

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

HEARD ON THE STREET | JANUARY 25, 2012

China's Debt: You'll Grow Out of It

By TOM ORLIK

Objects in the rearview mirror are often closer than they appear at first. But in the case of the Chinese juggernaut, rapid economic growth means they are actually shrinking at a rapid rate.

In 2011, China's gross domestic product came in at 47.1 trillion yuan (\$7.4 trillion). That represented nominal growth of 17.5% from 2010, a blistering pace that makes many of the problems of debt and credit that trouble investors and hang over valuations for Chinese stocks appear a little more manageable.

Take local-government debt. The government's auditor put the number at 10.7 trillion yuan at the end of 2010. That was equal to 26% of China's GDP. In 2011, it shrank to 22%. Even if weaker demand and lower inflation mean a slightly lower nominal growth rate in 2012, by the end of the year local-government debt could shrink to 19% of GDP. Debt may be creeping up, but not enough to push the ratio in the wrong direction.

Investors also worry about China's credit binge, which saw the ratio of loans to GDP soar from 96% at the end of 2008 to 119% at the end of 2010, as the pace of new loans ran far ahead of GDP growth. An expanding economy means that ratio was down to 116% in 2011. That reduction reflects the fact that banks' loan books are expanding, though not as fast as GDP.

China's happy situation stands in stark contrast to those of neighbor Japan, crisis-ridden European countries and the U.S., where slow or even negative growth does little to alleviate the problem of ballooning debt.

Economic growth hides a multitude of sins. The trouble for China's competitors is that achieving any significant increase in nominal growth without a large portion coming from higher inflation looks hard to do.

Write to Tom Orlik at Thomas.orklik@wsj.com

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

