

Chinese Bond Defaults Swell in Sign of Enduring Economic Pain
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By Bloomberg News

(Bloomberg) -- Local bond defaults in China are poised to hit a five-month high, underscoring the lingering financial stress wrought from the pandemic.

As of Monday, Chinese firms have failed to repay 10.35 billion yuan (\$1.5 billion) of local notes, near the four-month high reached in July when defaults hit 10.4 billion yuan. Three companies missed payments in August, including Peking University Founder Group Corp., a repeat offender, and luxury residential developer Tahoe Group Co.

The swell in local debt failures is reversing a descending trend in the second quarter as China's bond financing climate has since worsened amid receding hopes of aggressive monetary easing. Worse, bond issuance has also shrunk, boosting the likelihood that defaults will remain elevated.

China's central bank injected liquidity into the financial system, seeking to support banks amid intensifying liquidity stress. The People's Bank of China added 700 billion yuan of one-year funding via the medium-term lending facility, more than offsetting the 400 billion yuan in loans coming due Monday and another 150 billion yuan maturing on Aug. 26. It kept the interest rate on the funds unchanged at 2.95%.

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