

# TYCHOS

## **PRESS RELEASE**

Tychos Analytics Group

Dan McShane

[Dan.McShane@tychosgroup.org](mailto:Dan.McShane@tychosgroup.org)

August 3, 2021

### **China Household Debt Continues to Soar**

#### ***Mortgage, Credit Card and Margin Debt Power Growth but Heighten Household Risk***

China's five-year growth in household debt to GDP has increased a brisk 54 percent, while business debt to GDP declined 2 percent in that same period, continuing the remarkable shift to household debt as the driver of China's economy.

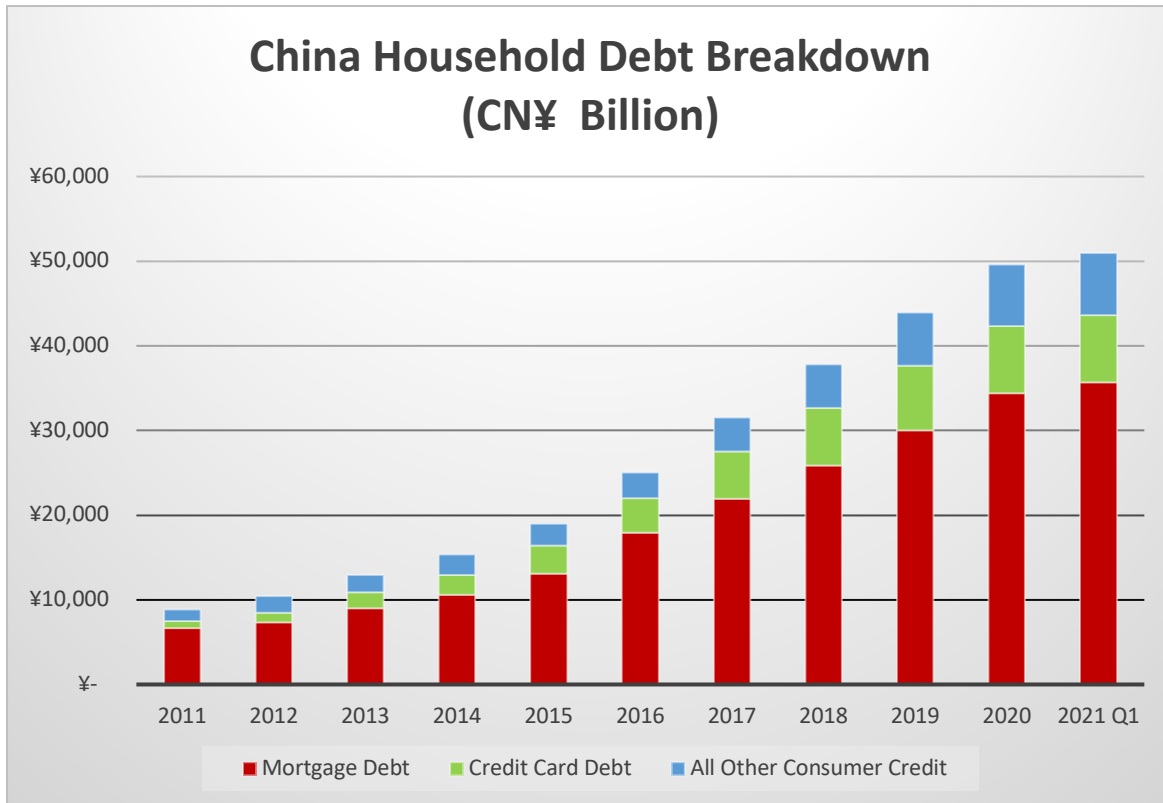
#### **Gross Domestic Product**

GDP declines continued in Japan and India, while China again displayed consistent growth. The global pandemic has slowed domestic consumption in Japan and India, causing GDP to drop 3.9 percent in Japan and 3 percent in India from March of 2020 to March of 2021. In contrast, China's GDP in that same period increased 8.7 percent. Growth in China can be attributed in large measure to the rapid rise of household debt, with attendant risk to household financial stability. This data will be updated next on 09/2021.

#### **China**

##### **Mortgage Debt:**

Residential mortgage debt in China has reached CN¥36 trillion as of 3/31/2021, 15 percent higher on an annualized basis than the level of CN¥31 trillion on 03/31/2020. Current forecast suggests continued growth of over CN¥36 trillion for 2021 Q2. Making up nearly 70 percent of China's household debt, mortgage debt growth is a key area for analytical attention (See Chart).



#### Margin Debt:

According to China's Shanghai and Shenzhen Stock Exchanges, margin debt is on the rise again following the peak of CN¥2 trillion in June of 2015. As of 03/31/2021, margin debt has reached CN¥1.7 trillion, 55% higher on an annualized basis than the level of CN¥1.1 trillion on 03/31/2021. Current forecasts show margin debt at a level of CN¥1.8 trillion on 06/30/2021 (See Chart).



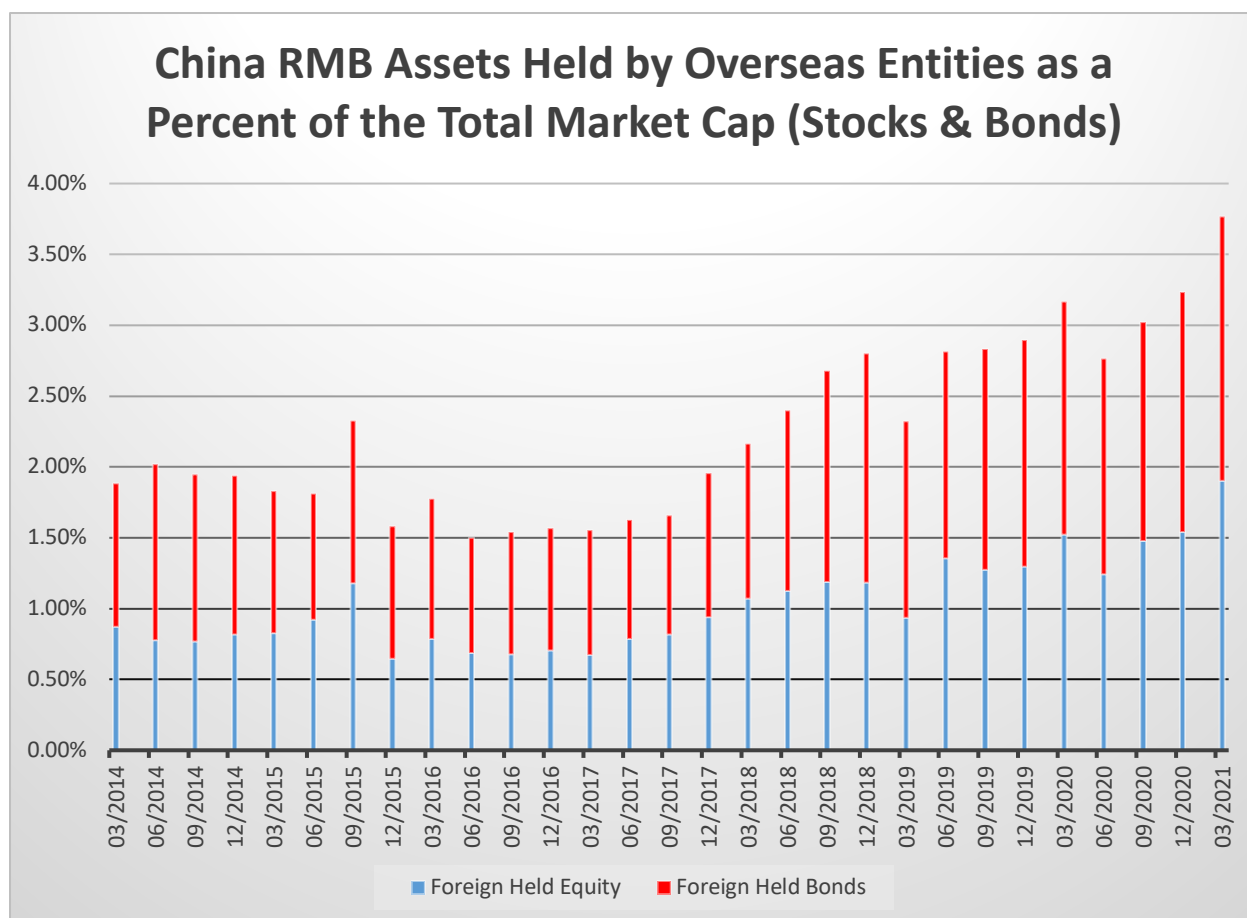
#### Non-Financial Business Debt:

Overall five-year non-financial business debt growth to GDP in China declined 2 percent, down from 6 percent growth in the prior quarter and down from 23 percent growth in 2017.

Preliminary 2021 first quarter data was released on 06/18/2021, and 2021 second quarter preliminary data will next be updated on 09/18/2021. Complete data through the fourth quarter was released on 06/01/2021 and will next be updated on 09/01/2021.

#### Cross Border Risk:

As reported by the People’s Bank of China, foreign investment of China’s domestic RMB assets has increased rapidly in recent years. Foreign equity and bond asset holdings have reached 3.4 trillion RMB and 3.7 trillion RMB, respectively (See Chart). While still a small percentage of the total market, foreign held asset growth presents a concern for capital flight within China, which could lead to turmoil in their stock and bond markets. This data was released on 04/30/2021 and will next be updated on 08/30/2021.

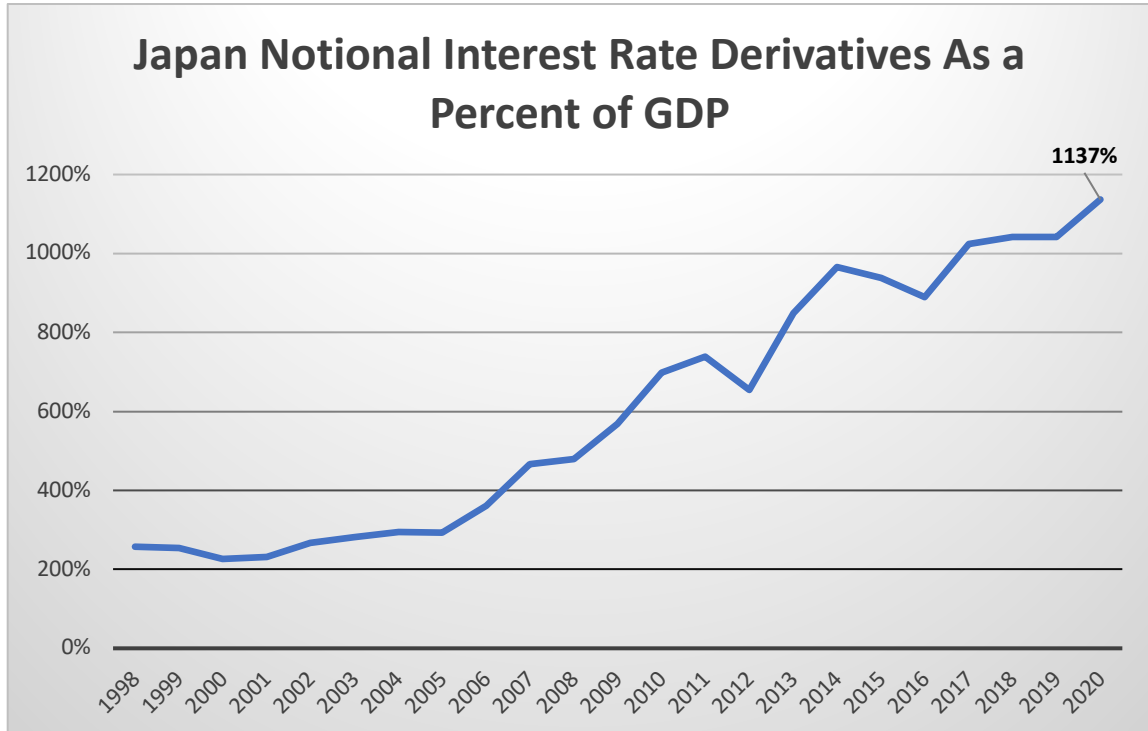


## Japan

In Japan, overall five-year country-level private debt growth to GDP eased slightly to 17%. Sector areas of heightened concern include Transportation Equipment, Real Estate, Transport, Commodity Lease, Utilities and Construction. This data was released on 06/09/2021 and will next be updated on 09/18/2021.

### Interest Rate Derivatives:

As reported by the Bank of Japan in its most recent report on derivatives, interest rate derivatives in Japan have reached an all-time high of 1,137 percent of GDP, well above the previous peak of 966 percent of GDP reached in 2014 (See Chart). The possibility of significant movements in interest rates, along with the possibility of a counterparty default, make this a key area for analytical attention.



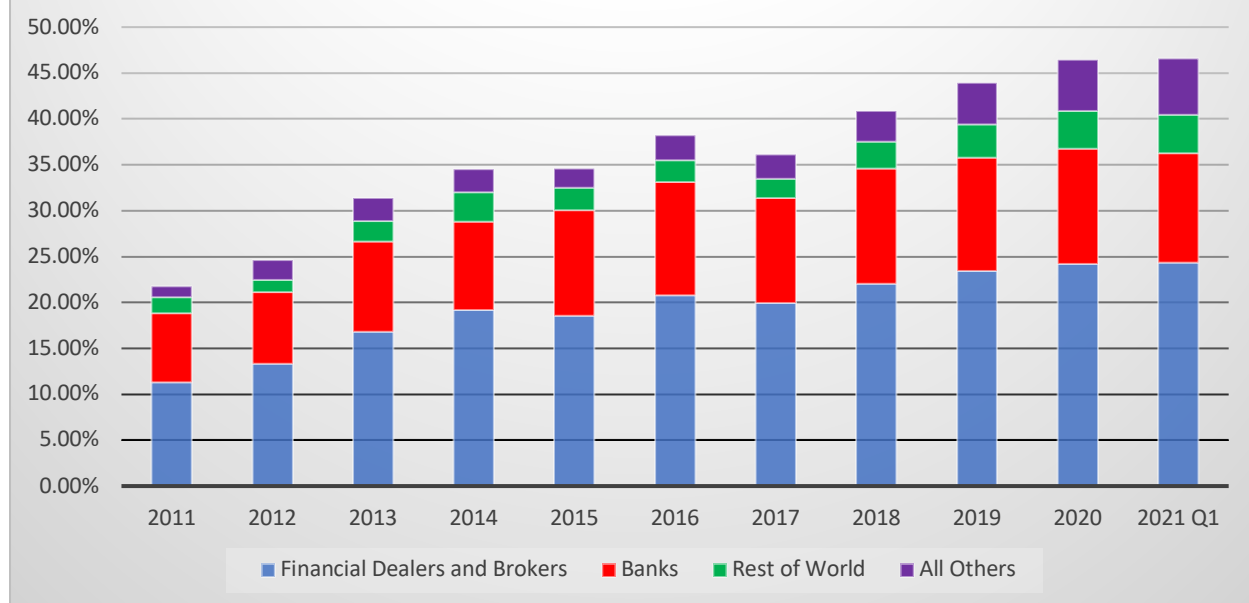
An interest rate derivative is a financial instrument with a value that is linked to the movements of an interest rate or rates. These may include futures, options, or swaps contracts. Interest rate derivatives are often used as hedges by institutional investors, banks, companies, and individuals to protect themselves against changes in market interest rates, but they can also be used to increase or refine the holder's risk profile or to speculate on rate moves.

This is based on information as of 2020 Q4 that became publicly available on 03/08/2021. The next update from the BOJ on this information will be 09/2021.

#### Repurchase Agreements and Securities Lending Transactions:

Japan's repurchase agreements and securities lending transaction liabilities remain at 250 trillion Yen, or 47 percent of GDP, as compared to 12 percent of GDP for equivalent liabilities in the United States. Financial Dealers and Brokers, Banks and Rest of World sectors hold a significant majority of the debt (See Chart). An increase in defaults or valuation of the underlying securities used for collateral make this an area for increased analytical attention.

## Japan Repurchase Agreements & Securities Lending Transaction Liabilities as a Percent of GDP By Sector



Repurchase agreements and securities lending transactions refers to those repurchase agreements and securities lending transactions that can be regarded as credit facilities backed by bonds and other instruments. Bonds and other instruments are sold or lent in real transactions. More specifically, they include bond gensaki (sale and repurchase) transactions in central government securities and treasury discount bills, and bond lending transactions with cash collateral.

This is based on information as of 2021 Q1 that became publicly available on 06/09/2021. The next update from the BOJ on this information will be 09/18/2021.

### **India**

Overall, debt to GDP has been relatively flat in India—helping contribute to its decelerating GDP. Within that, non-financial corporation debt is contracting in relation to GDP, and household debt is expanding moderately, especially in the area of housing loans, which represents the highest area of credit risk concern. This data was released on 06/01/2021 and will next be updated on 09/01/2021.

**For additional details, including commentary on recent U.S. trends, please visit [www.tychosgroup.org](http://www.tychosgroup.org).**