

Xi'an Local Government Debt Problems and Countermeasures

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Abstract

At present, with the overall development of China's entire socialist market economy, China's economy is no longer an independent system but an economic market closely related to the development of the world economy. In the whole global economic environment, the scale of local government debt in Xi'an is increasing, and the risk of local government debt is accumulating. The provincial debt crisis in Xi'an has aggravated, which has seriously affected the process of urban development. Solving the problem of the government debt crisis has become a top priority. Properly deal with local government debt to reduce the debt crisis risk. This paper will analyze the local debt problem in Xi'an, take the financial theory as the basis, summarize and summarize, combined with relevant experience and conclusions. Find out the appropriate countermeasures, and make a simple exploration in promoting the solution of the local debt crisis in Xi'an.

Keywords

Economic Development; Debt Problems; Risk; Solutions.

1. Introduction

Society is progressing, and people's lives are increasing. With the current rapid economic growth, customary and reasonable usury business has also developed into a normal state of society. The government can play a good and positive role under appropriate debt pressure. However, the excessive expansion of local governments due to non-supervision masks the potential risks of further economic and social development. This problem forces the debt problems of local governments to appear. The debt dramatically exceeds the budget, which leads to the debt risk of the government.

The local authorities in Xi'an have obtained funds because, among other things, liquidity problems have occurred, and other measures have been taken to promote the local economy, and local procurement has begun. Although local debt contributes to the growth of Xi'an local government, they are still potentially dangerous. The most intuitive factor for Xi'an's economy's stability and long-term development is the massive growth of government debt in recent years. With the increase of debt, the debt risk is also increasing. Therefore, we must also ensure the security of local debt and protect debt risks. Only a debt insurance system suitable for local economic development can solve this region's debt problem and stable economic growth.

2. Overview of Relevant Theories of the Local Debt Crisis

2.1. Concept of Local Debt

The behaviour of local government debt, as the paramount local recognition of an operation and freight service, is the lack of corresponding budget adjustment of the central government and local governments and the analysis and research on the shortcomings and asymmetry of regional economic development. Debt can be classified into two types of debt. These two kinds of debt are direct debt and indirect debt.

2.2. Concept of the Local Debt Crisis

Debt risk refers to the financial difficulties that local governments can normally spend under the guidance of most uncertain reasons. Due to various subjective and objective reasons, the government working mechanism can not continue to operate normally, the economic development is stagnant or even declining, and the debt crisis may destroy the stable economic society we expect. The financial risk of local government has the characteristics of rapid development, broad space, strong concealment, high risk and many other factors.

2.3. Classification of Local Debt

The debt risk of local governments can be classified into liquidity risk and debt repayment risk. First of all, liquidity risk refers to that even if the total assets of local governments are higher than the total debt to be repaid; local governments cannot afford the debt principal and interest caused by lack of liquidity. The debt repayment risk refers to the default risk of the debt that the local government cannot repay due.

At present, the debt risk of local governments in China is characterized by regional representation, multiple reasons and risk transmission. There are four main types of local government debt risk:

2.3.1. Scale Risk

Scale risk refers to the chance that the municipal authorities may not be able to repay all the debts that may become due due due due to the excessive number of debts owed. The indebtedness of the municipal authorities in our country is relatively large, and some even exceed the financial capacity of the city authorities.

2.3.2. Structural Risk

Refers to various hidden dangers that local governments can not avoid due to different ways of debt repayment. These include direct credit risk (funds used to support national debt, foreign debt, etc.), credit-related risk and implicit risk (violation of social security, local government guarantee, etc.).

2.3.3. Efficiency Risk

Efficiency risk refers to the risk of debt financing caused by the amount of debt financing in the specified period does not reach the expected funds, which is invalid. This also indicates that there is a risk that the debt fund cannot be used effectively due to ineffective debt fund management. From the management and use of public debt by local governments in China, the efficiency risk of local public debt is very high, caused by the lack of scientific and effective management and use methods.

2.3.4. External Risks

External risks are other risks caused by the failure of local governments to pay off in time. From a certain point of view, on the one hand, debt risk has brought considerable pressure on the government's financial situation; On the other hand, it will also bring certain risks to macroeconomic operation. Suppose the government fails to repay all the debts due in time and fully within the specified period. In that case, it will tend to misappropriate or borrow other financial expenditure funds, increase taxes, or take further debt measures in the short term, leading to the fund gap of other financial expenditure projects and increasing social instability factors.

3. Current Situation and Impact Analysis of Local Government Debt in Xi'an

3.1. Current Situation of Xi'an Local Government Debt Crisis

From the local government debt balance of Xi'an, the local government debt balance of Xi'an reached 256.3 billion yuan at the end of 2018. In terms of interest-bearing debt of bond issuing city investment, according to the calculation calibre of wind interest-bearing debt formula, Xi'an was 369.3 billion yuan by the end of 2018. Overall, Xi'an's debt ratio is relatively high. Considering the interest-bearing debt of bond issuing urban investment as an alternative variable of implicit debt, if the generalized local total debt level is measured by "urban investment interest-bearing debt + local debt balance", Xi'an's local debt ratio is still higher.

3.1.1. Huge Debt Scale and Poor Information Disclosure and Transparency

First, China's local government debt problem has become relatively large. With the increasing demand of local governments at all levels for social infrastructure construction, more and more local governments began to issue local government bonds. At present, China is in an important stage of building a well-off society in an all-around way. China will build a well-off society in an all-around way by 2020. At this stage, all localities have ushered in important opportunities for development. However, for many areas, the construction of urban infrastructure similar to basic transportation, roads and supporting facilities, and public places still need to be improved. This development also prompted local governments to issue local government debts to reduce their financial pressure. In addition, many local governments also issue local public debt on different investment and financing platforms. This issuance mode enables local governments to devote more energy to operating debt, and the overall scale of local government debt is gradually increasing.

Secondly, under the background of strict supervision and control and strict and accurate responsibility to people, local governments everywhere must require the withdrawal of letters to clean up all illegal debts following the relevant provisions of the issuance to alleviate the debt repayment pressure. Some financial institutions need to strictly supervise and assess the non-performing rate and capital rate to control financial risks. Mainly due to the imperfect debt information disclosure system and information mismatch of local governments, it is difficult for financial institutions to fully grasp the actual situation of local government debt and effectively support local construction and livelihood projects. For example, most of the "shed reform" government purchase services and compliant PPP project loans currently encouraged have put forward requirements for the government debt ratio. Still, due to the lack of accurate data, it is difficult for financial institutions to judge the credit access. In addition, it is difficult for financial institutions to grasp the authenticity of the financing information of the financing platform. In practice, the means to confirm the authenticity of the cash flow of the government platform are limited, and it is impossible to effectively control the financial use of subsequent credit funds.

3.1.2. Huge Debts of Urban Infrastructure Projects

According to the report of Xi'an Municipal People's government, Shaanxi Provincial Finance Department has allocated Xi'an in the form of new local government revenue and expenditure bond agreement and 2019 budget adjustment plan. The total amount of local government bonds issued, including Xixian new area, is 13.04 billion yuan. The specific amount is as follows: Add 1.444 billion yuan of general bonds, including 117 million yuan for districts and counties, which are arranged to be used for the establishment of relocation projects for poverty alleviation in 2019 and the repayment of the principal of relocation loans for poverty alleviation in 2018; 1.293 billion yuan at the municipal level and 34 million yuan in Xixian new area are arranged for public welfare projects such as rural revitalization, pollution control and urban infrastructure construction. The foreign debt is 343 million yuan, arranged for urban road

network improvement projects. report of Xi'an Municipal People's Government on the draft of revenue and expenditure arrangement and budget adjustment scheme for new local government bonds in 2019.

3.1.3. Loan Period and High Debt Service Ratio

China's local government debt accounts for most long-term financing, mainly government debt with foreign debt and loan funds, most of which have a maturity of more than ten years, accounting for the majority of the total local government debt. Debt repayment rate refers to the ratio of debt principal and interest payable inside and outside the financial budget of the current year. At present, only the direct debit and explicit debt of local governments account for more than 20% of fiscal revenue, which generally exceeds the safe upper limit of the original principal and interest repayment ratio.

3.2. Impact of Xi'an Local Government Debt Crisis

3.2.1. Positive Impact

Although the impact of the debt crisis is negative, it is precise because of this crisis that the government has a greater sense of urgency and hopes to get rid of the debt crisis as soon as possible, contribute to the development of an international metropolis and promote all localities to make greater efforts to solve problems.

3.2.2. Negative Impact

Nowadays, the national development policy is the arduous promotion of the western development strategy of the central government, and the economy of Xi'an has gradually entered a period of rapid development. The urban structure is expanding, the city is developing rapidly, and the level of urbanization is improving. The living standard of residents is improving, and there is a great demand for the construction and transformation of urban infrastructure. At the same time, Xi'an municipal government has actively implemented the "eight major livelihood projects" and "urban village" transformation, as well as the ongoing "shanty town" transformation, to better improve the service function of the city and ensure the basic life of the people; The funds used for infrastructure and urban construction account for most of the total financial expenditure every year. However, for the huge funds required for the construction of cities and infrastructure, the local government fund is not enough, so most of the funds of Xi'an local government are completed through debt. While government debt improves urban life, high debt risk seriously impacts the long-term stability and development of the urban economy.

4. Cause Analysis of Xi'an Local Government Debt Problem

4.1. Financial System

First, the control mechanism of government debt risk is not perfect. The debt early warning model of Xi'an has some limitations. It only pays attention to connecting Xi'an government debt with the scale of urban construction and fails to pay attention to other factors that may affect government debt. This will lead to the biased factors and results of early warning and affect the accuracy of the whole early warning system, which can not reasonably and effectively guide the rapid development of Xi'an's industrial structure towards the trend of diversification. Suppose we fail to establish a debt early warning system based on the local economic situation and development trend. In that case, we can not efficiently and accurately control the current scale of local government debt, which can easily lead to the rapid growth of local debt.

Secondly, there is no reasonable government debt budget management mechanism. At present, the debt budgeting of the Xi'an municipal government is still groping, and a lot of basic work still needs to be done. In a sense, the preparation process of the government debt budget is equivalent to the process of assessing government debt risk. The immature and perfect

government debt budget will cause the government debt to not truly reflect the whole scope and direction of government activities; that is, it can not reasonably estimate the debt risk coefficient, which will hinder relevant personnel from formulating effective strategic planning and affect the long-term development of local governments. Establishing a reasonable government debt budget management mechanism and compiling the corresponding Xi'an local government debt budget can make the local government debt budget better guide Xi'an government debt to a more sound direction.

Finally, there is no perfect government debt performance evaluation mechanism. The debt performance mechanism under the current system is mainly based on the post-performance evaluation. This mechanism is mainly applicable to evaluating the use effect of debt funds after completing foreign debt projects. It can not measure the adequacy and appropriateness of the use of debt funds.

4.2. Inaccurate Positioning of Government Functions

The function orientation of Xi'an Finance Bureau is not accurate, and the division of labour among various departments is not clear. First of all, many departments manage government debt within the Municipal Finance Bureau, which is difficult to coordinate and manage. Secondly, the authority of the debt management committee is difficult to implement efficient and accurate monitoring of government debt funds in multiple links of circulation. Finally, in the process of using debt funds, they are always outside the supervision of the debt management office. The debt management office can not find the existing problems and put forward corresponding countermeasures in time, which eventually makes it difficult to evaluate the actual use benefits of debt funds.

4.3. Main Guidance of Market Economic Policies

The huge scale of local debt is also the leading factor of the country's major principles and policies - market economy policy. Since the beginning of reform and opening up, major changes have taken place in the country's economic policy. Since the 1980s, the Chinese government has implemented a new fiscal policy and provided some loans to local governments. The active and steady fiscal policy implemented since 2009 has increased the debt of local governments. At the same time, it is also because the participation in monetary policy is the source of the capital chain required to cooperate with the federal government's fiscal policy, which leads to the increase of local government debt. At this time, some projects around the country to advance economic growth and national urbanization policies have played an important role in expanding the scale of local government debt. In addition, it should be pointed out that the state continues to raise the salary level of civil servants and improve the retirement treatment of retired employees of companies and institutions to reduce the burden on farmers and improve the people's social security level. Although the policy has improved people's living standards, it puts forward higher requirements for local governments' finance. In some places where financial resources are insufficient, they can only rely on debt to solve the financing problem.

4.4. The Economy in Western China is Weak, and There are Few Financial Resources

As China is in the primary stage of socialism, the regional economic development is extremely unbalanced, and the gap between major regions is very obvious, especially in economically backward regions, it is difficult for regions to maintain their economic development with their financial resources. Under the influence of such an economic development environment, it is difficult to build a basic public finance framework, innovate financial resources and build a new development model. Although Xi'an is one of the most developed cities in the west, compared with the southeast coastal cities such as Shanghai, Guangzhou and Shenzhen, there is still a considerable gap in economic and comprehensive strength.

Xi'an is in a period dominated by the secondary industry. The primary industry accounts for a small proportion of each district's total industrial output value, followed by the tertiary industry, and the secondary industry accounts for the largest proportion of the total industrial output value. In addition, the problem of urban development is still obvious. The singleness of suburban development is very prominent. There is no clear leading industry to guide economic development, which is not enough to promote the economic development of districts and counties, and there is a lack of competitiveness among districts and counties. In addition, the difference in economic development levels among regions is too large, and the degree of integration of economically developed regions is too large to effectively promote the development of surrounding suburbs. And the economic driving effect is not obvious.

5. Solutions to the Debt Problem of Xi'an Local Government

5.1. Credit Enhancement Financing Platform

Under the new socialist market economy mode with a sharp reduction in land resources, the disadvantages of the traditional financing channels and financing modes are gradually revealed. To a certain extent, it is difficult to meet the government's increased expenditure demand and extremely unfavourable to the overall development of the whole country. Therefore, to fundamentally and effectively solve the problem of government debt, The first is to relax financing channels and improve financing institutions, which is an important way to reduce excessive dependence on bank credit at the present stage. Specifically, in the later financing process, Xi'an local government needs to change and innovate the government's capital operation mode, let private capital and social working capital actively participate, and fundamentally facilitate the generation of illegal government debt; this can make Xi'an local government debt more legal and explicit.

5.2. Replacement of Local Debt

Firstly, the problem of local debt replacement is to change local debt, which means that local governments can borrow new debt to repay an old debt and appropriately reduce the payment speed due to the moderate interest rate, which can alleviate the pressure of domestic debt. Xi'an municipal government has introduced new well-known real estate investment to carry out appropriate urban planning and housing construction in Xi'an, achieve financing and promote the inflow of new economy, and solve the old problems first. However, at present, the effect of this implementation has not been reflected.

5.3. Strengthen Local Debt Risk Awareness

Since the 18th National Congress of the Communist Party of China, the central government of the Communist Party of China has attached great importance to preventing and reducing the main financial risks and debt problems of local governments. General Secretary Xi Jinping made an important speech on this issue several times and made important instructions, stressing the need to prevent and defuse financial risks. This impacts national security, the overall situation of economic development and the safety of people's property. These are the main obstacles to ensure quality development. Local Party committees and governments at all levels should clarify the concept of performance and strictly supervise the development of local government debt. We need to earnestly improve our political position, raise awareness of risks, and resolutely deal with all kinds of unpredictable risks brought by the cash portfolio.

5.3.1. Actively and Safely Resolve the Quantity of Inventory

Based on the comprehensive review and the debt basis, the debt list shall be effectively solved according to the general idea of "suspension, suspension, adjustment and repayment".

5.3.2. Strictly Control New Debts

First, managing new debt is the key to managing stable and orderly debt. Workflow such as planning, approval, and project coordination decisions must be implemented consistently to ensure the security of orders and financing orders, improve the efficiency of government investment and improve project management. Improve the demonstration of debt raising projects, prioritise emergency projects with good economic and social benefits, and use limited funds for financing.

5.3.3. Clean up and Standardize Major Financing Platforms

To promote the reform and transformation of financing platform companies in strict accordance with the law, we should first remove the "empty shell category", sort out the "similar category", and carry out the transformation and upgrading of the "entity category", and strengthen the supervision of the asset-liability ratio and major financing behaviours of major platform companies. We will firmly stop the illegal operations of major platform companies and illegal guarantee and speculation for-profit and urge platform companies to strictly control risky businesses such as financial derivatives. To further standardize and clarify the exchange relationship between the platform company, local governments, and major banks, we can enrich the capital through financial capital injection and asset allocation to improve the financing capacity of the platform company.

5.3.4. Strengthen Debt Control Steadily

The first is to classify the government debt into budget management, establish a debt management evaluation system accordingly, comprehensively evaluate the establishment of debt management institutions and systems of district and county governments and relevant units directly under the municipal government, the implementation of debt management objectives and responsibilities, debt information statistics, the construction of debt repayment mechanism and the control of debt scale, and incorporate it into the corresponding performance evaluation. Improve the public debt emergency plan, establish and improve the public debt risk assessment mechanism, risk early warning mechanism and statistical monitoring mechanism to reduce the dependence of municipal debt on local economic development and available financial resources. You need to ensure that the security of debt risk is adjusted to a certain extent.

5.3.5. Accelerate Regional Economic Development

"Development is the foundation and key to solving all problems." to solve the debt problem, we need to take economic growth as the main guidance and properly handle the relationship between risk prevention and sustained and stable growth. We must unswervingly live, strictly control daily expenses, and ensure the safety of ordinary people's wages, business and livelihood. We must vigorously promote high scientific and technological content, strong innovation ability, great economic growth potential, good market prospects, new business models and advantageous representative companies with the main characteristics of special industries. One belt, one road, must be taken as the importance of economic and social development. Comprehensive and strategic measures should be taken to fully exploit the advantageous position of Xi'an's "one belt and one way" national policy, increase efficiency, effectively utilize social capital, and promote industrial projects and economic and social activities to be healthy and fast, thus effectively promoting city development.

5.4. Strengthening Budget Management of Local Governments

Strengthening the fund budget management of local governments and establishing a scientific and standardized fund budget will help to improve the national budget system and improve the unity and integrity of the national budget. It is also conducive to coordinating and allocating the management and supervision role between various funds and government levels and

improving the government's ability to respond to the current level of economic development. Strengthening fund budget management can better perform the government's tax and financial functions in the new environment. Local financial departments at all levels are fully aware of the importance of strengthening fund budget management, integrating ideas and actions, determining a public budget and budget management, taking initiatives to carry out work, and improving budget management. To take effective measures, local measures should continue improving and developing and finding a road suitable for their development.

5.5. Establish an Effective Government Debt Repayment Mechanism

First of all, it is necessary to conduct an in-depth investigation and understanding of the registration of local government debts at all levels, fully disclose government debts at all levels, clarify whether there is concealment and unintentionalness, and point out the scientific balance of local governments. Secondly, local governments must establish and improve the repayment mechanism. Governments at all levels have stipulated that the government must repay the restored debts by repaying the existing debts. In strict accordance with the principle of "credit and payment", specify the specific debtor, formulate practical and feasible repayment methods, and understand the sources and channels of various repayment funds. Finally, the amount of debt must be strictly controlled to avoid unreasonable debt repayment. At a certain economic level, if the debt ratio exceeds the warning level, the government will not recover it. As a general practice, governments at all levels will no longer provide financial guarantees. Governments, units and units at all levels must report to the local government for approval when increasing debts. If the responsible person who undertakes the obligations uses the corresponding debts in violation of the provisions, fails to repay the debts as planned, and causes damage to state-owned assets, he shall be disposed of according to law.

5.6. Establish and Improve the Public Information Disclosure System of the Financial Situation of Local Governments

The main thing is to establish a debt management mechanism for local governments at all levels. We need to establish a balance sheet system to improve the accuracy of debt. Develop accounting and accounting systems for communities, institutions and individuals involved in debt management and management. It is suggested to establish an internal credit rating system for social debt and use surveys such as credit rate and credit rating to promote information disclosure at all levels and effectively monitor and evaluate the generation and guarantee of government debt.

6. Conclusion

In recent years, Xi'an local government has mainly raised debt financing through different ways and channels to alleviate a series of problems caused by the shortage of funds required for economic and social development. Xi'an local government has strengthened urban infrastructure construction, promoted rapid economic development, and improved and guaranteed people's livelihood; it played an extremely important and positive role. However, this is because the establishment of local government debt management mechanism has been seriously delayed, so there is no unified and effective management mechanism, resulting in the rapid expansion of local government debt scale and non-standard management in Xi'an. This affects the effectiveness of the use of government debt funds and may cause various uncertain risks brought by the budget and become an incompatible factor for the sustainable development of the economy and society. These problems prove that the development of local government debt is not perfect, which is an inevitable stage of social development. In the environment of rapid social development, local governments should find problems in time, solve problems and constantly improve in development. Given the problems existing in local

government management, this paper puts forward ideas and suggestions for improvement and perfection to promote local government debt management and maintain more stable social development.

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