Global Economics & Markets Research
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China Debt & Shadow Banking At A Glance

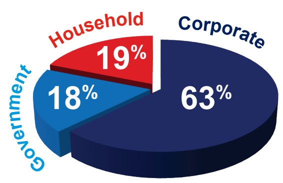
A Grasp Of The Numbers

1. **83** RMB Trillion — Size of China's economy in 2017 (2nd largest economy in the world)
2. **6.9%** — China's annual real GDP growth in 2017
3. **7.1%** — China average growth rate in last 5 years (2013-2017)
4. **27%** — Share of China's contribution to world GDP growth in 2017
5. **256%** — China's total debt to GDP in 2017
6. **300%** — IMF's forecast of China's total debt to GDP by 2022
7. **45** RMB Trillion — Size of China's shadow banking in 2017
8. **55%** — China's shadow banking to GDP in 2017

How Big Is The Mounting Debt?

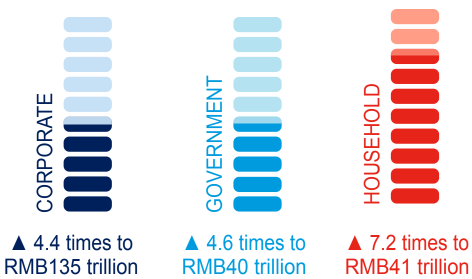
China's debt buildup started since the global financial crisis and has reached RMB216 trillion in 2017 with total debt-to-GDP at 256% compared to RMB45 trillion (141% of GDP) a decade ago. This is a 377% increment in debt within 10 years.

2017 Share of Contribution To China's Total Debt



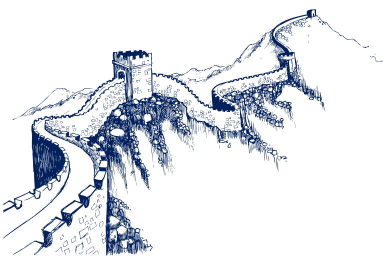
Corporate debt accounted for the biggest pie with **63%** share.

Debt Increment Between 2008-2017

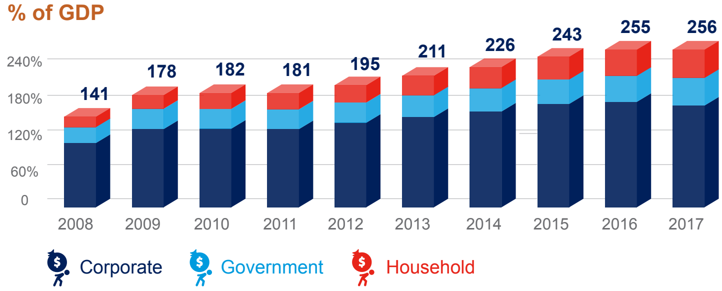


In terms of the pace of increment, household debt increased **the fastest at 7.2 times** to RMB41 trillion in 2017, from RMB6 trillion in 2008.

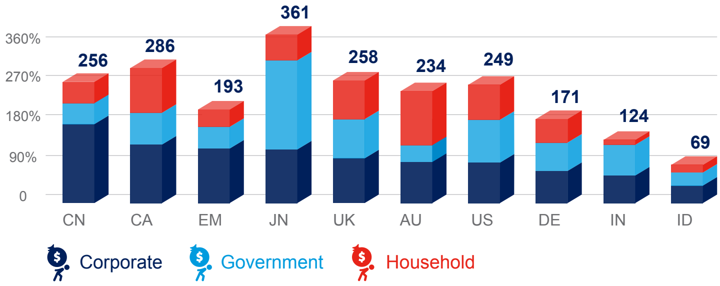
In 2017, ratio of household debt to GDP was at 48% up from 18% in 2008.



China's Total Credit To Non-Financial Sectors
% of GDP



Debt Comparison
% of GDP



In comparison, China's debt balance is relatively similar with those of the developed economies. Instead, it is the speed of increment that is of concern. The increase in debt-to-GDP ratio for China was 114% between 2008-2017, compared to 15% and 47% rise for US and Japan respectively.

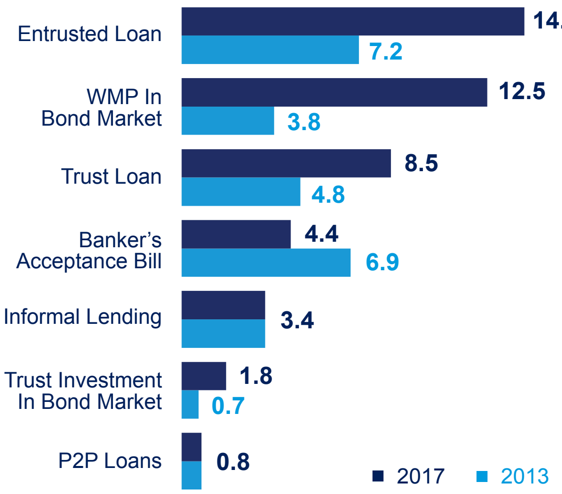
Debt remains an essential tool for financing economic growth, however, to avoid the "Minsky Moment", China's challenge will be to contain future debt increases without compromising on economic growth.

What About The Shadow Banking Impact?

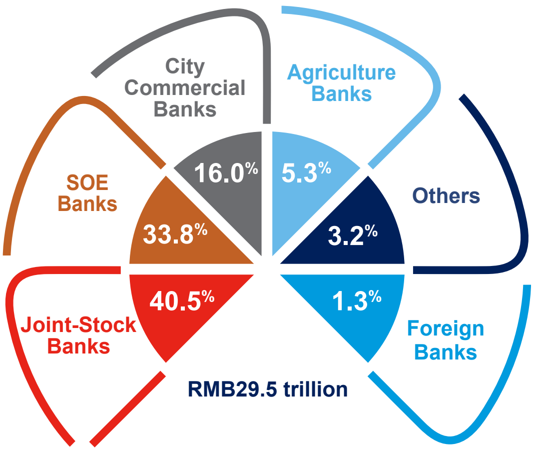
There is no single agreed definition for shadow banking. PBoC's Financial Stability Report (2013) defines shadow banking as "credit intermediation involving entities and activities outside the regular banking system with the functions of liquidity and credit transformation, which could potentially cause systemic risks or regulatory arbitrage."

There is a range of estimates for the size of shadow banking in China. Based on UOB's estimation, shadow financing in China soared 65% to RMB45 trillion (55% of GDP) in 2017 from RMB28 trillion in 2013 (46% of GDP).

Breakdown Of Shadow Financing
RMB Trillion

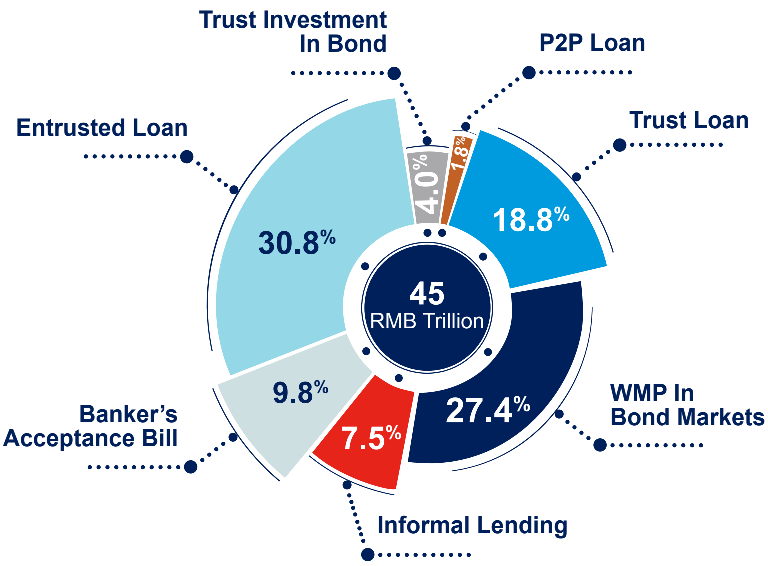


% Share Of Outstanding WMP By Bank Type In 2017



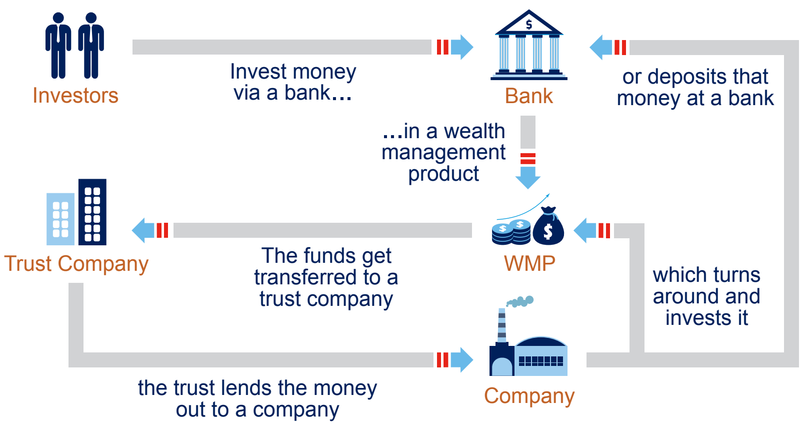
In 2017, the outstanding value of WMPs issued by banks was RMB29.5 trillion, of which joint-stock and SOE banks accounted for 74% share.

Composition of Shadow Financing In 2017



Most shadow financing in China took place through entrusted & trust loan and wealth management product (WMP). Banks market these high interest rate products as an alternative to traditional savings accounts. Investment in WMPs accelerated 229% to RMB12.5 trillion in 2017 from RMB3.8 trillion in 2013.

Simplified Lending Cycle Of A Wealth Management Product



China has been attempting to curb shadow banking with tighter regulations and in April 2018, PBoC said the government will set up a statistics platform that will measure all financial activities, from leveraged securities investment to local government borrowing. The move is part of the government's campaign to clean up its unruly shadow banking and control financial risk.

We expect shadow banking activities to moderate as the government continues to keep track and tighten regulations.

Source: CEIC, Macrobond, Bloomberg, FSB, BIS, Media Reports, UOB Global Economics & Markets Research
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