**The State Council on Strengthening Local Government Debt Management Advice**

No. 43[2014] of the General Office of the State Council

The people’s governments of all provinces, autonomous regions, and municipalities directly under the Central Government, all ministries and commissions of and departments directly under the State Council:

In order to strengthen local government debt management, and promote the sustained and healthy development of the national economy, we hereby put forward the following opinions according to the spirits of the 18th CPC National Congress and the Third Plenary Session of the 18th Central Committee of the CPC:

**I. Overall Requirements**

(I) Guiding thought. We shall follow the guidance of Deng Xiaoping Theory, the important thought of “Three Represents”, and the Scientific Outlook on Development, comprehensively implement the spirits of the 18th CPC National Congress and the Third Plenary Session of the 18th Central Committee of the CPC, establish local government debt management mechanism of “borrowing, utilization, and repayment” unification according to the decisions and arrangements of the CPC Central Committee and the State Council, in order to effectively exert local government’s positive function in normalizing debts, practically guard against and defuse financial risks, and promote the sustained and healthy development of the national economy.

(II) Basic principles

Combine dredging and blocking. We shall construct open channels and block blind passes, endow local government with the authority of **moderate** debt financing according to laws, and accelerate the establishment of normative local government debt financing mechanism. Meanwhile, we shall resolutely deter local government from illegal borrowing debt.

Distinguish responsibilities. We shall make clear the responsibilities of the government and enterprises, regulate that government debts may not be borrowed through enterprises, and enterprises debts shall not be repaid to the government, make sure practically realize who borrow who own risks. In case the government cooperates with social capital, it shall undertake related liabilities according to laws and stipulated rules.

Normative management. We shall implement scale control on local government debts, strictly limit government borrowing program and the use of funds, take local government debt categories included in the full-caliber budget management, and realize “borrowing, utilization, and repayment” unification. …

Risk prevention. We shall firmly keep the bottom line of not occurring regional and systematic risks, and practically guard against and defuse financial risks.

Steadily promote. We shall strengthen debt management, and precisely, we shall not only execute active promote, but also hold a prudential attitude for steady promote. While in the normalizing management, we shall properly handle the debt stock to ensure that projects under construction in an orderly way.

**II. Accelerating the Establishment of Normative Local Government Debt Financing Mechanism**

(I) Endow local government with the authority of moderate borrowing according to laws. With the approval of the State Council, the governments of provinces, autonomous regions and municipalities directly under the Central Government can borrow modest debt; municipal and county governments do need to borrow debt, the governments of provinces, autonomous regions and municipalities on behalf of borrowing. We shall clearly distinguish the **demarcation line** of the government and enterprises. Government debts can only borrow through government and its departments, enterprises and public institutions etc. not by borrowing.

(II) Establish normative local government debt financing mechanism. Local government shall borrow debt in the form of government bonds. For the unproductive public welfare development do need general debt borrowing, the local government issue general bond financing, mainly by the general public budget revenue to repay; with certain benefits for the development of public welfare do need government special debt borrowing, the local government through issuing special bonds financing to the corresponding government funds or special revenue repaid.

(III) Promoting the use of modes of cooperation between the government and social capital. We shall encourage social capital by means of franchising to participate in the investment and operation of public welfare with certain benefits, such as urban infrastructure, etc. Through beforehand publicized benefit stipulations and rules, such as franchise right, reasonable pricing, and financial subsidy, etc., the government shall make investors obtain long-term stable benefit. Investors shall make investments in line with the principle of marketization, and establish special purpose company independently or together with the government to construct and operate cooperative projects according to stipulated rules. Investors or special purpose company may borrow debt and undertake repayment responsibility through marketization methods such as bank loan, corporate bond, project revenue bond, and asset securitization, etc. The government shall undertake related responsibilities such as franchise right, reasonable pricing and financial subsidy, etc. according to laws and stipulated rules for investors or special purpose company, **but shall not undertake investors or special purpose company’s repayment responsibility**.

(IV) Strengthen the supervision on government contingent debts. Financing platform companies shall be deprived of government financing function, and shall not increase government debts. In case a local government has new contingent debt, it shall strictly restrict the contingent debt within the lawful guarantee scope, and shall undertake related responsibility according to laws and guarantee contract. Local government shall strengthen the statistical analysis and risk control of contingent debts, and do a good job in supervision.

**III. Implementing Scale Control and Budget Management on Local Government Debts**

(I) Implement scale control on local government debts. We shall implement **quota** management on the scale of local government debts, and local government debt shall not break through the quota approved. Local government’s general debts and special debts shall include into quota management, determined by the State Council, and reported to the National People’s Congress or its Standing Committee for approval. Regional quota shall be measured and calculated by the Ministry of Finance within the local government debt scale approved by the National People’s Congress or its Standing Committee according to each region’s debt risk and financial standing, etc., and shall be reported to the State Council for approval.

(II) Strictly limit local government borrowing program and the use of capital. Local government must obtain the approval of present-level people’s congress or its standing committee for borrowing debt within the regional quota approved by the State Council. Local government shall not borrow debt through enterprises and public institutions, etc. Local government shall follow the principle of marketization in borrowing debt. We shall establish local government credit rating system and gradually perfect local government bond market. Local government debts can only be applied to public welfare **capital expenditure** and moderate repayment of debt stock, but **shall not be applied to recurrent expenditure**.

(III) Take local government debt categories included in the full-caliber budget management. Local government shall take general debt revenue and expenditure into general public budget management, take special debt revenue and expenditure into government fund budget management, and take the expenditures such as financial subsidy, etc. in the government and social capital cooperation projects into corresponding government budget management. Local government’s each department and unit shall take debt revenue and expenditure into their budget management respectively. For contingent debts do need the local government or its department and unit to undertake repayment responsibility according to law, repayment capital shall include in corresponding budget management.

**IV. Controlling and Solving Local Government Debt Risks**

(I) Establish local government debt risk warning mechanism. According to each region’s general debt, special debt, and contingent debt, etc., the Ministry of Finance shall calculate the indexes such as debt ratio, new debt rate, debt serving ratio, and overdue debt ratio, etc., appraise each region’s debt risk, and send risk warning to the areas with high debt risk. The areas with high debt risk and listed to risk warning scope shall take active measures to gradually lower risks. The regions with relatively low debt risk shall reasonably control the scale and growth rate of the debt balance.

(II) Establish debt risk emergency treatment mechanism. We shall stiffen budget restriction, and prevent moral risk. Local government shall undertake the repayment responsibility to the borrow debts, and the Central Government shall implement the principle of no-salvation. The government at all levels shall establish emergency disposal preplan, and establish accountability mechanism. In case local government has difficulties in debt repayment, it shall raise capital to repay debts through multiple channels, such as controlling project scale, compressing public outlay, and disposing inventory assets, etc. In case local government has difficulties in repaying debts independently, it shall report to the superior in time, while the present-level and superior governments shall start debt risk emergency disposal preplan and accountability mechanism to practically solve debt risks, and investigate related personnel into liabilities.

(III) Execute financial and economic disciplines strictly. We shall establish the mechanism of punishment against **illegal financing** and use of government debt capital, and strengthen the supervision and examination on local government debt management. Local government and its departments shall not borrow debt illegally outside budget, shall not borrow debt for recurrent expenditure or building construction in the name of supporting public welfare development, and shall not embezzle debt capital or change the given capital purpose; local government must ensure its behavior of investment in and financial subsidy for enterprises, etc. to be lawful and compliant, and shall not provide guarantee for any unit and individual debts illegally by any means; local government shall not hinder the normal business activities of financial institutions, etc. illegally, and shall not ~~en~~force financial institutions, etc. to provide government financing. Local government shall further normalize land transfer management, and resolutely suppress illegal land transfer and financing behavior.

**V. Perfecting Supporting Systems**

(I) Perfect debt report and disclosure system. We shall perfect the statistical report system of local government debt, accelerate the establishment of government comprehensive financial report system on accrual basis, and comprehensively reflect the condition of government asset and liabilities. As for government debts formed from the major policy measures enacted by the Central Government, such as shanty town reconstruction, etc., we shall carry out statistics, accounting, examination, and assessment independently. We shall establish local government debt announcement system, and strengthen government credit system construction. Each region shall periodically publicize the government debt and project construction to the society, and accept the social supervision consciously.

(II) Establish assessment and accountability mechanism. We shall take government debt as an inflexible index into political performance assessment; explicit the fulfillment of responsibilities, and require the government of each province, autonomous region, and municipality directly under the Central Government to be responsible for local region’s local government debt; strengthen education and assessment, and correct incorrect political performance orientation; and investigate related person responsible into liabilities for the behaviors of excessive borrowing by ignoring the reality, illegal borrowing or guarantee, illegal use of debt capital, and malicious illegal evasion of debts, etc.

(III) Strengthen restriction on creditors. Financial institutions, etc. shall not provide financing to local government illegally, and shall not require local government to provide guarantee illegally. Financial institutions, etc. shall meet supervision regulations when buying local government bonds, shall strictly normalize credit management when providing financing to business entities, etc. which belong to the subjects of government contingent debts, and practically strengthen risk identification and management. In case financial institutions, etc. provide government financing illegally, they shall undertake corresponding losses independently, and related institutions and personnel shall be investigated into related responsibilities according to the laws and rules such as the Law on Commercial Banks and the Law on Banking Regulation and Supervision, etc.

**VI. Properly Solving Debt Stock and Subsequential Financing for Projects in Construction**

(I) We shall take debt stock into budget management as soon as possible. Based on the audit result of government debt in 2013, combining with the change of debts after audit, and through the joint negotiation and confirmation of creditors and debtors, we shall distinguish the stock of local government debts. The debts borrowed by local government and its departments shall be taken into general debt and special debt correspondingly. The debts borrowed by enterprises and public institutions, if belonging to the debts which shall be repaid by the government, shall be taken into general debt and special debt accordingly. After reporting the distinguished government debt stock to the State Council for approval level by level, local government shall take such debts into budget management by classification. For the debts included in the budget management, original debtor and creditor relationship shall remain unchanged, and repayment capital shall be managed normatively according to budget management requirements.

(II) Lower the interest burden of debt stock actively. For the local government debt stock included in the budget management after distinguishing, each region may apply for issuance of local government bond for replacement, in order to lower interest burden, optimize period structure, and spare more capital for construction of key projects.

(III) Properly repay the debt stock. We shall disposal of the stock of debt maturity to follow the rules of the market, reducing administrative intervention. Operating income for the project on time servicing its debt, the repayment should continue through the project revenue. Operating income for the project itself is not sufficient to servicing debt, can inject quality assets by law, strengthening management, intensify reform and other measures to improve project profitability, enhance solvency. Local governments should guide and supervise the debt borrowing units to strengthen financial management, broaden debt funding channels, co-ordinate arrangements for debt funds. Do need to repay the debt of local government, local government should earnestly fulfill debt obligations, the government may dispose of assets to repay debt when necessary. For local governments do need to fulfill debt obligations guaranteed or rescue, the local government should earnestly implement the agreement in accordance with law, make proper arrangements. Related debt borrowing units and jointly and severally liable person should conscientiously implement debt obligations in accordance with the agreement, a clear debt limit, and debt service on time, not unilaterally change the original creditor-debtor relationship, and evasion of responsibility should not be passed on debt repayment. The stock of debt has been formed to determine losses; creditors should bear the liability and damages in accordance with commercial principles.

(IV) Ensure subsequential financing for projects in construction. Local government should co-ordinate various types of funds, give priority to projects under construction continued construction and closeout. The use of debt capital projects under construction, the original loan banks to re-audit, where compliance with the relevant provisions of the state of the project, according to the agreement to continue to provide loans to promote the project construction; projects under construction building is really no other sources of funding should be mainly through government and social capital and local government bonds cooperative mode to solve the follow-up financing.

**VII. Strengthening Organization Leadership**

All regions and departments directly under the State Council shall pay much attention to this matter, uniform the thoughts and action to the policy decision of the CPC Central Committee and the State Council. Local government shall practically undertake the responsibility of strengthening local government debt management, guarding against and defusing financial risk responsibilities, and shall make concrete proposals by combining with actual situation. The government’s main principal, as the first person responsible, shall take charge of policy implementation in earnest. We shall establish local government debt coordination mechanism, and uniformly strengthen local government debt management. Financial department, as centralized management department of local government debts, shall perfect debt management system, enrich debt management force, and complete the work such as debt scale control, bond issuance, budget management, statistical analysis, and risk monitoring, etc.; development and reform departments shall strengthen government investment plan management and project examination & approval, and examine and approve new projects in high-risk regions strictly; financial supervision departments shall strengthen supervision and correct instruction, and suppress financial institutions, etc. from providing financing illegally; audit departments shall strengthen audit supervision on local government debts, promote the perfecting of debt management systems, prevent risks, normalize management, and raise capital utilization effect. All regions and departments directly under the State Council shall practically implement responsibilities, strengthen coordination and cooperation, comprehensively complete and strengthen various works in local government debt management, and thus ensure the proper implementation of policies.

The State Council

Sept. 21, 2014

(The document has been promulgated publicly)