China Economics

Official study suggests national debt-to-GDP ratio at 236%

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- The Chinese Academy of Social Sciences (CASS) released a study on the national balance sheet, reporting net sovereign assets of Rmb103.3 tn.
- The report suggested that China's national assets stood at Rmb691 tn while national debt was Rmb339 tn in 2013, resulting in net national assets of Rmb352 tn (including Rmb16 tn in net financial assets).
- The report made two key conclusions: (1) the size of national assets exceeds national debt by more than Rmb100 tn, implying a full-blown national debt crisis is unlikely, and (2) the national debt-to-GDP ratio has surged from 170% in 2008 to 236%, which means over-leveraging is a threat to financial stability.
- The report did not make its estimates of local debt public, but cited auditing results from the 2013 survey. We are of the view that results from the 2013 survey, conducted by the Auditing Department on local governments and local government investment vehicles were too low.

Figure 1: China's sovereign balance sheet

Rmb tn	2004	2014
Total asset	**35.9**	**227.3**
SoE asset	*23.6*	*150.0*
Total debt	**21.4**	**124.0**
Net asset	**14.5**	**103.3**

Source: China National Balance Sheet, 2015 – Chinese Academy of Social Sciences, Credit Suisse

CASS report most credible analysis in this area

The Chinese Academy of Social Sciences (CASS) released a study on the national balance sheet, reporting net sovereign assets of Rmb103.3 tn. This project, sponsored by the National Development and Reform Commission, is the first official document analysing the national balance sheet under western accounting standards. This report has provided some important data points for China's debt and assets at the national level. While the report may still underestimate the size of local debt and pension gap, we believe that this is the most credible analysis in this area based on government and semi-government research.

The report made two key conclusions: (1) the size of national assets exceeds national debt by more than Rmb100 tn, implying a full-blown national debt crisis is unlikely, and (2) the national debt-to-GDP ratio has surged from 170% to 236%, which means over-leveraging is a threat to financial stability. The report disagreed with the government approach of shifting corporate leverage to the household department and criticised its attempt to boost the stock market as a way to strengthen the economy.

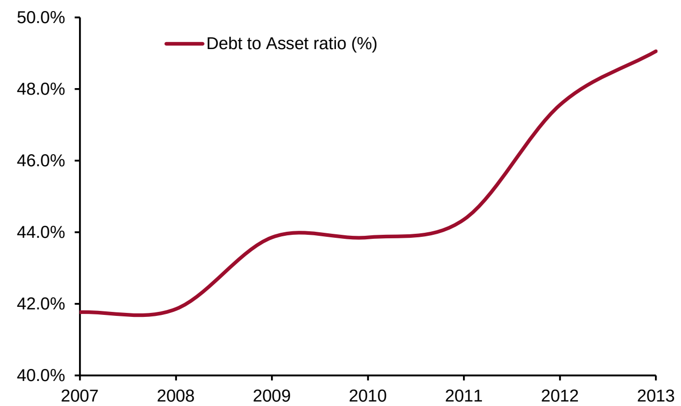
Figure 2: China's national balance sheet

Rmb tn	2007	2013
Total asset	**284.7**	**691.3**
Non-financial asset	*158.3*	*336.2*
Financial asset	*126.4*	*355.1*
Total debt	**118.9**	**339.1**
Net asset	**165.8**	**352.2**

Source: China National Balance Sheet 2015 – Chinese Academy of Social Sciences, Credit Suisse

The report suggested that China's national assets stood at Rmb691 tn while the national debt was Rmb339 tn in 2013, resulting in net national assets of Rmb352 tn (including Rmb16 tn in net financial assets). The national debt level increased from 42% in 2007 to 49% in 2013. The national net asset breakdown is listed in Figure 2. Sovereign assets stood at Rmb227.3 tn while sovereign debt was at Rmb124 tn in 2014, according to the same report. Net sovereign assets were Rmb103.3 tn, with Rmb28.5 tn in liquid assets, in 2014.

Figure 3: National debt-to-assets ratio



Source: China National Balance Sheet 2015 – China Social Science Academy, Credit Suisse

The CASS study, which was led by Li Yang, a former member of PboC's monetary committee, concluded that the national debt level stood at Rmb150 tn, as at end-2014, with the debt-to-GDP ratio reaching 236% from 170% in 2008. Striping the liabilities of the financial sector, the debt level in the real economy stood at Rmb138 tn, as the debt-to-GDP ratio for the real economy surged to 217% from 157% in 2008.

The report did not make its estimates on local debt public, but cited audited results from the 2013 survey. We hold the view that results from the 2013 survey, conducted by the Auditing Department on local governments and local government investment vehicles were too low. The report suggested that housing assets accounted for 54% while non-financial assets accounted for 91% of household assets in 2014, both declining from the levels seen in 2011.

Disclosure Appendix

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