THE 2023 LOCAL GOVERNMENT BAILOUT AND PROSPECTS FOR DEBT RESOLUTION IN CHINA

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In 2023, China's local government debt crisis reached a tipping point, driven by a real estate slump and falling land revenues, and coinciding with a peak repayment period. With over RMB9 trillion in debt due in 2023-24, local governments faced severe fiscal strain. In response, the government launched a debt resolution plan, spearheaded by the Ministry of Finance's RMB1.4 trillion special refinancing bonds to ease the burden on the most at-risk provinces. However, while special refinancing bonds swiftly addressed some immediate risks, progress on bank-led financial restructuring lagged, hindered by banks' reluctance to cut into profits.

The situation prompted the State Council to extend the debt restructuring deadline to 2027, expanding coverage to all provinces and focusing on nonstandard debt. Despite these efforts, the bailout remains modest, with the financial sector shouldering much of the burden and stringent conditions imposed on the hardest-hit provinces. Dubbed the "mini-IMF programme", these measures offer only temporary relief. With local government debt at 180% of fiscal capacity, the root fiscal issues remain unresolved. Without a comprehensive solution, China's local government debt problem poses significant risks to the country's economic prospects.

(Click on the link to read the above in Chinese, French and Spanish)

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***Chinese*:**

2023 年中国地方政府救助及债务解决前景

2023 年，在房地产低迷和土地收入下降的推动下，中国地方政府债务危机达到了临界点，同时也恰逢还款高峰期。 2023-24 年到期债务超过 9 万亿元人民币，地方政府面临严重的财政压力。为此，政府推出了债务解决计划，财政部牵头发行 1.4 万亿元人民币特别再融资债券，以减轻风险最高省份的负担。然而，虽然特别再融资债券迅速解决了一些迫在眉睫的风险，但银行主导的金融重组进展却滞后，原因是银行不愿削减利润。

这种情况促使国务院将债务重组期限延长至 2027 年，覆盖范围扩大到所有省份，并重点关注非标债务。尽管做出了这些努力，救助规模仍然不大，金融部门承担了大部分负担，并对受灾最严重的省份施加了严格的条件。这些措施被称为“迷你国际货币基金组织计划”，只能提供暂时的缓解。地方政府债务占财政能力的 180%，根本性的财政问题仍未得到解决。如果得不到全面解决，中国地方政府债务问题将给国家经济前景带来重大风险。

***French*:**

LE PLAN DE SAUVETAGE DES GOUVERNEMENTS LOCAUX DE 2023 ET LES PERSPECTIVES DE RÉSOLUTION DE LA DETTE EN CHINE

En 2023, la crise de la dette des collectivités locales chinoises a atteint un point critique. Elle fut provoquée par un effondrement de l’immobilier et une baisse des revenus fonciers, qui coïncidèrent avec une période de remboursement maximale. Avec plus de 9 000 milliards de RMB de dette due en 2023-2024, les gouvernements locaux ont été confrontés à de graves difficultés budgétaires. En réponse, le gouvernement central a lancé un plan de résolution de la dette, mené par les obligations spéciales de refinancement du ministère des Finances, d’un montant de 1 400 milliards de RMB, afin d’alléger le fardeau des provinces les plus à risque. Cependant, même si les obligations spéciales de refinancement ont rapidement permis de répondre à certains risques immédiats, les progrès en matière de restructuration financière menée par les banques ont pris du retard, entravés par la réticence de ces dernières à réduire leurs bénéfices.

La situation a incité le Conseil des Affaires d'État à prolonger le délai de restructuration de la dette jusqu’en 2027, en élargissant la couverture à toutes les provinces et en se concentrant sur la dette non conventionnelle. Malgré ces efforts, le plan de sauvetage reste modeste, le secteur financier supportant une grande partie du fardeau et des conditions strictes imposées aux provinces les plus durement touchées. Surnommées « mini-programme du FMI », ces mesures n’offrent qu’un répit de courte durée. Alors que la dette des collectivités locales atteint 180% de leur capacité budgétaire, les problèmes fondamentaux restent non résolus. Sans une solution globale, le problème de la dette des collectivités locales chinoises fait peser des risques importants sur les perspectives économiques du pays.

***Spanish*:**

EL RESCATE DE LOS GOBIERNOS LOCALES EN 2023 Y LAS PERSPECTIVAS DE RESOLUCIÓN DE LA DEUDA EN CHINA

En 2023, la crisis de deuda de los gobiernos locales de China alcanzó un punto de inflexión, impulsada por una caída del sector inmobiliario y la caída de los ingresos por tierras, y coincidiendo con un período máximo de pago. Con más de 9 billones de RMB en deuda con vencimiento en 2023-24, los gobiernos locales enfrentaron graves tensiones fiscales. En respuesta, el gobierno lanzó un plan de resolución de deuda, encabezado por bonos especiales de refinanciación de 1,4 billones de RMB del Ministerio de Finanzas para aliviar la carga de las provincias en mayor riesgo. Sin embargo, si bien los bonos especiales de refinanciación abordaron rápidamente algunos riesgos inmediatos, el progreso en la reestructuración financiera liderada por los bancos se retrasó, obstaculizado por la renuencia de los bancos a recortar ganancias.

La situación llevó al Consejo de Estado a ampliar el plazo de reestructuración de la deuda hasta 2027, ampliando la cobertura a todas las provincias y centrándose en la deuda no estándar. A pesar de estos esfuerzos, el rescate sigue siendo modesto, y el sector financiero soporta gran parte de la carga y las estrictas condiciones impuestas a las provincias más afectadas. Estas medidas, denominadas el "miniprograma del FMI", ofrecen sólo un alivio temporal. Con la deuda de los gobiernos locales al 180% de la capacidad fiscal, los problemas fiscales de raíz siguen sin resolverse. Sin una solución integral, el problema de la deuda de los gobiernos locales de China plantea riesgos importantes para las perspectivas económicas del país.

Executive Summary

1. In 2023, China's local government debt (LGD) emerged as a critical concern, exacerbated by a real estate market crisis, declining land revenues and the approach of a peak repayment period of RMB9 trillion due in 2023-24.

2. In July, the Politburo called for a debt resolution plan. The Ministry of Finance invited local governments to apply for special refinancing bonds to replace maturing debt of most at-risk local government financing vehicles (LGFVs). In August, the People's Bank of China called on major banks to join in the relief effort and set up an emergency financing facility.

3. The fiscal prong of debt resolution saw the issuance of RMB1.4 trillion in special refinancing bonds during the fourth quarter of 2023. Almost three-quarters of which went to 12 most at-risk (G12) provinces for replacing LGFV debt and clearing up payment arrears to enterprises.

4. The financial prong called for banks to restructure bank loans and nonstandard debt of LGFVs that were due in 2023 and 2024, with a focus on the G12 provinces, to extend maturities and reduce interest rates.

5. In contrast to the brisk rollout of the special refinancing bonds, there are no comparable reports of progress in the financial prong of the debt resolution programme. Foot-dragging by banks is not surprising since the debt restructuring process is messy and time-consuming, and making concessions would cut into the profits of banks.

6. Recognising the slow progress and worsening situation, on 23 July 2024, the State Council extended the restructuring process to June 2027, expanded debt resolution measures to cover all provinces and focused efforts on nonstandard debt such as trust loans and wealth management products.

7. Compared to past LGD bailouts, the current round is much more limited in size and scope, with modest fiscal resources. It targets LGFV debt due during 2023-2024, mostly in the provinces with the weakest repayment capacities. Fiscal input is limited to the RMB2.6 trillion in unused local government debt quotas at the start of 2023. Much of the costs are being shifted to the financial sector.

8. The bailout terms are harsh. G12 provinces face numerous restrictions on their investments, dubbed the "mini-IMF programme" by insiders. Restructured bank loans must be paid within 10 years, with annual repayments of 10% of loan value.

9. While debt resolution measures have reduced immediate default risks, they are unlikely to achieve the ultimate objective of bringing off-balance sheet debt on-balance sheet, or reducing LGD to a sustainable level. At 180% of fiscal capacity, the current level of official LGD is too high.

10. The current debt resolution approach focuses on financial risks while ignoring the fundamental fiscal problems driving LGD, such as the reliance on infrastructure investment for stimulus. Without a more comprehensive solution, the LGD problem will continue to grow, threatening China's economic future.