

## CHINA'S HIGH DEBT v1

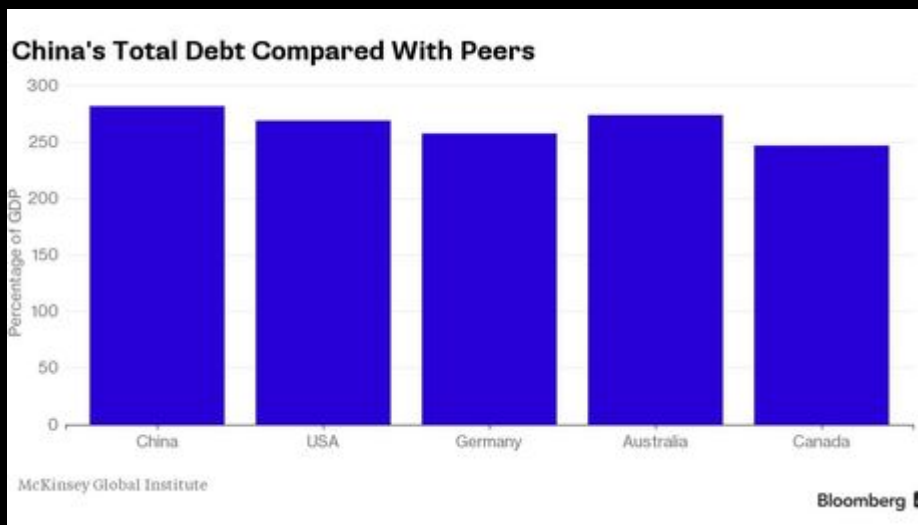
### China's Very High Mountain of Debt

Total debt is at 282 percent of GDP, with the rapid pace of credit expansion worrying policy makers.



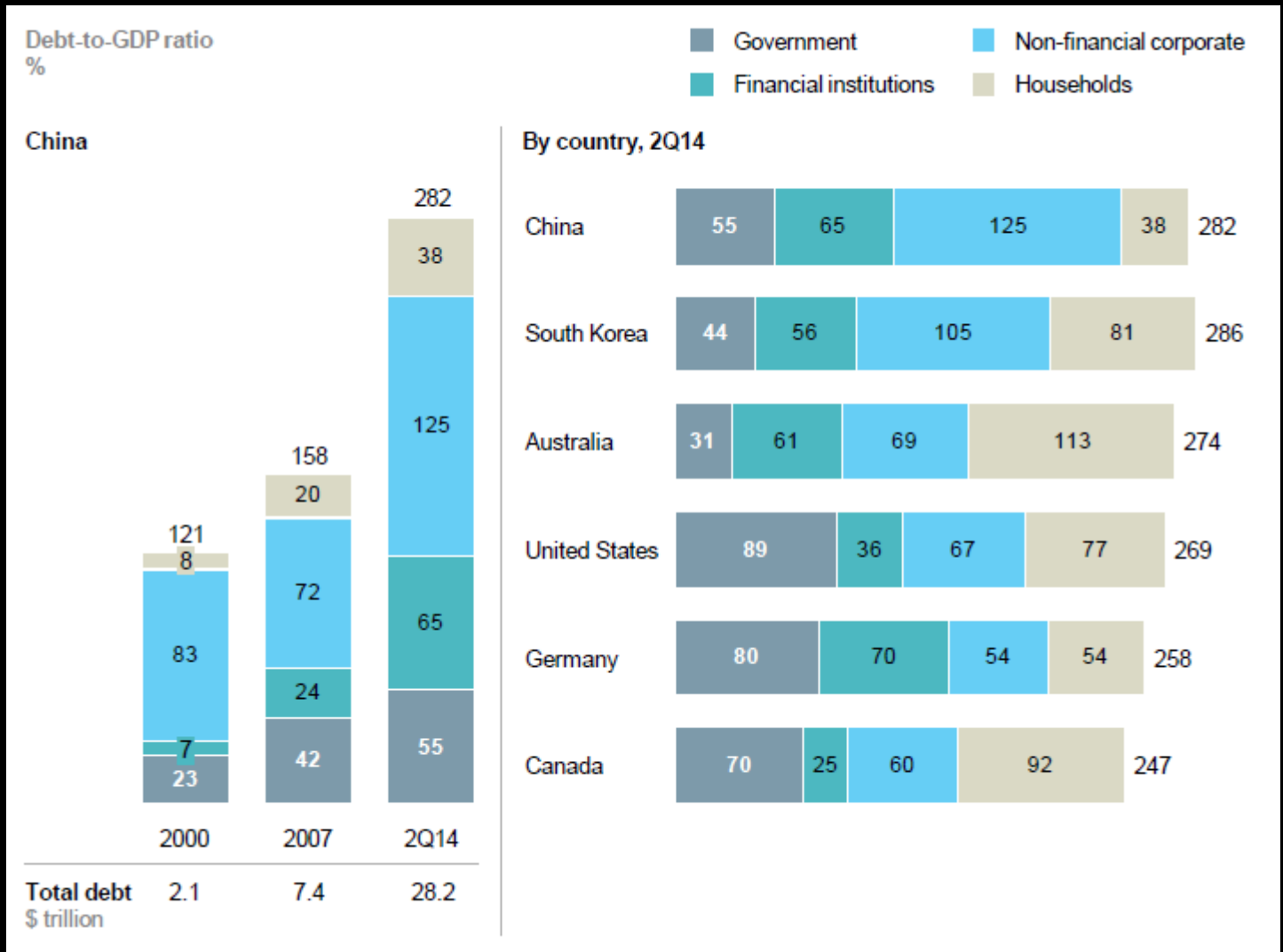
China's debt mountain is casting a shadow over the world's second-largest economy.

Total debt has reached 282 percent of GDP, according to the McKinsey Global Institute. While other big economies aren't far behind, it's the pace of China's credit expansion that's worrying policy makers, spurring targeted stimulus strikes while trying to avoid a debt sugar hit.



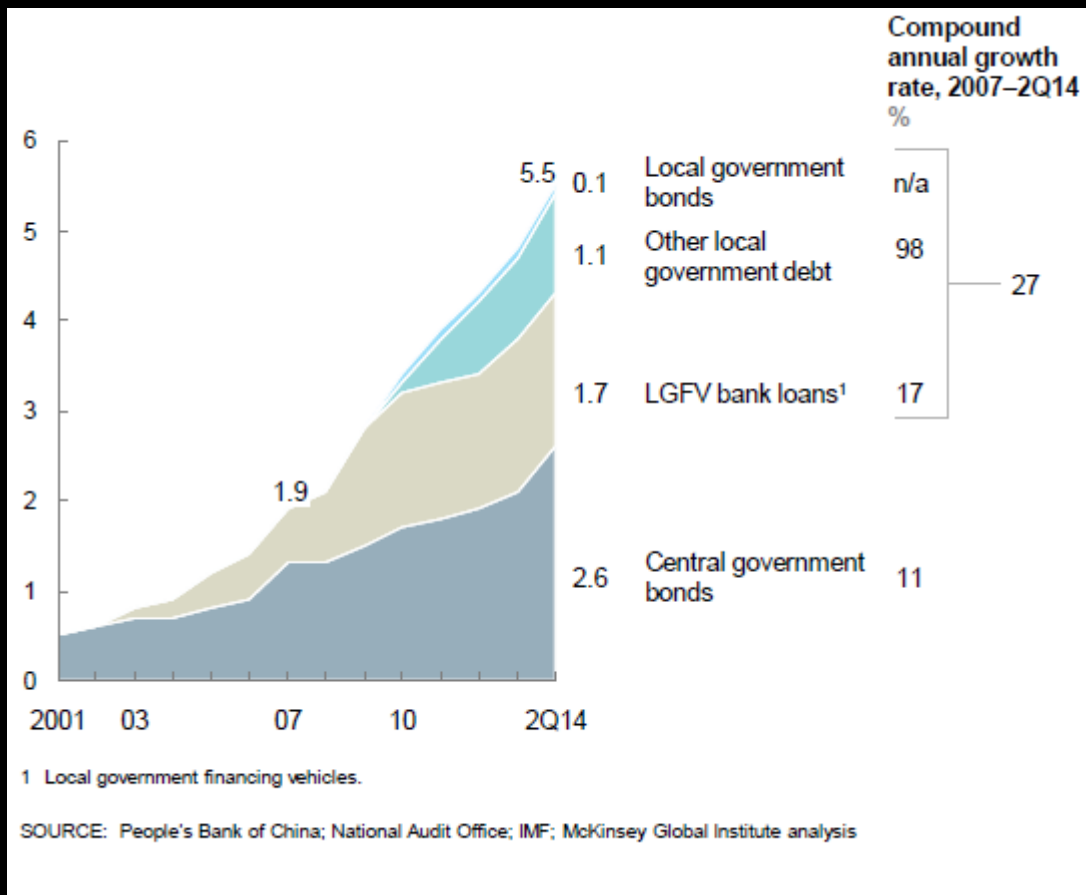
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Here's how the debt breaks down, according to McKinsey:



Central government debt is low by global standards, giving room for fiscal stimulus if the economic downturn deepens. Local authorities are in a more delicate position, having borrowed heavily via vehicles after the global financial crisis and now grappling with repayments.

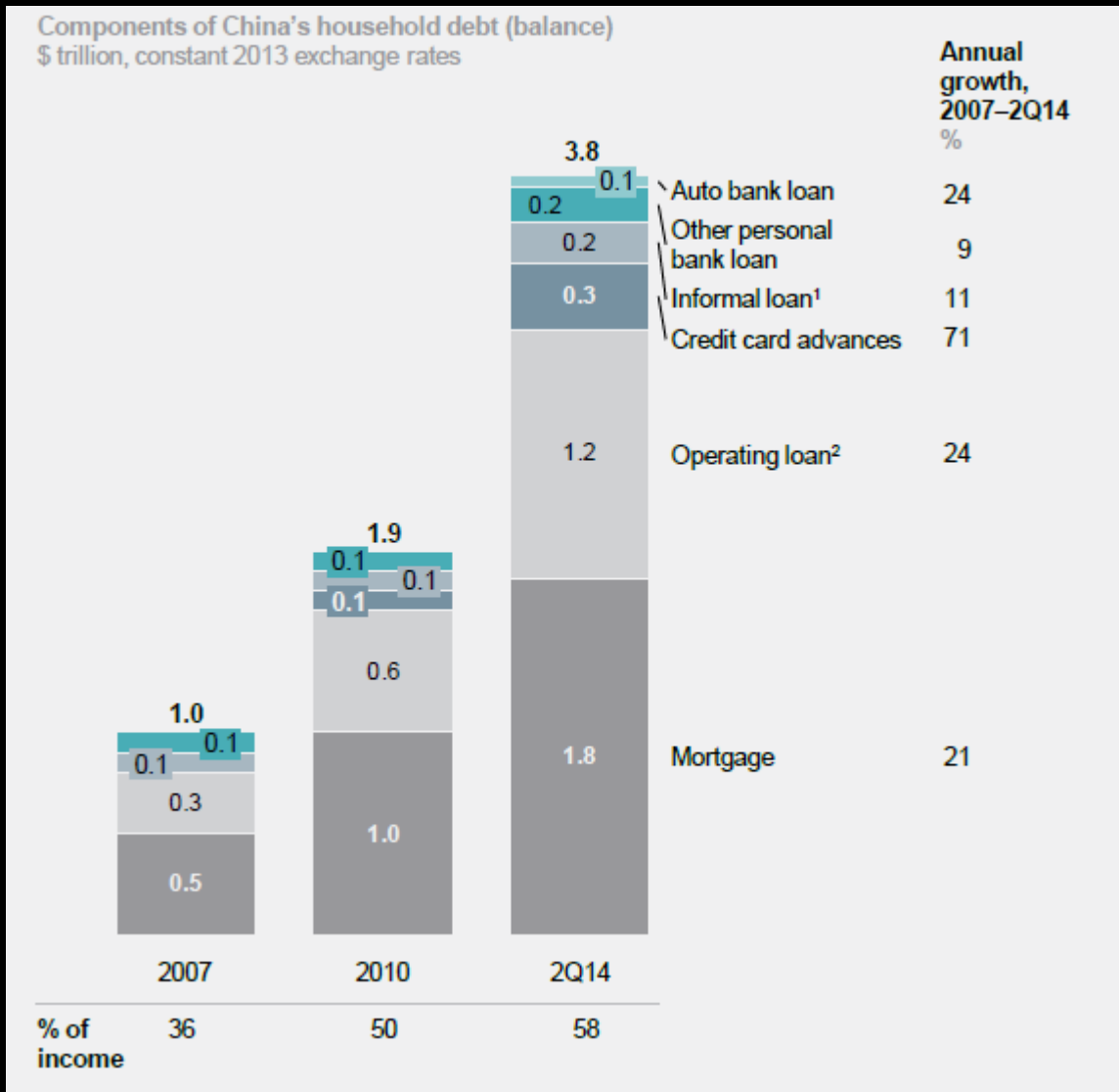
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While bank debt doesn't flash red alert yet, rising bad loans signal more pain to come. For non-financials, especially real estate developers, the burden is greater, raising question marks over whether monetary policy loosening will spur a pickup in loan demand among already tapped out corporates. Last month, Baoding Tianwei Group, a power-equipment maker became China's first state-owned enterprise to default on domestic debt.

Now on to the good news: households. China's famously frugal citizens have plenty of scope to take on more credit, spurring hopes consumption can help plug a growth gap that's widening amid the slowdown in investment.

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As for who dished out the loans, an estimated 30 percent comes from the shadow banking system -- a lending channel policy makers are trying to rein in due to concerns over transparency. Then there's foreign lending, which could come back to bite if the currency weakens. Even after a slight decrease in the fourth quarter of 2014, outstanding claims on China totaled \$1 trillion at the end of 2014, well ahead of \$308 billion for Brazil and \$196 billion for India, according to the Bank of International Settlements.

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There are signs that credit has peaked, with Standard Chartered estimating China's debt-to-GDP ratio is stabilizing. The question for policy makers: will the deleveraging process spark a crunch or can they pull off a smooth landing?

"China's policy makers need to walk a fine line between supporting growth and avoiding a further deterioration in debt metrics," said David Mann, chief Asia economist at Standard Chartered. "They don't want to let that genie back out of its bottle."