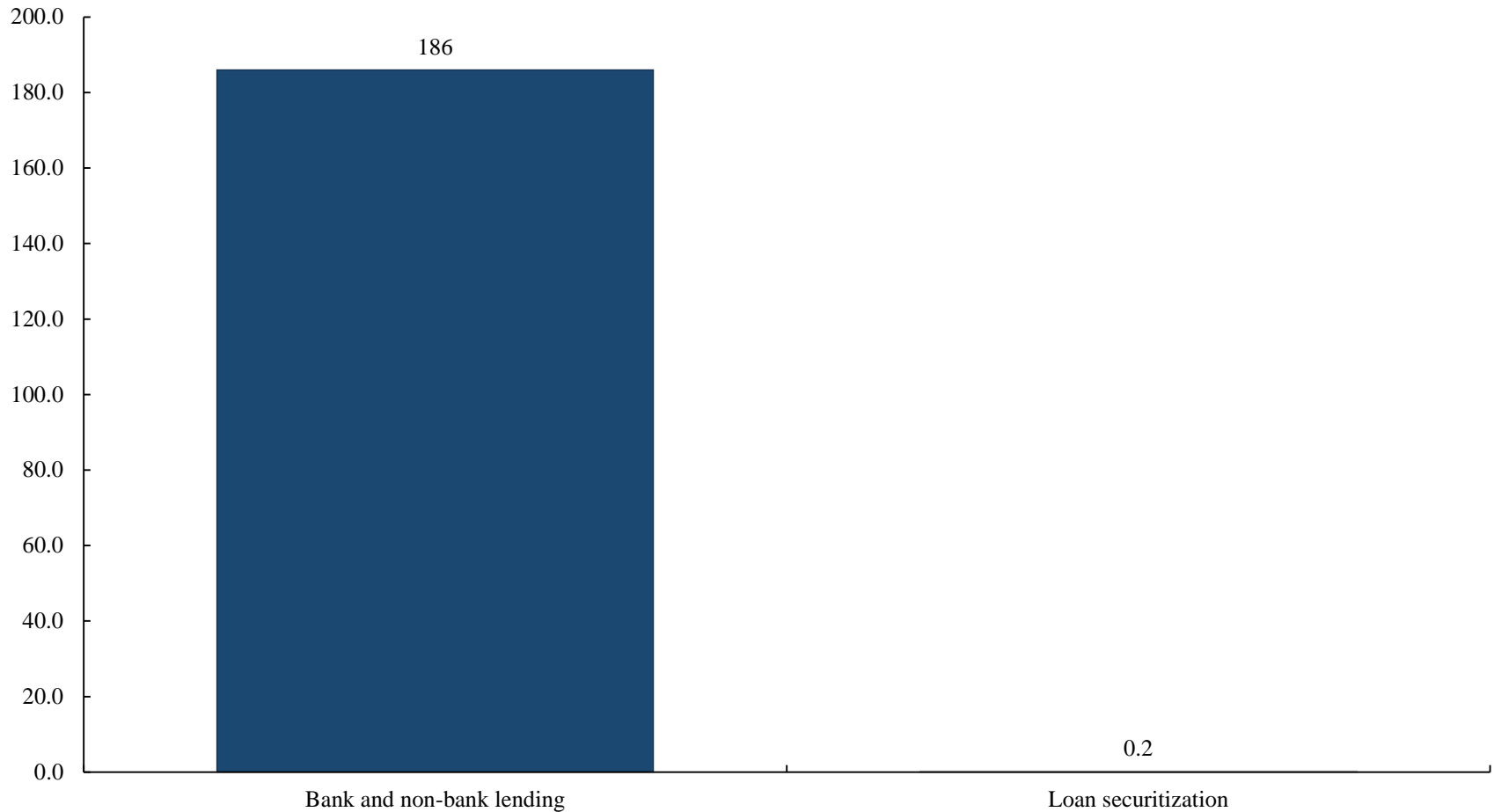


Source: Wang Tao

...and loan securitization is limited

Domestic credit by source, 2013

Percent of GDP

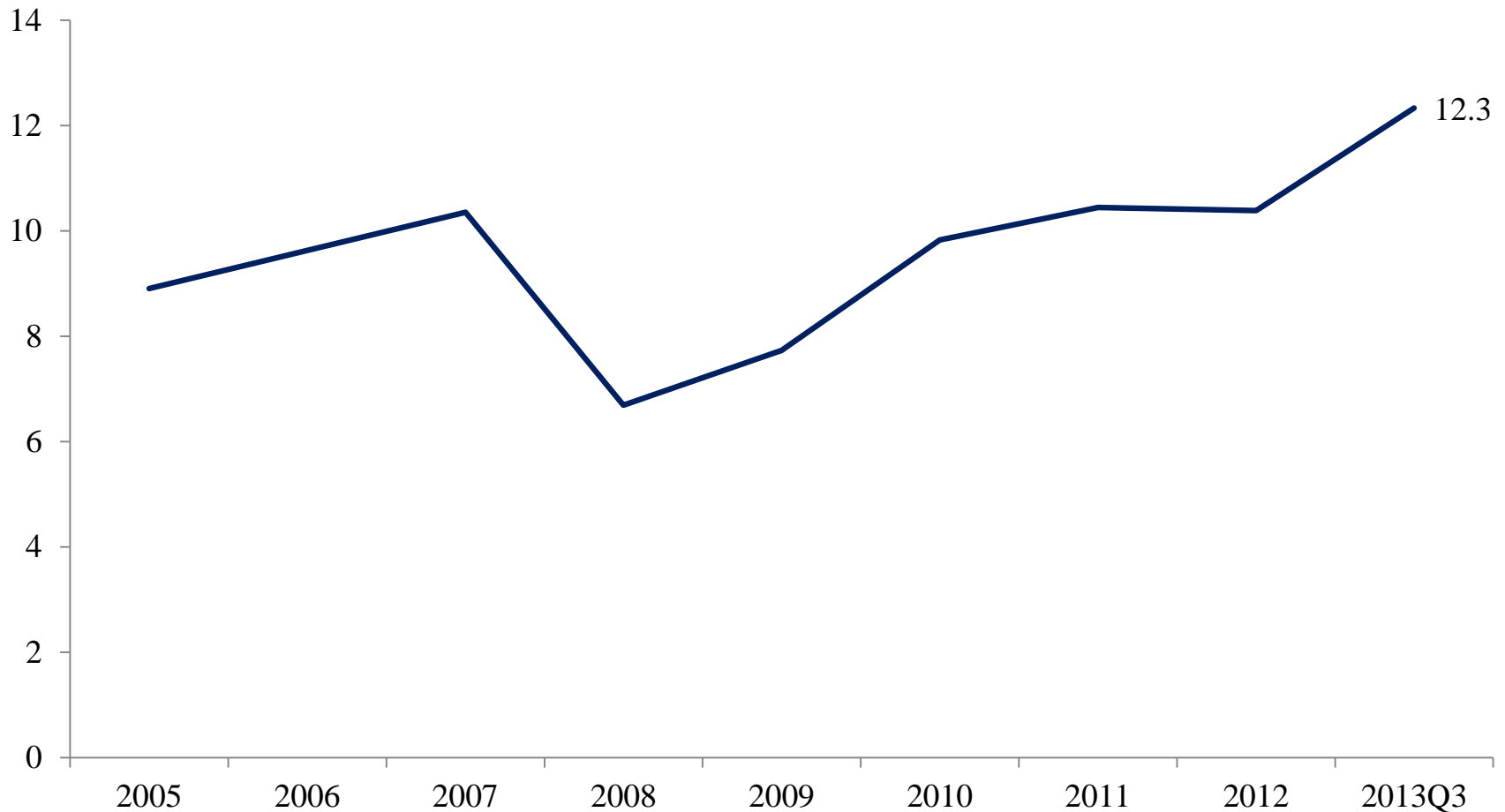


Source: Stephen Green

external debt is on the rise...

Liabilities to BIS reporting banks and trade credit (SAFE)

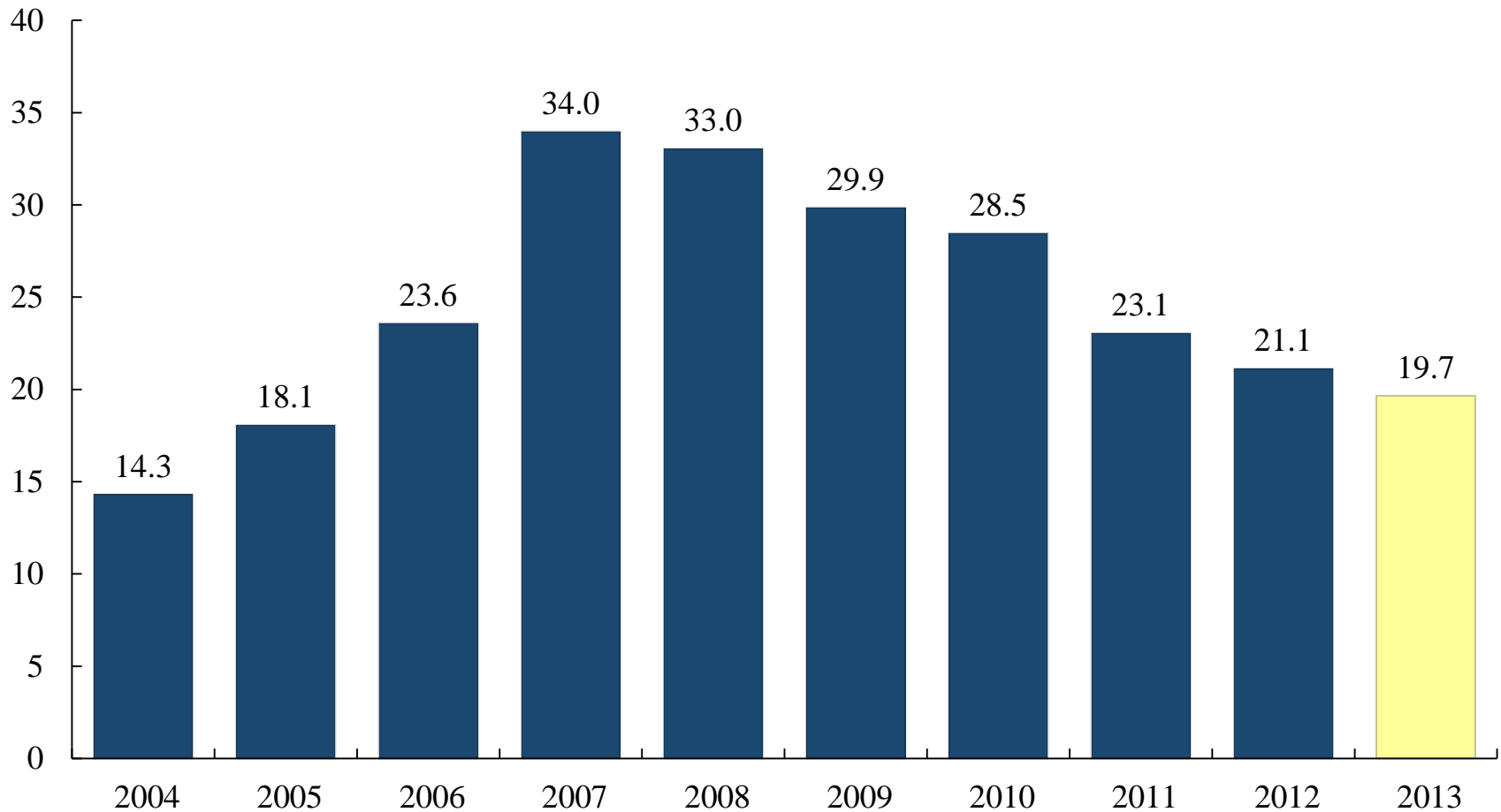
Percent of GDP



...but China's position is robust

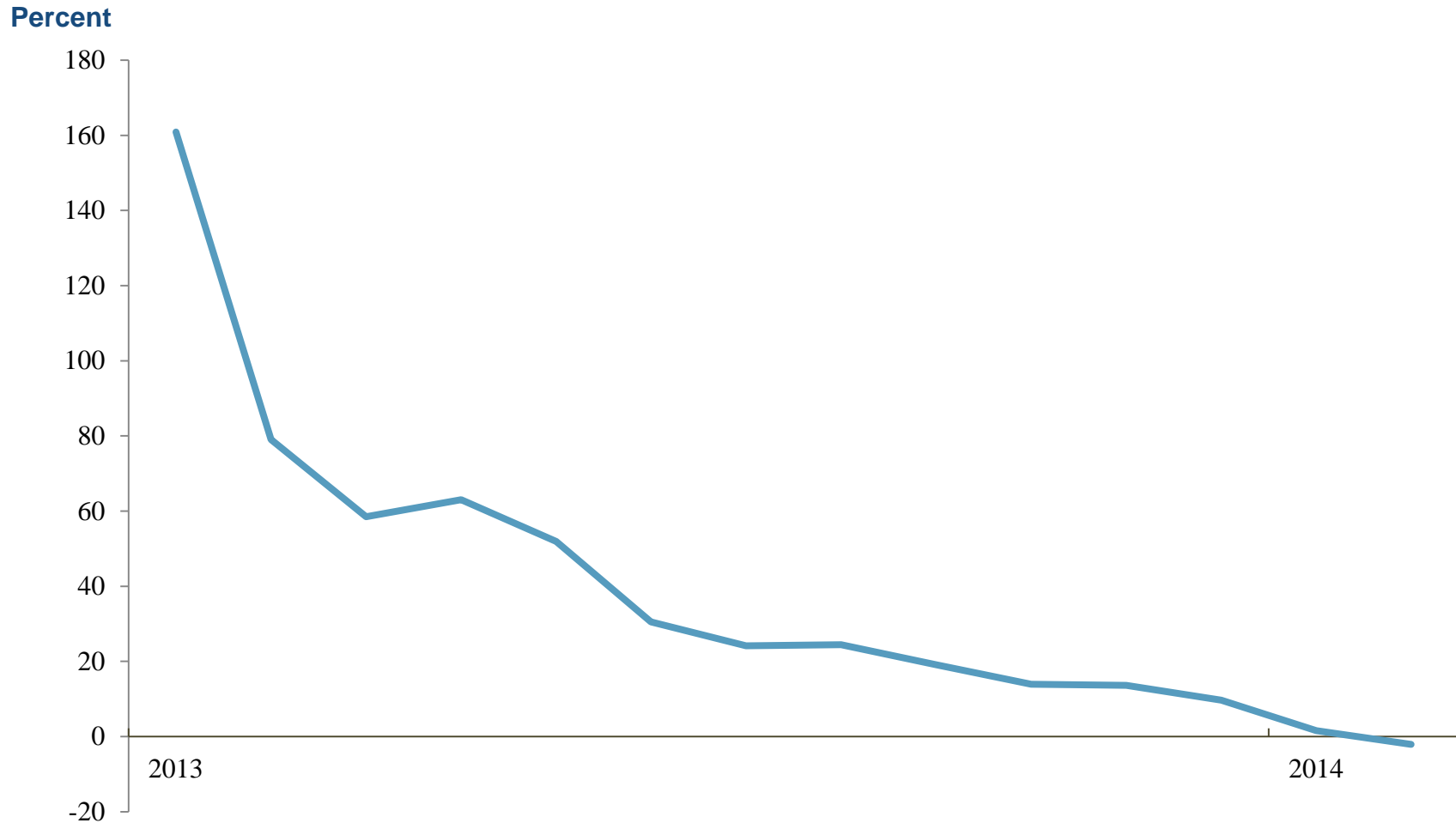
Net international investment position, 2004-2013

Percent of GDP



If China can stabilize credit growth...

Year-on-Year growth in social financing, 2013-2014



...improved credit allocation could bring gains

Return on Assets of Industrial Firms, 1997-2012

