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BUSINESS DAY

China Shrugs Off Debt Worries as Xi Takes Firmer Economic Grip

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By KEITH BRADSHER DEC. 20, 2017

SHANGHAI — It's Xi Jinping's economy now, and he isn't too worried about debt.

China signaled its economic priorities on Wednesday at the end of a meeting of top Communist Party economic leaders with a statement indicating that President Xi is fully in charge. Labeled "Xi Jinping Thought on Socialist Economy With Chinese Characteristics," the statement called for trimming industrial overcapacity, controlling the supply of money and other moves that have been staples of China's other recent declarations.

Barely mentioned: China's surging debt. Despite downgrades this year by two international credit rating firms and warnings from institutions like the International Monetary Fund, the statement issued at the conclusion of the Central Economic Work Conference called for controlling borrowing by local governments, but it otherwise glossed over a vast borrowing splurge in recent years, driven in large part by Chinese companies.

"Prudent monetary policy should be kept neutral, the floodgates of monetary supply should be controlled, and credit and social financing should see reasonable growth," the statement said.

The statement illustrates both Mr. Xi's growing clout and what economists say is a subtle shift in how China may address its debt pile — a shift that suggests leaders may be willing to tolerate even more debt if it will help growth.

The label applied to the new statement echoes those used by past strong Chinese leaders like Mao Zedong and Deng Xiaoping and marks Mr. Xi's long ascent to become the Communist Party's unquestioned leader. Two months ago, the party lifted Mr. Xi to Mao's stature by enshrining "Xi Jinping Thought."

Already, Mr. Xi had been considered the top word in Chinese economic decisions. Typically that role has gone to China's premier, currently Li Keqiang, but Mr. Xi has dominated economic meetings and put his own name on important economic documents in recent years. Wednesday's statement solidified that dynamic.

"It shows that 'I am the boss,'" said Gary Liu, president of the China Financial Reform Institute, a nonprofit economic research group in Shanghai.

The absence of major concern about debt also echoed recent Chinese statements. Since October, Chinese economic policymakers have expressed little interest in tackling the country's mountain of debt, which has accumulated rapidly over the past decade. By contrast, the work conference's statements over the past two years devoted more attention to the subject.

Instead, the new statement called for stabilizing China's often-volatile housing market, particularly by helping to develop a stronger rental market, and for trimming the list of industries in which foreign investors are restricted from participating.

China's economy, the world's second largest after that of the United States, is fueled to a considerable extent by lending from its state-controlled banking system. A relaxed stance on debt suggests leaders could be less inclined to take steps that would trim the debt load but also might hold back short-term economic growth.

Chinese officials in recent months have signaled a "subtle change of emphasis" toward tolerating an overall increase in debt as long as corporate debt stays under control, said Eswar Prasad, a Cornell University economist.

Alarm had grown in recent years as China as the country piled on debt. In relation to the size of its economy, China in a decade accumulated roughly as much debt as that held by the United States and many other developed economies. Earlier this year, the ratings firms Moody's and Standard & Poor's downgraded their credit ratings on Chinese sovereign debt, citing brisk corporate borrowing.

But China has taken steps to pare back lending. It has come down hard on a number of private companies that borrowed heavily to make splashy but pricey acquisitions overseas, even as politically connected state-owned enterprises continue borrowing heavily. China has also somewhat tightened quotas on bank lending while also taking steps to limit banks' use of lightly regulated investment products to raise money.

The efforts seem to have slowed the rate at which debt is growing relative to the economy. Data from the Bank of International Settlements, a group of big central banks that is based in Basel, Switzerland, shows that China's ratio of nonfinancial corporate debt to economic output fell slightly in the second quarter of this year, the most recent for which data is available.

Experts say China is more likely to tolerate growing debt if it comes more from the household sector, as has been the case lately. A rise in mortgages and other types of consumer lending has helped growth in household borrowing and spending. Chinese officials want more consumer spending to help balance out the country's economy.

The clearest signal of Beijing's waning interest in debt came in a statement on Dec. 8 from the Politburo, a top Communist Party leadership body. The Politburo said that the financial goal going forward was "effective control" of debt as opposed to outright debt reduction. In October, at the party's twice-a-decade national congress, President Xi did not mention debt during his nearly three-and-a-half-hour work report and had only three passing mentions of leverage, which is essentially the same thing, without saying what he might do about it.

Not everyone in the Chinese government is convinced that the debt problem is firmly under control. Zhou Xiaochuan, the chief of China's central bank, who is widely expected to retire very soon, has told Chinese media that he remains deeply concerned about China's mountain of debt.

"High leverage is the general source of macrofinancial fragility, manifested in the real sector as overindebtedness and in the financial sector as an excessively rapid expansion of credit," he said in a statement on the central bank's website on Nov. 4.

Meanwhile, there are persistent questions about how much debt has really been incurred by local governments and their corporate affiliates.

China's debt accumulation is "slower than before, but if you use the West as a benchmark, it's still pretty bad," said Zhu Ning, a Tsinghua University economist.

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