Twitter Thread by Michael Pettis

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The latest IMF report on China was released yesterday and provides a lot of good information and intelligent insight on the Chinese economy. The IMF's measure of China's adjusted fiscal deficit (including estimated off-budget

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spending) is projected to rise to 18.2% of GDP in 2020 from 12.6% in 2019. The authors correctly note the worrying surge in debt and warn that Beijing must continue to try to contain financial stability risks, but I notice that they are projecting average GDP...

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growth of just over 6% between 2012 and 2025, including a downward revision of their 2021 forecast from 8.2% to 7.9% (which I still think is a little high).

As I've long argued, it will be impossible for China both to control the surge in debt and to achieve growth...

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targets above the real underlying growth rate of the economy, which I suspect is 2-3% at best. I know the IMF is constrained in what it is able to say about the Chinese economy if it wants to remain part of the advisory process, but I do think that after 10 years...

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of watching this game we should be a lot more explicit about the relationship between unreasonably high GDP growth targets and high credit growth. There really is no point in advising Beijing to get financial risks under control while at the same time approving...

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GDP growth targets that cannot but result in out-of-control increase in debt. The former requires the latter: if China grows by an average of 6% over the next five years, total social financing will rise from roughly 280% of GDP today to at least 320-40% of GDP.

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The IMF also recommends that China do more to rebalance domestic demand towards consumption, which Beijing has been saying it would do since at least 2007. To do so it proposes expanding unemployment benefits, increasing transfers to low income households, enhancing...

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public healthcare and otherwise strengthening the social safety net. This all makes sense, of course, but it is only half the story. Transfers involve not just “transfers to” but also “transfers from”. If Beijing permits these transfers to be funded by local government...

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borrowing, as they always have been, it cannot resolve the underlying problem. Higher consumption only comes at the expense, in that case, of more local-government debt, and the whole point of rebalancing is to get Chinese growth to depend less on debt. I understand...

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that this is an intensely political problem and very hard to resolve, which is perhaps why the IMF is staying clear of it, but the key to rebalancing demand, just as the key to resolving debt, is how to allocate the costs. The benefits are obvious.