



Research on Local Government Debt Risk and Countermeasures in Harbin

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ABSTRACT

The issue of local government debt is related to national politics, economic security and social stability and development. At present, there are some problems and risks in the structure and scale of Harbin's debt exposure, which are mainly manifested in unreasonable economic policies and imperfect financing and investment systems. These problems are related to inflexible economic policies, flawed financing investment and systems, and the inability of relevant regulatory departments to conduct timely and effective supervision and reflect the economic situation from the actual situation. Coupled with the blindness of some government departments' assessment plans, the scale of local government debt has further expanded[1]. This paper takes Harbin as the research object, analyzes the current provincial government debt situation, and finally proposes corresponding solutions. In order to effectively prevent and control the debt risk of local governments, it is necessary to effectively guide their debt-servicing behavior, standardize relevant regulations and debt management, improve the early-warning mechanism of debt management and do an excellent job in the disclosure of local debt information and debt restructuring.

Keywords: Local government, Harbin, Precautionary measures, Risk reason, Debt risk

1. INTRODUCTION

1.1 Research background and significance

Since the reform and opening-up, China's economic development has entered a new normal mode, and the government debt problem has attracted more attention. According to the new budget law, local governments can issue bonds after strict examination, which shows that China's local debt management is gradually moving towards a legal and standardized system. In 2015, the Ministry of Finance promulgated the budget management measures for local government special bonds, aiming to strengthen local government debt management. It can be seen that the research on local debt risk has attracted more and more attention[2].

Based on China's actual economic situation, this paper analyzes the causes of debt risk in Harbin city. It forms a set of targeted measures and suggestions with the particular reference value and guiding significance for preventing the risk of local government debt in Harbin. Debt is an effective measure for local governments to solve fiscal deficits and insufficient construction funds. However, in the lending process, local governments

cannot carry out effective detection and control due to the lack of primary debt constraints and unified management. Therefore, it is easy to lead to the debt crisis and financial risks. It is of great significance to use a set of scientific and reasonable evaluation index systems to evaluate the use of debt and discover problems in time.

1.2 Research status at home and abroad

Foreign scholars have various discussions on the definition of risk. The "structural change theory" put forward by American scholar Williams, who pointed out that risk results from changes in a specific state and time, is the most recognized theory in today's academic circles. In other words, as long as an activity has more than one result, it can be said that it may have risks. In addition, from an economic point of view, the research team at Harvard University in the United States believes that risk is the possibility of financial loss. The debt risk of local government refers to that many aspects of the social economy, including itself, may be damaged due to many uncertain factors. The debt risk of local governments includes the possibility that local governments cannot

fulfil their debt repayment obligations and has damage to economic and social stability and development.

Chen Jing (2102) discussed the basic concept of local government debt. He believes that local government debt refers to the debt with financing and investment characteristics generated by local governments, administrative institutions and other financial institutions in economic activities[15]. Zhong Liuqin (2014) pointed out that to comprehensively understand local government debt, local government debt can be analyzed from government revenue and government expenditure. Local government expenditure debt mainly refers to the public funds prepaid by government departments for performing administrative functions. Local government revenue refers to paid public revenue[12]. Ma Fengwei (2013) believes that some local governments have not done enough in both open sources and closed flow, which leads to the gradual increase of irregular financing behaviors and the confusion in the use of funds[13].

The risk formation reason is the leading research content of local government debt risk. Wu Ming (2015) believes that the institutional reason for the increased risk of local government debt is that the financial resources and powers of the central and local governments cannot adapt to each other after-tax sharing. Xu zhandong and Wang Xuebiao (2016) believed that scale risks, structural risks and management risks in China's local government debt. Han Xintao and Liang Yan (2016) proposed that China should open the scope of local debt and improve the debt information disclosure mechanism. Huang Jie and Wang Hong (2016) analyzed the reasons for the local government's strong debt preference from soft budget constraints. Li Lu (2014) sorted out the deficiencies of the new budget law in the supervision and management of local government debt, and proposed the optimization path to strengthen supervision from legislation and management[11]. Zheng Jie (2013) pointed out that to reduce local government debt, it is necessary to strengthen budget management of the social insurance fund and maintain and increase the fund balance[14].

2. CURRENT SITUATION OF LOCAL GOVERNMENT DEBT IN HARBIN

2.1 The absolute value of the debt scale is large

As can be seen in Table 1, from 2014 to 2017, Harbin's public financial revenue increased from 27.95 billion yuan to 43.56 billion yuan in 2017, the scale of interest-bearing liabilities increased from 50.975 billion yuan to 94.447 billion yuan, and the debt ratio increased from 185.38% to 216.82%. Among them, Harbin's debt ratio stood at 216.85% in 2017, the highest level in recent years[3]. The absolute value of Harbin's debt scale is not large, but due to the small scale of public fiscal revenue, the debt rate remains high. Although the debt rate of Harbin is not too high compared with other prefecture-

level cities, the absolute value of the debt scale of Harbin is large and the debt burden is heavy, which is far higher than that of other prefecture-level cities. Therefore, under the general trend of reduced fiscal revenue, Harbin needs to be alert to the change of its debt risk.

2.2 From 2013 to 2017, the balance of local debts in Harbin increased year by year

In October 2014, the "No. 43 document" and the "No. 351 Fiscal Budget document" issued by the State Council were officially released, and local government debt began to be identified. Subsequently, the new budget law was formally promulgated and implemented on January 1, 2015, stipulating that the subject of local government debt can only be the provincial people's Government approved by the State Council, which means that legally speaking, the debts borrowed by Harbin after 2015 do not belong to government debt. As a result, from 2014 to 2016 and beyond, Harbin's government debt balance will be at least as large as other prefecture-level cities on the longitudinal timeline. According to the financial budget and final accounts report and the information disclosure documents of general and special bonds, it can be seen from Table 2 that although the debt balance of the Habin government has increased year by year, its debt balance has risen from 257,481 at the end of 2013 to 364.5 billion yuan at the end of 2017, an increase of 1.42 times, indicating an apparent increasing trend of the local debt balance[4].

2.3 The government debt ratio and debt ratio showed a slight upward trend

From the perspective of government debt burden, combined with table 1 and table 3, it can be seen that government debt ratio and debt ratio show a slight upward trend, in which the annual increase of debt ratio is less than two percentage points. Specifically, this paper uses two indicators of debt ratio and debt ratio to measure the debt burden of Harbin, including: debt ratio = debt balance with repayment responsibility / GDP of that year, debt ratio = debt balance with repayment responsibility / local financial resources of that year, and local financial resources of that year = public financial revenue + superior subsidy revenue + government fund revenue. It is estimated that from 2014 to 2017, the debt ratio of Harbin city was lower than the international warning line of 60%. Still, the debt ratio did not meet the international risk control standards. In 2014, the debt ratio of Harbin city was as high as 185.38%, exceeding the safety warning line of 90%-150%. After that, there was a slight increase every year[5].

3. CAUSES OF LOCAL GOVERNMENT DEBT RISK IN HARBIN

3.1 Harbin municipal government lacks a unified financial budget management system

Judging from the degree of cooperation between state finance and local finance and many relevant cases, the definition and decentralization of power between the central government and local government have not been evident since the 1990s. The lack of a unified financial budget management system in Harbin leads to the lack of corresponding legal and institutional constraints in the process of monetary payment, as well as the lack of reasonable fund allocation and effective planning. In western countries, the proportion of government payment in the total expenditure is generally lower than similar expenditure. Most of them are reflected in extraordinary expenses, which makes funds inefficient and the phenomenon of appropriation and misappropriation of funds repeated. The regulatory authorities also lack effective restraint, guidance, and evaluation in this process. After the tax reform, a large number of tax expenditures have been turned into local tax revenue projects, and the source of local finance has been restricted, resulting in a substantial decrease in local fiscal revenue[6].

3.2 Borrowing through the financing platform has increased the hidden risk of debt

The development time of China's market economy is limited, and the original economic problems of administrative intervention still exist. Harbin local government needs more and more financial funds. Harbin local government established a local financing platform to finance regional financial institutions and borrowed money through the financing platform, increasing the hidden risk of debt, which made Harbin local government bear a heavy burden[7]. The debt burden was also a distinguishing factor of Harbin local government, which had become a debt government.

3.3 The local debt assessment and restraint system and mechanism are not perfect

In order to supervise and control local government debt effectively, it is necessary to have adequate data to understand the current scale of government debt. Because Harbin has not formed and perfected the specific local government debt evaluation and constraint system and the statistics and audit system of the financial work of government organs, the government information disclosure ability is not robust, opaque and perfect. As a result, auditors cannot judge the source and composition of local government funds based on current information[8].

3.4 Over reliance on land finance has reduced fiscal revenue

Harbin's financial risks have increased in recent years due to the weakness of the real estate market. "Land finance" leads to excessive capital flowing into the real estate industry, which is not conducive to optimising economic structure. The real estate foam is noticeable, and the harm of the foam is self-evident. Harbin local government has a large number of land mortgage loans, 80% of housing mortgage loans and 75% of the real state development funds provided by banks[9]. In a payments crisis or hyperinflation, there would be systemic banking risk and social unrest could immediately follow.

4. COUNTERMEASURES TO PREVENT THE RISK OF LOCAL GOVERNMENT DEBT

4.1 Establish and improve the financial budget management system of Harbin

First, the government budget system needs to be improved. Harbin city should establish a transparent government budget system, strengthen the seriousness of budget management, and bring all government revenue and expenditure into budget management. It is necessary to strengthen coordination between government funds budgets, state capital operations budgets, and general public finance budgets. By establishing a government funding mechanism, we will use available public budget funds to clear up budgetary expenditures for state capital operations, and use them more to ensure and improve people's wellbeing.

Secondly, the budget standard system should be strengthened. Harbin should improve the standard system of basic expenditure quota and speed up the construction of fixed expenditure standardization system. The government should strictly manage operating funds, comprehensively consider the economic development level and market price level of the whole city, formulate the scope of official expenditure, material quotas and expenditure standards by region, strengthen the management of specific industries in order to give full play to the fundamental supporting role of expenditure standards in budget management.

Third, a comprehensive monitoring mechanism ought to be established. The debt scale and the debtor's income and expenditure should be submitted to the people's Congress for approval and supervision. Through the establishment of the Harbin local government debt disclosure system, it is clear that all local governments should regularly disclose government debt and project construction to the public and consciously accept social supervision.

4.2 Strengthen the monitoring of debt data on financing platforms and establish a debt early warning mechanism

Once local governments borrow money, they should timely and effectively clean up their debt situation, divide their own debt risk into degree levels, and establish financial debt warning and control mechanisms. The whole operation process of the government is also a process of social and economic management. Only by establishing an effective risk warning and monitoring system the fiscal deficit, debt type and debt ratio in the actual operation of the government will become effective reference data for the dynamic monitoring and monitoring of the government.

4.3 Establish the debt status as the performance evaluation index and audit index

Harbin city should establish the debt status as the performance appraisal index and audit index and explicitly include the government debt as a hard performance appraisal indicator. It would be helpful if a punishment mechanism for illegal financing and illegal use of national debt funds could be established, and the supervision and inspection of local government debt management be strengthened. Relevant responsible persons shall be held accountable. Financial institutions that illegally provide government financing will be held accountable following the "commercial bank law", "banking supervision and administration law" and other laws and regulations.

4.4 Carry out technological innovation, develop diversified industries and reduce land financial dependence

It is unsustainable for Harbin to rely too much on land development mode[10]. Harbin governments should carry out technological innovation, develop diversified industries and reduce land financial dependence. First, they should foster a new industrial system. Government should adhere to the further industrialization as the main direction, focus on structural adjustment, vigorously develop emerging industries, upgrade traditional industries, and use emerging industries to transform and upgrade local industries to achieve sustainable economic and social development. Second, the government should promote industrial innovation and improve the competitiveness of enterprises. It is mainly to establish a regional innovation system, relying on the new source of technological innovation and institutional advantages to support the promotion of industrial competitiveness. Third, we should adhere to the modern service industry as the leading industry to foster, actively promote the development of the tertiary sector, be focus on the certain basis and scale advantage of trade logistics, finance and insurance, tourism, cultural industry and the

real estate industry with particular foundation and scale advantages, accelerate the development of information service industry, science and education service industry, intermediary service industry, community service industry and public service industry, comply with the trend of developing the "five major" emerging service industries, and expand employment.

5.CONCLUSION

With the continuous development of the market economy, it is more and more important to solve the local government debt correctly. Therefore, an in-depth study of local government debt risk prevention measures has essential theoretical and practical value. Taking Harbin as an example, the local government debt risk is mainly reflected in the debt scale and structure, which is regional, complex and hierarchical. The main reasons are imperfect laws and regulations, insufficient investment and financing systems, unreasonable economic policies, etc. For local government debt, adequate supervision of multiple departments and levels is needed to eliminate the hidden debt from the source. Relevant financial information should be publicly disclosed and accepted by the public regularly. Local governments should be cautious and prudent in developing the economy. But they should not blindly formulate investment plans nor blindly expand the scale of debt. It is necessary to constantly standardize relevant laws and regulations and debt management, improve the early-warning mechanism of debt management, achieve the purpose of monitoring the whole process of debt risk, fundamentally solve the debt problem of local governments, and promote the rapid and sound development of the local economy.

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