

China's 20 Trillion Yuan Debt to Limit Growth, Consultant Says

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By Bloomberg News

Dec. 4 (Bloomberg) -- China's government debt, which may have risen to 20 trillion yuan (\$3.14 trillion) by the end of 2010, or about 50 percent of its gross domestic product, is becoming a major constraint on its economic growth, research firm Beijing Fost Economic Consulting Company Ltd. said.

Local governments may have had 13 trillion yuan debt at the end of last year, the company said in a report e-mailed today and dated yesterday. A report issued by the National Audit Office in July said local governments at provincial, city and county levels amassed 10.7 trillion yuan debt by the end of 2010. The central government had 6.75 trillion yuan debt at the end of last year, said research company said.

Local authorities in China, previously barred from directly selling bonds or taking bank loans, set up at least 6,576 financing vehicles to raise money for constructions of roads, sewage plants and subways, the audit office's report said. Investors are concerned that the debt may saddle banks with bad loans if growth in the world's second-biggest economy slows.

"The risks posed by the financing vehicles are now gradually emerging and local government debt problems have already become prominent and that must be firmly controlled as soon as possible," the research firm said in the report.

China's economy expanded 9.1 percent in the third quarter from a year earlier, slowing from 9.5 percent in the previous three months amid government campaign to cool consumer and housing prices as Europe's debt crisis crimps its exports.

Borrowing by local authorities is likely to come under increasingly stricter scrutiny and banks will become more prudent when making loans to those financial vehicles, the firm said. The researcher said its estimates of local government debt include borrowings by townships that weren't calculated by the state audit office, so the accuracy of its own estimate may be "very poor".

"A slowdown in China's economic growth is inevitable once the local governments are no longer able to continue borrowing to spur economy," the firm's report said.

--Zheng Lifei. Editors: Keith Gosman, Paul Tighe

To contact Bloomberg News staff for this story:

Zheng Lifei in Beijing at +86-10-6649-7560

or lzhen32@bloomberg.net

To contact the editor responsible for this story:

Paul Panckhurst at +852-2977-6603 or ppanckhurst@bloomberg.net