

Local Governmental Debt, Fiscal Risks and Their Management Framework

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I. Why is there debt for local government?

- 1. What is the debt?
 - Debt is a kind of disposable resource with future obligations.
- 2. What is the difference between government debt and corporate debt?
 - Government debt originates from the expansion of government functions and is associated with public risks. Corporate debt comes from enterprise scale expansion and is related to risks of market competition.
- 3. What is the difference between “local government debt” and local government’s debt?
 - Defined debts, undefined debts
 - Statutory debts, moral debts

II. Recognition and measurement of local fiscal risks

- Fiscal risks can not be recognized and measured from the debt itself.
- 1. Need to distinguish debt of different types without mixing them
- 2. Should be linked with public resources owned by the government
- In a broad sense: revenue, assets and resources
- 3. The effects of debt usage
- Analysis from a dynamic circulating perspective: benign and malignant debt

III. Management of local fiscal risks: basic framework

- 1. Definition of the function of local government
- Division of responsibilities and decentralization in governance
- 2. Assessment and definition of risk responsibilities of relevant subjects
 - -abolish risk egalitarianism
 - -among governments, government departments, government and enterprises, government and banks, banks and enterprises
- 3. Complete budget, interim budget, and reform of government accounting. Recognition criteria for liabilities
- 4. Financial transparency of local government, including debt transparency

VI. Management mechanism for local financial risks: LGFVs

- 1. LGFVs (local government financing vehicles) are an important point of entry for the construction of an investment and financing mechanism of local government
 - -Direct government debt issuance is only one option.
 - -China's actual condition: local governments possess massive public resources
- 2. LGFVs are Chinese style PPPs.
 - Progressing of urbanization
 - Innovation in PPP mode for China

- 3. Functions of LGFVs

- First, integrate public resources

- Second, coordinate the constructional functions of local governments

- Third, facilitate ex ante control of financial risks and avoid mere ex-post payment made passively

- 4. Adjust the observing angle of LGFVs; from financing function to the function of risk control

- -LGFVs reform

- -Micro-basis for financial risk control

- -Goal: capable to borrow, good utilization and able to repay



Thank you!