

IIF Weekly Insight

Surging Global Debt: What's Owed to China?

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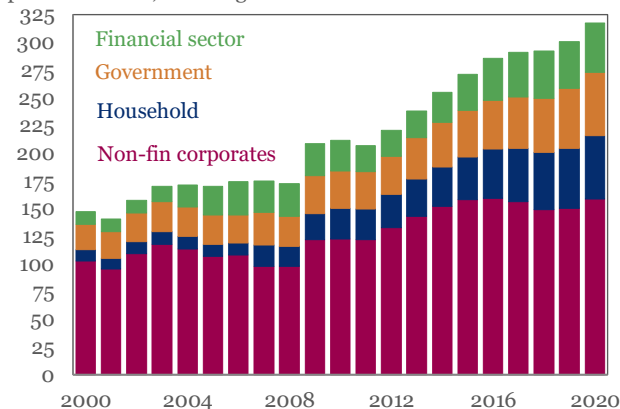
- With pandemic response a key driver, global debt is set to hit \$325 trillion by 2025—up sharply from \$255 trillion in 2019
- U.S. general government debt is on track to exceed 120% of GDP this year, up from 102% in 2019
- China's total debt hit 317% of GDP in Q1 2020, up from 300% in Q4 2019—the largest quarterly increase on record
- China is now the world's largest bilateral lender to G20 DSSI-countries, holding some 25% of their external debt

Massive wave of borrowing: Following a rise of over \$10 trillion in 2019, global debt accumulation has accelerated substantially this year as an aggressive response to the COVID-19 pandemic takes shape. Gross debt issuance year-to-date has surpassed \$14 trillion, nearly twice the level seen during the same period in 2019. While all sectors are racking up more debt, this surge has largely been driven by a sharp surge in government borrowing. Gross government debt issuance hit a record high of \$2.6 trillion in April—vs a monthly average of \$1 trillion in 2019, and May is currently on track for a fresh record. At around \$1.5 trillion, U.S. borrowing accounted for the lion's share of the global government debt pileup in April. Our estimates, building on the [CBO's updated projections](#) for U.S. federal debt, suggest that U.S. general government debt (federal, state and local governments) will increase from 102% of GDP in 2019 to over 120% of GDP in 2020, before surpassing 140% in 2025. Looking ahead, we expect total global debt across households, non-financial businesses, general governments and the financial sector to exceed \$325 trillion in 2025. This would be an increase of nearly 30% from \$255 trillion in 2019—see our [April 2020 Global Debt Monitor](#). The U.S. and China are likely to account for 75% of the projected rise in global debt through 2025.

China has accounted for over 40% of the rise in global debt since 2007: The rise in China's total debt in the years since the 2008 global financial crisis has been unprecedented, from around 172% of GDP to over 300% in 2019. This rapidly escalating leverage has been a major engine of global growth—but has also accounted for more than 40% of the rise in global debt since 2007. While such high debt levels may ultimately limit willingness to take on more debt, we estimate that China's debt-to-GDP ratio saw a record quarterly increase in Q1 2020, jumping to over

Chart 1: Sharp surge in debt in China: Déjà vu all over again?

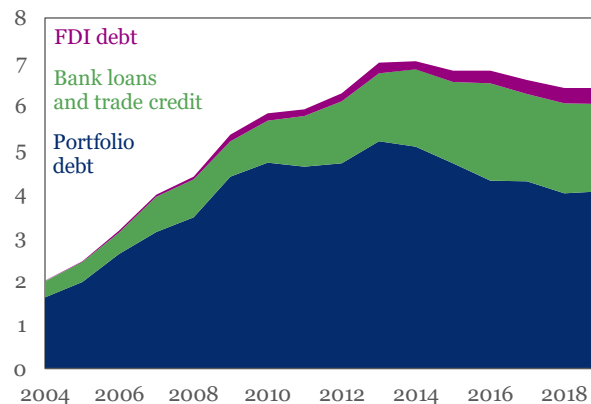
percent of GDP, 2020 figure is as of end-March 2020



Source: Haver, BIS, IMF, IIF estimates

Chart 2: The rest of the world owes some \$5.5 trillion to China

% of global GDP, Chinese debt claims on the rest of the world



Source: IMF, IIF

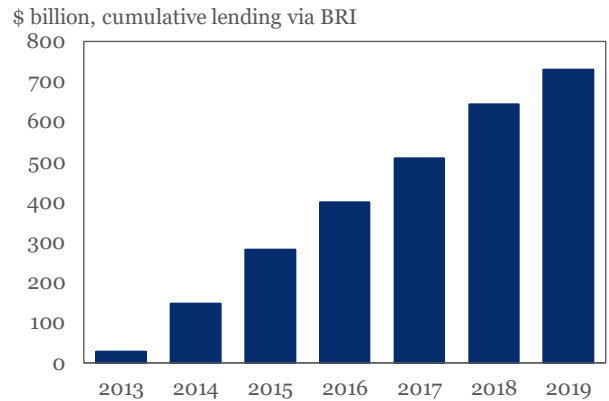
317%—an eye-watering 17 percentage points higher than in 2019 (Chart 1). This rapid increase marks the largest quarterly surge on record, reflecting both the contraction in GDP (two-thirds of the rise in debt-to-GDP) as well as the spike in net borrowing (one-third of the rise).

China is now the world’s largest creditor to low-income countries: China’s outstanding debt claims on the rest of the world have surged from some \$875 billion in 2004 to over \$5.5 trillion in 2019—more than 6% of global GDP (Chart 2). The rise in recent years has been most striking in bank loans and trade advances, though portfolio debt investment (including reserve assets) still comprises the bulk of total overseas exposures (4.5% of GDP). The Belt and Road Initiative (BRI) has played an important role in driving lending activity: since Xi Jinping launched this flagship initiative in 2013, at least \$730 billion has been [directed](#) to overseas investment and construction contracts in over 112 countries (Chart 3).

BRI lending has therefore contributed to the substantial external debt buildup in many low-income countries. This group includes Cambodia, Djibouti, Ethiopia, Kenya, Kyrgyz Republic, Laos, Maldives, Mongolia, Tajikistan and Uzbekistan. Of these, Djibouti, Ethiopia, Laos, the Maldives and Tajikistan are rated at “high” risk of debt distress by the IMF— see our [January 2020 Global Debt Monitor](#). Indeed, [IMF estimates](#) suggest that China accounts for at least 11% of low-income countries’ external public debt, which is a much larger share than that of Paris Club countries (Chart 4). However, a recent academic [study](#) by Horn et al. suggests that up to 50% of Chinese overseas loans to developing countries are not reflected in the official statistics, largely due to incomplete reporting on SOE debt.

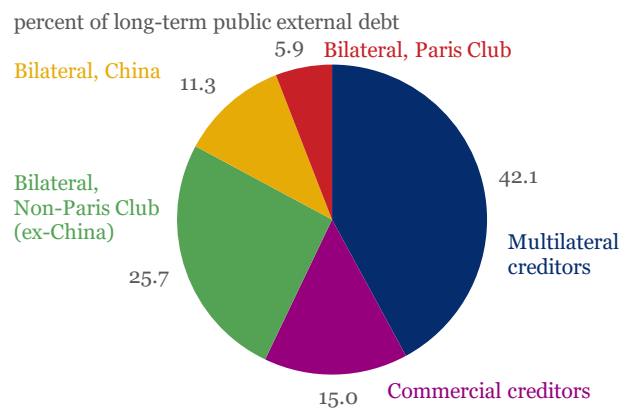
Chinese lending in the context of the G20 DSSI: Many BRI recipient countries are eligible for the [G20 Debt Service Suspension Initiative](#) (DSSI). Like other official bilateral creditors, China is a signatory to the initiative, though press reports suggest that China’s approach to implementation could differ from that of Paris Club creditors. Some key issues remain to be clarified, including the demarcation between official and private sector claims, which is particularly relevant given that much Chinese BRI lending has been done on commercial or near-commercial terms. Many DSSI countries are highly indebted to China, with Pakistan, Angola, and Ethiopia on top of the list in USD terms. Our estimates suggest that China accounts for over 25% of total external debt of the DSSI countries, varying from 1% in Comoros to over 98% in Maldives (Chart 5). Tonga, Niger, Fiji, and Djibouti, and Cambodia are among other countries with a relatively high reliance on China for external financing. A back-of-the-envelope calculation suggests that full debt service suspension by China could free up \$7bn for the DSSI countries through the remainder of this year.

Chart 3: Chinese overseas lending under the Belt & Road Initiative is nearing \$750 billion



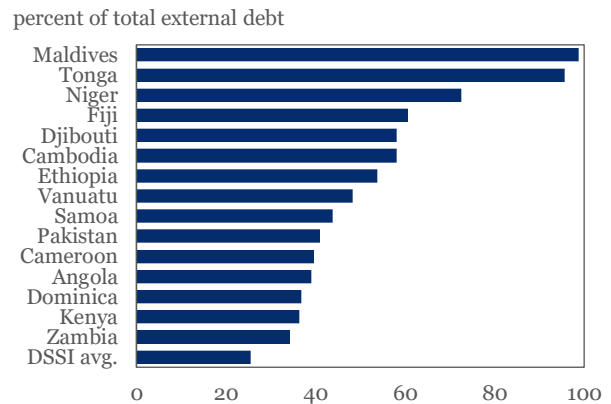
Source: AEI China Global Investment Tracker, IIF

Chart 4: China is now the largest bilateral creditor of low-income countries*



Source: IMF, IIF; *based on a sample of 37 LICs in an IMF study

Chart 5: Top 15 DSSI countries with the largest external debt stock owed to China (via direct loans)



Source: Horn et al. (2019), World Bank, IIF

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