

《Debt risks may trigger crisis, warns official》

Country should prepare for 'prolonged recession'

China needs to reduce its dependence on high leverage or debt and turn away from credit-driven growth to avoid a financial crisis, the official People's Daily quoted an "authoritative" source on Monday as saying.

In a recent interview with an unnamed "authoritative person" about the nation's economic outlook, People's Daily, the flagship newspaper of the Communist Party of China, said on Monday that risks in dealing with issues such as the housing market bubble, overcapacity, nonperforming debt and illegal fundraising have raised concerns in the midst of the structural transformation in China.

"Trees can't grow to the sky. High leverage will bring high risks, which could trigger systematic risks and weigh on the country's GDP growth, destroying the savings of the public," the person was quoted as saying in the newspaper.

The authoritative person reports to senior officials at the Central Leading Group for Financial and Economic Affairs or the National Development and Reform Commission, the top planning body, who has also taken part in drawing up policies, The Beijing News said on Monday.

Reducing the debt-to-equity ratio is a challenging task, especially in sectors such as housing, which has been heavily relying on leveraged investments, and emerging industries involving the use of the Internet, said Tian Yun, director of the China Society of Macroeconomics Research Center.

"For example, recent data shows that the growth rate of M1, or liquid components of the money supply like cash and assets, has been largely higher than that of M2 - which includes savings and time deposits - since November 2015, which implies that a large amount of an individual's savings have gone into money management products, as interest rates remained low," Tian told the Global Times on Monday.

The M2, a broad measure of money supply that covers cash in circulation and all deposits, rose 13.4 percent to 144.62 trillion yuan (\$35.86 trillion) at the end of March compared to the same period last year, while M1 rose 22.1 percent to 41.16 trillion yuan, the Xinhua News Agency reported, citing data released by the People's Bank of China, the nation's central bank.

Tian noted that there is also a link between soaring leveraged investments in real estate and the emerging financing platform, as some money management products are actually part of illegal fundraising activities, and have become the financial channels for some real estate projects.

There is no need to boost economic growth through increasing leverage, and policies for the stock market, the foreign exchange market and the housing market should be market-driven, People's Daily emphasized.

Mortgage loan risks

Strong growth in new lending to China's residential mortgage sector brings additional credit risks, Fitch Ratings said in a research note sent to the Global Times on Monday.

New mortgages worth 2.2 trillion yuan accounted for 45 percent of the increase in total loans at 14 rated Chinese banks in 2015, as weaker economic conditions suppressed demand for other types of lending, Fitch noted. However, easier access to mortgage loans, helped by more favorable layaway terms and an easing of home purchase restrictions in some cities, appear to have fueled a rise in real estate prices in first- and second-tier cities across China.

"Major economic indicators showed signs of recovery in the first quarter of 2016, which has been mainly helped by the booming housing market," said Liu Xuezhi, a macroeconomist at Bank of Communications.

Compared to the rising non-performing loans (NPLs) in the corporate sector, those in the mortgage sector are still "under control," Liu told the Global Times on Monday. "However, potential risks should also be taken into account, as in second- and third-tier cities, as real estate developers would face financial trouble when the demand remains weak," he said.

Economists said they also expect the country's monetary policy to become more neutral, which is also in line with the report which said "loosening monetary policy to boost economic growth should be totally abandoned."

Avoiding a downturn

The nation's economic growth will not be "U-shaped" nor "V-shaped" but "L-shaped," the person was quoted in the newspaper as saying.

An L-shaped recession describes a sharp drop in economic growth followed by a prolonged period of lower-level growth or even a contraction, which describes Japan's low and negative growth since the Japanese assets bubble burst in the 1990s, Robert Koepp, director of the Economist Corporate Network, a business advisory service within The Economist Group, told the Global Times on Monday.

"Unfortunately, the severe leverage of local government debt in China and recent evidence of increased borrowing points to China facing a similar possible outcome, although an outright contraction is less likely," Koepp said.

He noted that to avoid this kind of outcome requires dedicated efforts at reform, including an overhaul of the tax system so local governments do not rely on property sales to finance their social spending, and well-regulated and transparent capital markets for debt and equity instruments also need to be developed.