China’s Overseas Lending

Sebastian Horn, Carmen Reinhart, Christoph Trebesch

Discussion by Chris Papageorgiou (IMF)

20th Jacques Polak Annual Research Conference

IMF Headquarters

November 7, 2019

The views expressed in this presentation are the sole responsibility of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

An important and timely paper

- Raises awareness on a key emerging issue: in many countries **official borrowing** from **new lenders** is **underreported** or **“hidden”** posing serious challenges to debt sustainability analysis.

- **China** is becoming more and more important as a *nontraditional* official lender, **changing the landscape of development financing**.

Summary of the paper

- Big picture: **New lender and types of loans** complicating financing architecture and debt sustainability picture around the globe.

- Key question: How much can we know about **China's overseas lending** from using **secondary sources**? No comprehensive official data.

- Data source: **Secondary data sources include:** online searches, news articles, non-Chinese reports, etc.
  - Mostly **commitments** only (instead of **disbursements**)
  - 1/3 of loans lack the loan terms

- Main takeaway:
  - **USD 400 billion in Chinese loans** to 106 developing economies
  - **50 percent** of loan commitments are "**hidden**" or missed —amounting **7 percent of GDP** for top 50 recipients

Two comments

- **Measurement**

- **Magnitude of the problem**

- Sizable measurement error with a lot of room for improvement …

  … suggesting that severity of the problem is less pronounced.

1. Measurement

I. <u>Loan realization</u>:

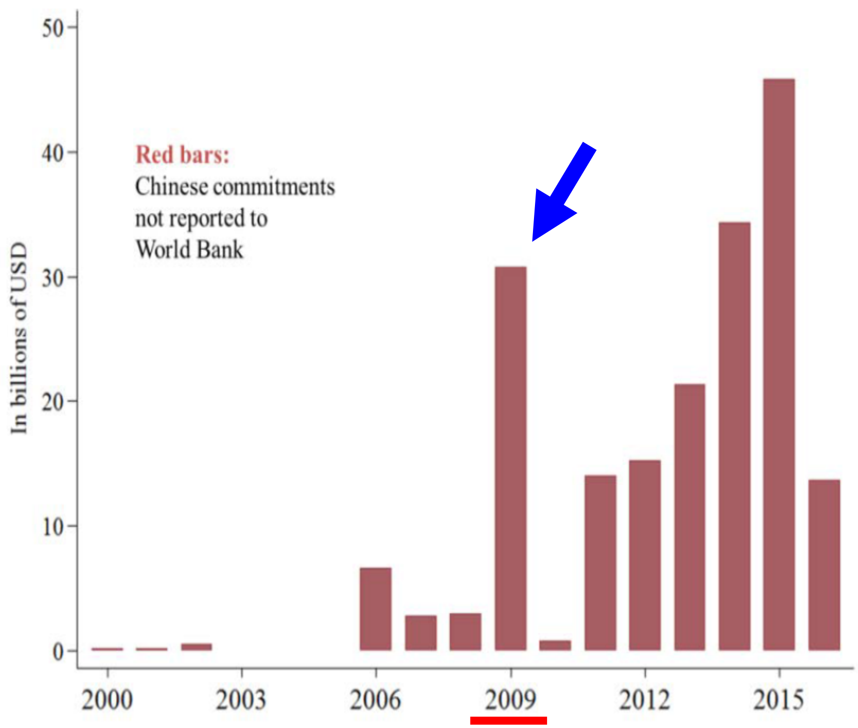
Loan Commitments vs. Disbursements

II. <u>Data sources</u>:

Secondary vs. “Primary” Sources

I. Loan realization: Commitments vs. Disbursements

Figure 11. "Hidden" Chinese debts to the developing world: total non-reported flows



Note: This figure shows "hidden" Chinese lending flows to developing countries per year focusing on public and publicly guaranteed debt (PPG). The estimates come from comparing the aggregated flows from our loan-level consensus dataset to the aggregate commitments recorded in the World Bank's Debtor Reporting System database.

- A spike in "hidden debt" in 2009 (Figure 11) may simply capture foregone promises upon the global financial crisis.
- Our preliminary estimate shows that actual disbursed outstanding debt is equal to about 30 percent of total commitments made by China in 2009.

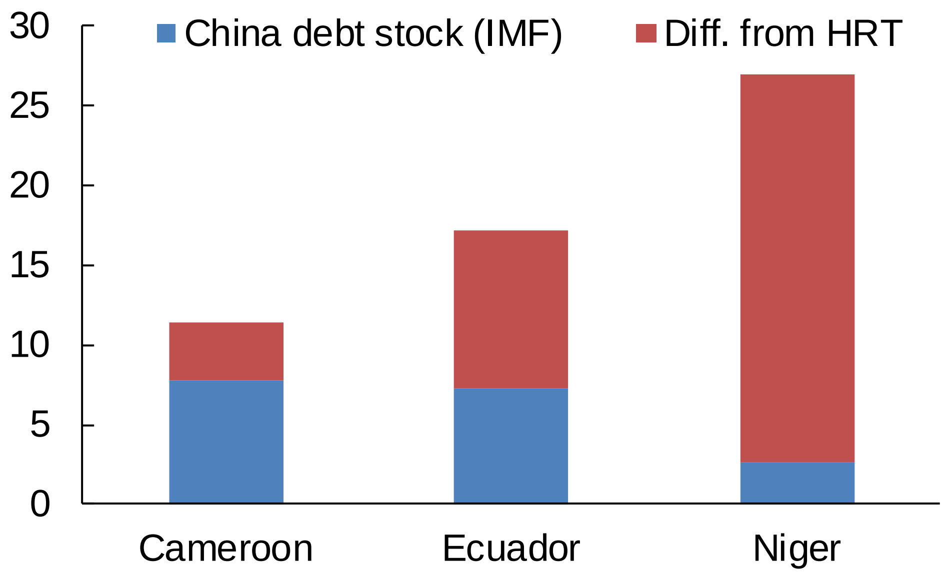
II. Data sources: Secondary vs. "Primary" Sources

- **IMF programs** call for full debt disclosure
  - "hidden debt" would trigger severe punishment - the case of **misreporting**

- A sample of program cases show lower debt stocks.

Debt to China: program case examples

(Percent of GDP, as of end-2017)



Sources: HRT (2019); country authorities; and IMF staff calculations.

2. Magnitude of the problem

- **50% missing Chinese loans** seems to be an overestimate and concentrated to small and fragile states.
- Show some preliminary work based on data from IMF country programs.

Figure 7. External debt to China (debt stock as share of GDP) – top 50 recipients

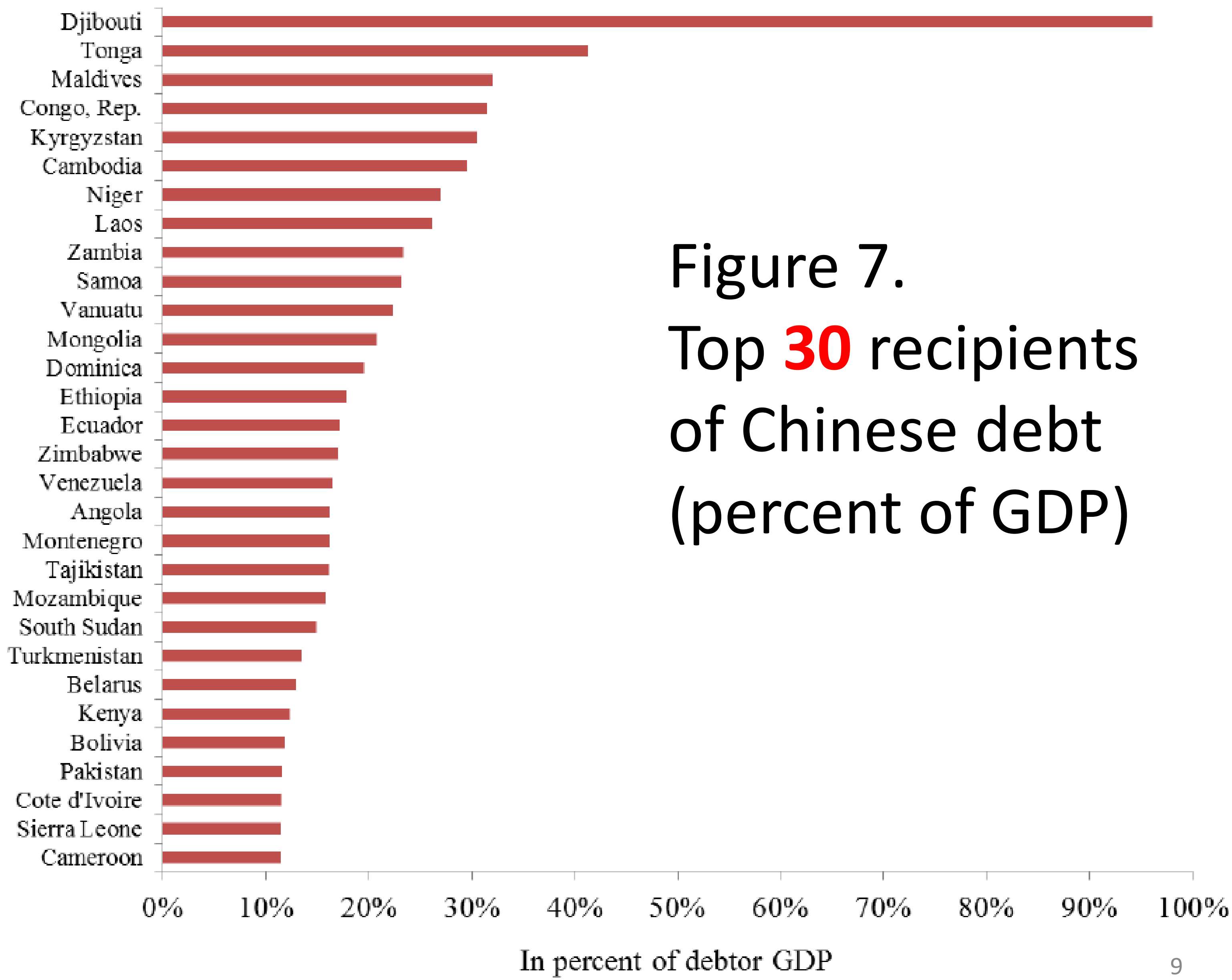


Figure 7.
Top **30** recipients
of Chinese debt
(percent of GDP)

Figure 7. External debt to China (debt stock as share of GDP) – top 50 recipients

** Preliminary*

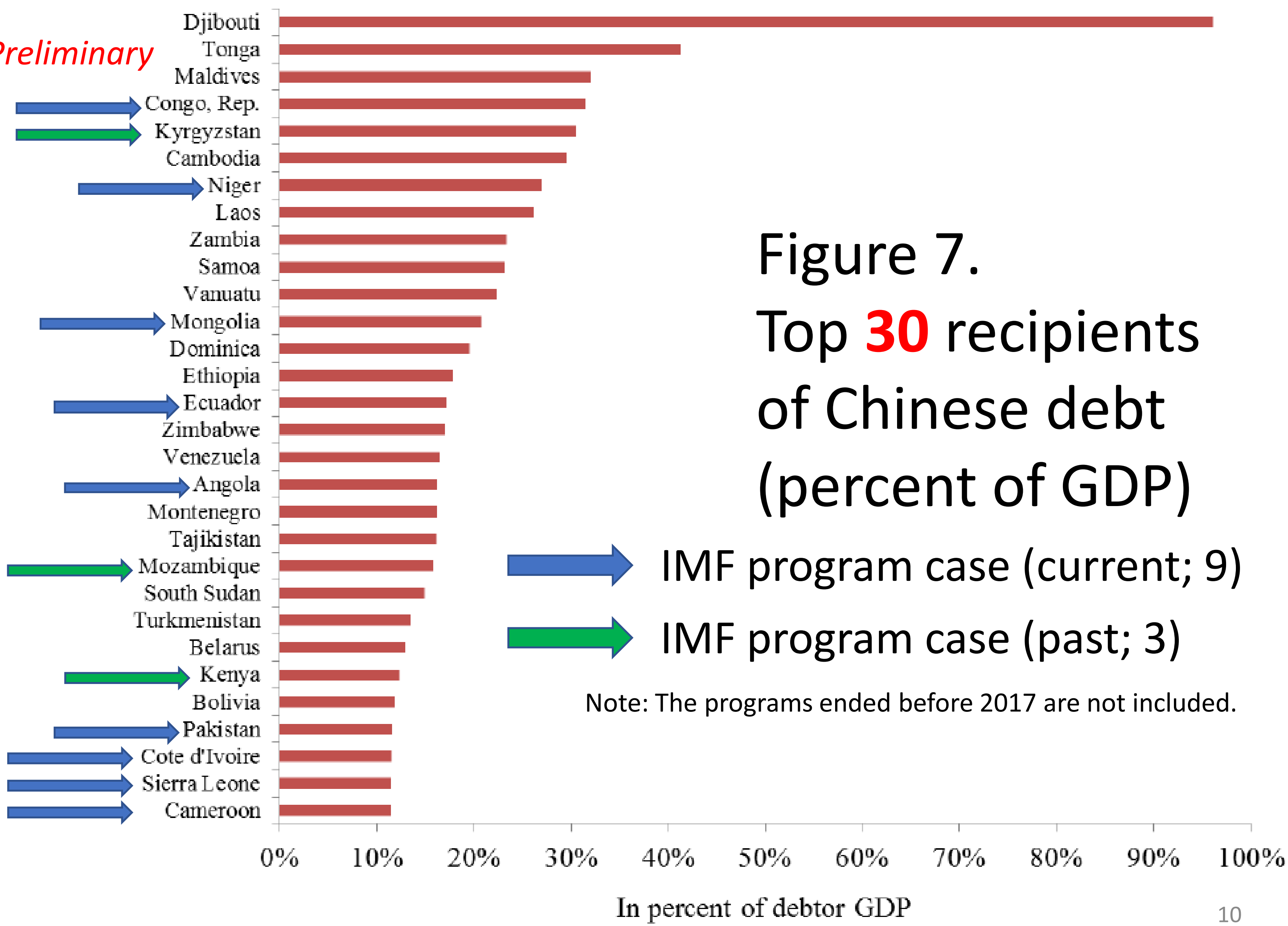


Figure 7.
Top **30** recipients of Chinese debt (percent of GDP)

IMF program case (current; 9)

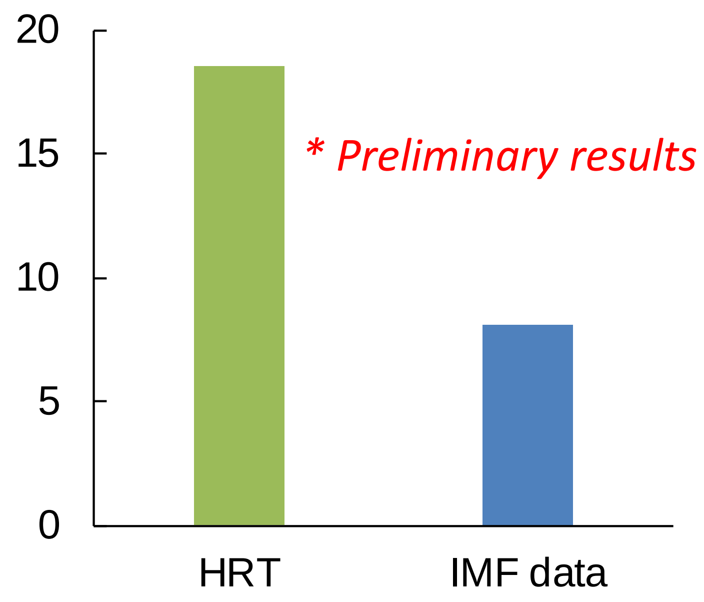
IMF program case (past; 3)

Note: The programs ended before 2017 are not included.

Preliminary evidence from program cases

- A ***preliminary*** analysis shows that China loan outstanding is **50 percent lower** than the HRT's estimates on average over a sample of **7 program cases** (including near program cases).

Debt stock to China: a sample of 7 IMF program cases*
(Percent of GDP, average, end-2017)



Sources: HRT; country authorities; and IMF staff calculations.
Note: a sample of 7 program cases, including near program cases.

Main takeaways

- Timely and important contribution on a largely unacknowledged issue regarding China as a new official lender and unreported debt.

- Claim that 50 percent of Chinese loans (USD 200 billion) is unreported suffers from various sources of measurement error that biases the results upwards.

- Preliminary estimates from 7 IMF program countries indicate that Chinese loans are about a half of HRT's estimates.

- We look forward to the detailed loan-by-loan data used by HRT.