



中华人民共和国财政部

Ministry of Finance of the People's Republic of China

# Subnational Debt Management in China: Policy and Practice

Budget Department, Ministry of Finance of China  
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**Current situation of China's public debts**



**Regulating subnational government debts: achievements**



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# I. Current situation of China's public debts

## Debt Ratio

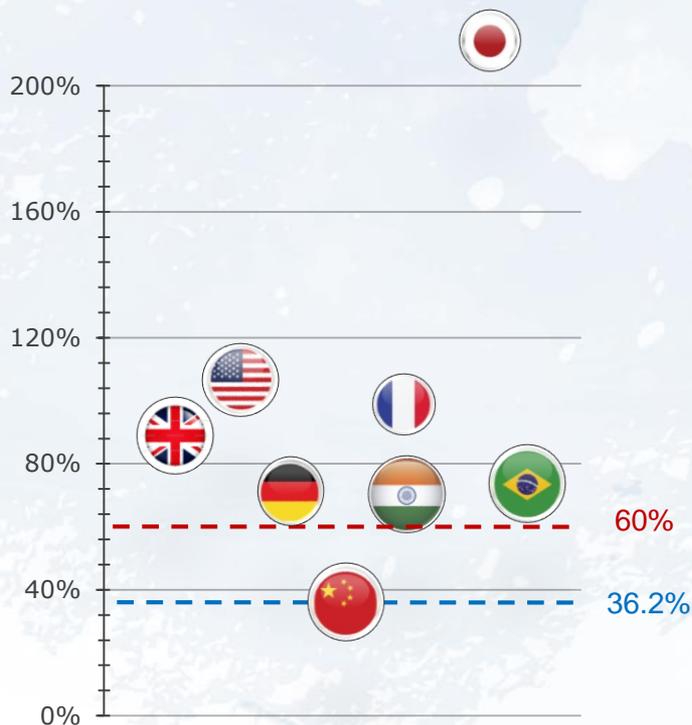
- By the end of 2017, the **debt balance of subnational governments** in China was **16.51 trillion yuan** (2.38 trillion USD).
- In terms of **debt ratio** (outstanding debt balance divided by total subnational government financial resources), the number was **76.5%**.

## Debt-to-GDP Ratio

- Taking into account the **central government debts**, which amounted to **13.48 trillion yuan** (1.95 trillion USD), the amount of China's total outstanding public debts was **29.95 trillion yuan** (4.33 trillion USD). The **debt-to-GDP ratio** was **36.2%**.



# I. Current situation of China's public debts



•By the end of 2017, China's debt ratio (76.5%) and debt-to-GDP ratio (36.2%) were below the widely accepted warning standards, and also lower than that of major market economies and emerging market economies.

•By the end of September 2018, the **debt balance of subnational governments** in China was **18.26 trillion yuan** (2.64 trillion USD), below the **debt limit** of **21 trillion yuan** (3.03 trillion USD) as approved by China's legislature, the National People's Congress (NPC).

**Note:** According to IMF's statistics, by the end of 2016, the debt-to-GDP ratios of some countries were: 107.8% in the United States, 87% in the United Kingdom, 89.7% in Canada, 236.4% in Japan, 97% in France, 64.1% in Germany, 84% in Brazil, and 70.2% in India.

*(Data source: IMF Fiscal Monitor, April 2018)*



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## II. Regulating subnational government debts: achievements

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- In 2014, China's legislature, the National People's Congress (NPC) amended the **Budget Law**, and the new Law came into effect on **January 1, 2015**.
- For the first time, the new Law explicitly stipulates that subnational governments are allowed to borrow through **government bonds** within the approved **debt limit**; any other channels of borrowing by subnational governments is **prohibited**. Also, unless otherwise stipulated by law, subnational governments are **prohibited to provide any form of guarantee** for debts of any entities or individuals.
- The new Law stipulates detailed and specific provisions with respect to the **issuer**, the **means**, the **procedure**, the **purpose**, and the **responsibilities** of subnational government borrowing.



## II. Regulating subnational government debts: achievements





## II. Regulating subnational government debts: achievements

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- **1) Implementing Debt Limit Management**
  - Subnational governments can only borrow within the approved **debt limit**, a statutory ceiling of outstanding debts.
  - The **total debt limit** is approved by **the National People's Congress (NPC) or its standing committee**, and **debt limits for different provinces** are approved by **the State Council**.
  - **Total debt limit**: 16 trillion yuan (2.31 trillion USD) in 2015, 17.19 trillion yuan (2.48 trillion USD) in 2016, 18.82 trillion yuan (2.72 trillion USD) in 2017 and 21 trillion yuan (3.03 trillion USD) in 2018.
- **2) Incorporating all subnational government debt into budget management**
  - All debts borrowed by every level of subnational government are incorporated into the budget, submitted to the **people's congress at corresponding levels** for approval, and get **public disclosure**.



## II. Regulating subnational government debts: achievements

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- **3) Issuing subnational government bonds** to finance construction of public welfare projects
  - As approved by the NPC, the **increase of the total subnational government debt limit** was 600 billion yuan (87 billion US Dollars) in 2015, 1.18 trillion yuan (171 billion US Dollars) in 2016, 1.63 trillion yuan (236 billion US Dollars) in 2017, and 2.18 trillion yuan (316 billion US Dollars) in 2018.
  - The bonds issued within these limits are primarily used on **major projects in public welfare areas**, such as poverty alleviation, shantytown renovation, and environment improvement.



## II. Regulating subnational government debts: achievements

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- **3) Issuing subnational government bonds to finance construction of public welfare projects (cont'd)**
  - To deal with the **stock of debts** borrowed by subnational governments through the local government financing vehicles (LGFVs) before the new Budget Law came into force, after reporting to the NPC Standing Committee, China launched a **replacement program** in a 3-year interim period, for subnational governments to replace those debts with government bonds issued.
  - The creditors of these debts changed from LGFVs to **provincial governments**, and the form of these debts changed from loans or corporate bonds to **government bonds**.
  - From 2015 to the end of August 2018, the amount of stock debts already replaced has reached an accumulative value of **12.19 trillion yuan** (1.76 trillion USD).
  - The remaining stock debts which have not been replaced will no longer be supported by government credit, and need be repaid by their original debtors with their own credit.



## II. Regulating subnational government debts: achievements

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- 4) Improving **management** of subnational government bonds
  - The outstanding amount of subnational government bonds is about **17.41 trillion yuan** (2.52 trillion USD), accounting for 98.5% of all subnational government debts. The subnational government bond has become the largest variety in China's bond market.
  - **General bonds** are repaid mainly with taxes, and **special bonds** are repaid mainly with the proceeds generated from the projects they fund.
  - Special bond varieties:
    - Land reserve, toll roads, shantytown renovation...
    - City rail transport, colleges...
  - Promote diversification of investors, and improve the credit rating and information disclosure mechanisms.



## II. Regulating subnational government debts: achievements

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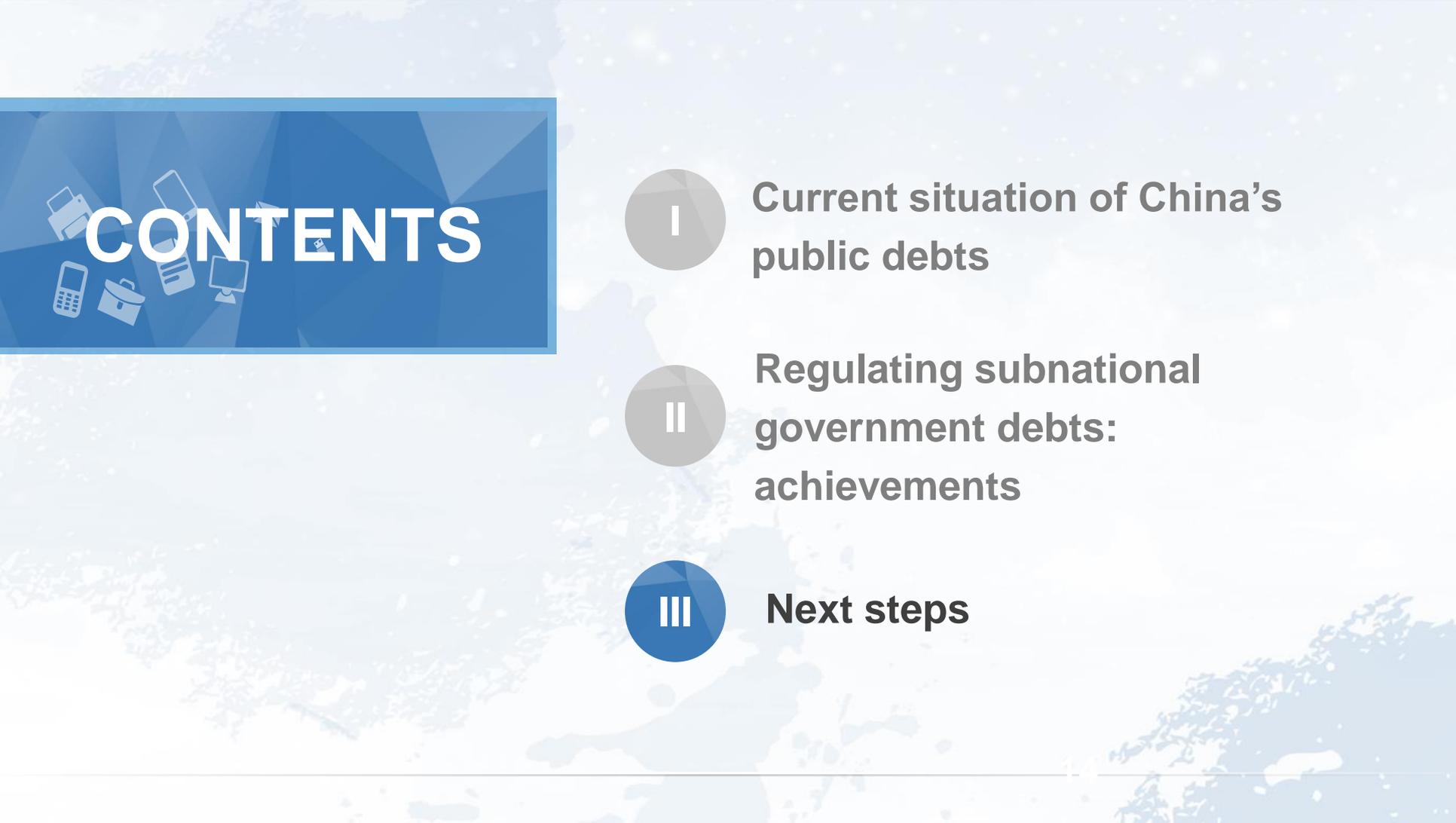
- **5) Conducting **assessment and early-warning** of debt risks**
  - Organizing yearly assessments of the debt risks for **all levels of subnational governments**, and notifies relevant departments and provincial governments of the risk situation in different regions.
  - Instructing all provincial governments to make risk resolution plans and emergency response plans.
- **6) Establishing an **emergency response** mechanism for debt risks**
  - Issued the *Emergency Response Plan for Subnational Government Debt* and the *Guidance on the Classification and Treatment of Risks in Subnational Government Debt*.
  - These regulations establish a system of response to different levels of risk events, and strictly implement accountability for risk events. They serve as **precautionary countermeasures** to potential debt risks.



## II. Regulating subnational government debts: achievements

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- 7) Building a **normalized supervision** mechanism
  - “Positive list” and “negative list” on subnational government financing.
  - Prohibit **disguised borrowing** in the name of PPP projects, government investment funds, government procurement, etc.
  - “Find one case, investigate one case, punish for one case” for illegal financing cases by subnational governments. **Local governments, financial institutions and intermediaries** involved in the cases are held accountable and punished according to law.



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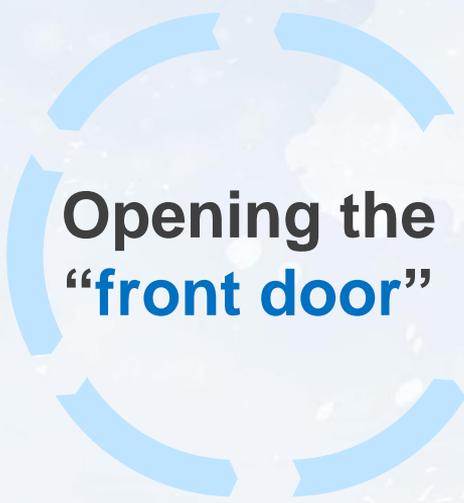
III

**Next steps**



### III. Next steps

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Opening the  
“**front door**”

- Discipline subnational governments to strictly comply with laws and regulations. Further strengthen the debt limit and budget management.
- Further open the "front door" of legitimate debt issuance.



Blocking the  
“**back door**”

- Firmly block the "back door" of illegal borrowings.
- Accelerate the market-oriented transition of LGFVs.
- Urge financial institutions to follow compliance and prudent requirements, and effectively strengthen risk control.



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THANK YOU!