Research on the Challenge and Reform of Financial Crisis in Public Debt Management

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Abstract. After the financial crisis, the European sovereign debt crisis gradually broke out. This problem highlights the importance of public debt management. Constantly improving the current public management mechanism is the primary task of global economic governance. Based on the "Guidelines for Public Debt Management" implemented at the international level, corresponding instructions have been made on the management of public debts in various countries, but there are still some deficiencies in the financial crisis. Based on this, countries also need to continuously reform public debt management according to the actual governance situation. For example, strengthening the technical management of public debt, effectively alleviating the pressure of public debt in various countries, further optimizing the principles of public debt management, promoting the orderly development of public debt, and strengthening the coordination between public debt management and other mechanisms, preventing debt management and other policies from conflicting, and then welcoming financial Challenges posed by the crisis.

Keywords: public debt management · financial crisis · challenge · reform

1 Introduction

Public debt management is also known as government debt management and sovereign debt management. After the U.S. financial crisis, the public debt and the public debt of developed economies have received attention from all parties. The main reasons are as follows: First, after the outbreak of the U.S. financial crisis, countries have increased the promotion of fiscal policies, and local government debt has increased sharply, government debt has gradually received attention. Second, the central banks of developed countries launched quantitative easing policies and purchased a lot of government bonds, which led to the gradual transformation of public debt management into financial and monetary stability. Third, after the European sovereign debt crisis broke out, public debt management became very important. This paper makes a theoretical analysis of public debt management, discusses the challenges brought by the financial crisis in public debt management, and puts forward corresponding reform suggestions.

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2 Basic Theory of Public Debt Management

Public debt management is established during the implementation of the management strategy, and its implementation goal is to raise funds for the government to operate, to achieve bellows and cost control goals, and then achieve other sovereign debt management goals set by the government. Among them, the government's financing needs should be met at the lowest cost, which is also the core and most basic purpose of public debt management. Other management goals also involve promoting the development of the local bond market, improving the government's future financing level, and ensuring that the central bank has Corresponding monetary policy implementation tools. It also focuses on managing debt risk and preventing short-term turbulence in financial markets when government debt rises further. After the outbreak of the financial crisis in the United States, public debt management and a series of policy effects have gradually become prominent, and whether the management goal should be shifted to other policy goals has received attention [1].

Public debt management is a systematic project, and a unified management mechanism has not been established, but the public debt management of various countries includes these contents. First, establish debt management goals. The goals are the basis for guiding management activities. Usually, countries will set multiple goals based on public relations debt management, and will also focus on design based on their actual conditions, while adjusting to changes in economic conditions. Second, build an efficient organizational structure. For example, many countries have established special debt management offices and special debt management agencies. Third, build a fair and transparent legal supervision framework, and designate the work responsibilities and code of conduct of the Al debt management agency according to the management objectives. Fourth, create a generally orderly debt management information system to ensure that debt risk assessment, debt records, debt interest analysis, and other information are supported by professional platforms. Fifth, to formulate a benign policy coordination mechanism, the debt management department can build a corresponding coordination mechanism when formulating policies according to the management situation and the exchange rate, currency, policy, and other policy departments, to ensure that the government management mechanism and the powers and responsibilities of the management department are more clear and orderly. Prevent conflicting policy objectives. Sixth, to build a more targeted risk management framework, local governments can formulate effective bill management objectives according to the debt management departments, to meet the requirements of the risk management guidelines, and at the same time formulate risk assessment and monitoring mechanisms to ensure that debt managers can be familiar with the operation. Capital risk and risk management, thereby reducing sovereign lending risk. Finally, formulate a corresponding accountability mechanism to ensure that managers can get corresponding supervision and accountability in actual management [2] (Fig. 1).

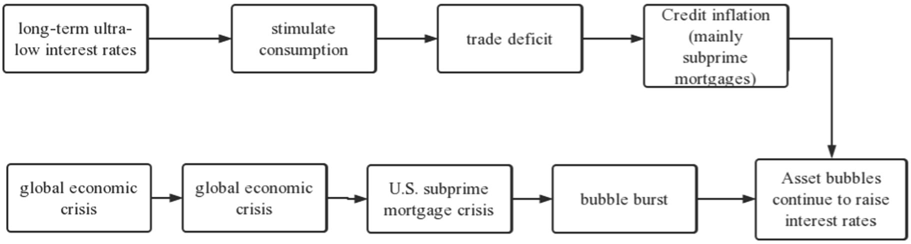

Fig. 1. The formation mechanism of the new financial crisis in the United States

3 Development History of Public Debt Management

Throughout history, public debt management has experienced a total of four orders. First, the government mainly relies on non-market instruments for debt financing. At this time, debt management is limited, and it is mainly used to record corresponding borrowing and debt repayment transaction information. At this stage, because the domestic bond market started late and the overall development level is low, the government mainly relies on bank loans or preferential loans from international financial institutions to meet financing requirements. Moreover, debt management is not a separate department responsible for it but is only involved in the framework of fiscal policy and monetary policy. Secondly, the government will further innovate non-market financing and then face the market financing model. After this stage, my country's bond market gradually developed, and at the same time, it also promoted the transformation of government financing into a market-led model, and the government's main financing channel changed to bond issuance., which will also increase market risk. Based on this, at this stage, public debt management focuses on risk management and control, and the government also establishes a dedicated debt management department, and at the same time separates debt management from the monetary policy and fiscal policy framework. In another stage, the government began to use debt management and asset management methods to carry out debt management work. At the same time, the government's public debt management no longer focused solely on explicit debt but also increased its emphasis on some potential debts. Finally, the Ministry of Finance provides some treasury services to other institutions or units by combining asset management methods and liability management and control methods. At this stage, the Ministry of Finance can provide corresponding agency services to other institutions [3]. At this time, the scope of functions of the debt management department has continued to expand, including the government loan evaluation system, which can give corresponding suggestions for government agencies and cash risk management.

4 Challenges Brought by the US Financial Crisis

Impact on exports: For a long period, the United States was in a state of improvement and adjustment of its external current account deficit and credit contraction, while developed countries were followed by economic downturn or stagnation; my country's manufacturing and export sectors were faced with seemingly Permanent impact, during this period, my country's import and export scale gradually shrank. In addition, the global economy is gradually slowing down and exports are slowly declining, and the high-capacity expansion of Chinese enterprises has gradually become an economic operation risk. In addition, between 2003 and 2007, the global economy was in a period of expansion, and the major economies of Western countries were generally in a state of insufficient supply, which in turn reduced a large amount of production capacity in emerging markets. In addition, the global economy has gradually slowed down due to the loan crisis, and emerging markets have overcapacity, and various risks have gradually become prominent. Among them, the risks of overcapacity in enterprises are mainly reflected in the following aspects: firstly, most small and medium-sized enterprises stop production and reduce production, and secondly, the growth of cyclically sensitive industries gradually slows down. Slow, or even a negative growth trend [4].

The impact of the global economic slowdown on my country's exports is as follows: the subprime mortgage crisis directly affects global economic development. The global economy gradually decreased from 4% to 2.5% in 2008, and some developed countries even experienced a negative growth trend of 0.5%. Because imports and export are one of the main ways to drive my country's economic growth, if this level is restricted, it will continue to increase the difficulty of public debt management. In addition, my country's exports to the US are closely related to US consumption data. When the US economy slows down by 1%, my country's exports will drop by 6% in asset prices.

The negative impact on consumption is that when the stock market and real estate market are fully adjusted, it will have a certain wealth effect on Chinese residents. Looking back at my country's consumption structure in 2008, Chinese residents have had various negative impacts on durable consumer goods at this time, such as housing showing a negative growth trend and automobile sales declining a lot year-on-year.

The impact on my country's financial market is that when the US securities index has various degrees of risk to other major global market indexes, the A-share index will gradually drop from 6,000 points to about 1,900 points. The impact on banks is that it will directly cause loan investment losses and affect the quality of housing loans and corporate loans. Among them, the impact on the industry include over-expansion, hindering the growth of consumption, promoting the widening of the capital income gap, and even facing constraints, and labor, environment, and resource prices will also face constraints [5] (Table 1).

Table 1. Overall Risk of Government Debt (GD = CGD + LGD)

debt name	Debt balance	Share of GDP (%)	Proportion of national fiscal revenue (%)	Proportion of national fiscal revenue in a broad sense (%)
Central Government Debt (CGD)				
Central government debt balance	67548.11	16.8	81.28	49.68
Big Four Asset Manager Debt	14000.00	3.49	16.85	10.30
Ministry of Railways debt	18918.00	4.72	22.76	13.91
CGD1 = ①	67548.11	16.84	81.28	49.68
CGD2 = ① + ②	81548.11	20.33	98.13	59.98
CGD3 = ① + ② + ③	100466.11	25.04	120.90	73.89

5 Proposals for the Reform of Public Debt Management

5.1 Conflicts in Coordinating Sovereign Debt Management, Financial Stability, and Monetary Policy

At present, the Treasury Department under the Ministry of Finance of our country directly manages the management of sovereign debt. On the surface, there is no contradiction between this and monetary policy. However, it is worth noting that my country's government debt does not have a deeper financial market and main financing channel. It is a banking system, but the banking system will be subject to the management of deposit interest rates, so the financing cost obtained by local governments is very low, but there is no greater risk. However, when interest rates in the domestic financial market are gradually marketized, the cost of government financing will continue to increase, and the gross position between the Ministry of Finance and the monetary authorities will gradually increase. Based on this, in the process of interest rate liberalization, the government authorities should pay more attention to the improvement of the government's sovereign debt level, gradually reduce the financing pressure in the future, and establish relevant coordination departments according to the actual situation, to prevent the gap between sovereign debt management and financial stability and monetary policy. Serious contradictions arise.

5.2 Strengthen the National Debt Market and Improve the Debt Maturity Structure

Building a mature national debt market can play two important functions, one is to become a central government financing tool, and the other is to become a financial market supervision tool. Today, my country's national debt market is still being optimized, and it is usually used as a financing tool. For example, as early as 2012, the balance of my country's national debt was only 72 trillion yuan, accounting for 5.4% of the total financial assets. It did not play the most important role in the development of the financial market. In addition, the issuance frequency was very low, and the issuance of short-term national debt was still lacking., the market liquidity is weak. Based on this, the government must continue to strengthen the national debt market, optimize debt management, maintain a smooth transmission channel for monetary policy interest rates, and meet government financing needs.

5.3 Building a National-Level Liability Management Framework

The implementation of monetary policy can further innovate the cost of central government financing and also affect the cost of government debt financing or guarantee costs. In my country's government public debt, the main contingent debts involve the government's potential insured local debt, the potential non-performing assets of state-owned enterprises, and the social security fund gap. And after the subprime mortgage crisis, my country's central government implemented a series of stimulus policies, which further promoted the investment behavior of local governments, and the balance of local debts gradually increased. For example, at the end of 2010, my country's local debt balance reached 10.7 trillion yuan, an increase of 12.94% in the following two years, of which the largest proportion is credit guarantee. Based on this, my country must innovate the previous liability management model, establish a corresponding deduction and guarantee state-owned department, establish a complete asset and liability management framework, and systematically assess various asset load risks, to cope with the impact of the financial crisis.

6 Conclusion

In order to reduce liabilities-related risks in public debt management and effectively respond to the challenges brought about by the financial crisis, the government can also strengthen the prudential supervision mechanism in a targeted manner, implement appropriate deposit insurance plans, and implement scientific governance reforms for public sector enterprises. We will improve macroeconomic management and improve the quality of policy regulation in times of financial crisis.

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