*Original Paper*

# Research on Legal Pathways for Resolving Local Government Debt Risks in China

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*Abstract*

*In recent years, China's local government debt issues have drawn widespread attention. Since 2014, the government has introduced a series of policies to resolve debt problems and prevent systemic risks. When administrative measures alone prove insufficient to address government debt, restructuring local government finances emerges as an effective path to resolve the debt crisis. This paper employs government fiscal data from 2014 to 2023, along with 2023 data compared to the previous year, to empirically examine the actual state of government debt. Findings reveal severe local government debt issues, manifested in: substantial outstanding debt balances; declining fiscal self-sufficiency rates; rising debt-to-revenue ratios; increasing liability ratios; and expanded issuance of local government bonds and urban investment bonds. Subsequently, the paper proposes a phased approach to resolving local government debt. This includes establishing specialized restructuring standards for urban investment companies, developing refined restructuring criteria for local governments, and strengthening the guiding role of the central government. The study provides a new case for international comparative research on the legal resolution of local government debt and offers fresh perspectives for exploring debt restructuring protections for Chinese local governments.*

*Keywords*

*Local government debt, Bankruptcy reorganization, Local government fiscal data, Government fiscal restructuring*

## 1. Introduction

On July 18, 2024, Xinhua News Agency released the "Decision of the Central Committee of the Communist Party of China on Further Comprehensively Deepening Reforms and Advancing China's Modernization" (hereinafter referred to as the "Decision") states that the government debt management system should be improved, a comprehensive local debt monitoring and supervision system should be

established, and a long-term mechanism for preventing and resolving hidden debt risks should be put in place. Reform and transformation of local financing platforms should be accelerated. It also proposes deepening fiscal and tax system reforms, improving a tax system conducive to high-quality development, social equity, and market unification, and optimizing the tax structure. Research tax systems compatible with new business models. Establish a central-local fiscal relationship characterized by clear delineation of responsibilities, coordinated fiscal capacity, and regional balance. Appropriately strengthen central government responsibilities and increase the proportion of central government expenditures. This reveals the central government's latest approach to addressing local government debt: starting with taxation. On one hand, it aims to reduce government borrowing by strengthening local governments' tax revenues through policy measures. On the other hand, it seeks to reduce local government responsibilities to decrease local government expenditures. China's local government debt problem has deep historical roots. The 1994 Tax Division Reform The division of responsibilities and fiscal authority between central and local governments resulted in a pattern of "centralized fiscal authority with unchanged responsibilities". Under this framework, local governments' fiscal revenues are insufficient to cover expenditures (Cai, G. L., Zheng, G. J., Ma, X. S. et al., 2018, pp. 99-115). Since local governments lack direct borrowing authority, they establish urban investment companies, raise funds by issuing corporate bonds, and undertake the operation of local government public welfare and semi-public welfare projects. The implementation of the new 2014 Budget Law of the People's Republic of China (hereinafter referred to as the "Budget Law") came into effect, permitting local governments to raise funds through issuing local government bonds. However, it imposed limits on local government debt and incorporated it into budgetary management, formally granting local governments the right to incur debt. This is despite the Budget Law stipulating that budgets at all local levels shall be formulated according to the principles of balancing revenues and expenditures and not running deficits, local governments have rapidly accumulated substantial debt. On one hand, China's rapid economic growth in recent years has prioritized GDP as a key performance metric for officials. On the other hand, the central government's soft constraints on local governments (Gong, Q., Wang, J., & Jia, S., 2011, pp. 144-156), local government debt has surged rapidly, resulting in substantial local government debt. Beyond standard government debt, large-scale borrowing through urban investment companies has become widespread, creating significant local government hidden debt.

In recent years, amid a global economic slowdown, the default rate on bonds issued by urban investment companies has risen, forcing multiple bonds to extend their maturities or even undergo restructuring of the issuing entities. Despite the Ministry of Finance's 2016 issuance of the "Guidelines for Classifying and Handling Local Government Debt Risks", stipulating that existing government debt not in the form of government bonds should be replaced with government bonds. This approach makes local hidden debt explicit by swapping short-term municipal investment company bonds for government bonds, extending debt maturities through local government credit to delay repayment

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deadlines. However, this only temporarily alleviates local governments' debt repayment pressure without resolving the debt issue at its source (Mao, J., 2023, pp. 12-26). In the post-pandemic era, the global economy continues to decline, Chinese enterprises face operational difficulties, impacting local government tax revenues; The real estate sector's persistent downturn, even restructuring, has trapped land-based fiscal revenues in a predicament, severely impacting local government finances. Government project investments play a crucial role in promoting economic development, alleviating employment pressures, and maintaining supply-demand equilibrium (Ren, J. W., Sun, X. B., & Li, Y., 2023, pp. 11-15). Despite current high debt levels, local governments must continue issuing special bonds for project investments as a means to stabilize local economies. Although multiple rounds of debt reduction measures have yielded some results, overall debt levels remain persistently high. Furthermore, local governments are prohibited from using bond issuance to pay debt interest Government bonds are secured by local governments' tax revenue capacity or project revenues for principal and interest repayment (Shi, Y., & Chen, Z. Z., 2013, pp. 86-88). When local government cash flows struggle to cover debt interest payments, to prevent moral hazard, the central government has explicitly stated that local governments bear sole responsibility for debt repayment, with no central bailouts. If measured against the Eurozone's "three red lines" (deficit ratio generally required to be equal to or below 3%, government debt ratio generally required to be below 60%, and local government debt ratio generally required to be below 120%) (Gu, Y. Y., 2024, pp. 39-47, p. 133), many local governments in China have already exceeded these warning thresholds.

The issue of local government debt in China has long been a subject of significant attention both domestically and internationally. In recent years, the Chinese government has introduced numerous laws, regulations, and policy documents to regulate and resolve local government debt issues.

On the one hand, at the level of laws and regulations. First, Article 35 of the 2019 Budget Law of the People's Republic of China stipulates that local governments shall borrow debt in accordance with the principle of combining prevention with control. It imposes restrictions on the entities, scope, methods, and purposes of local government borrowing, and sets forth clear provisions for the management, supervision, and risk control of government debt. The Implementing Regulations of the Budget Law of the People's Republic of China, effective October 1, 2020 strengthened the management of local government debt. It stipulates that the outstanding balance of local government debt shall be subject to quota management, with the debt quotas for each provincial-level government approved by the State Council within the total quota approved by the National People's Congress or its Standing Committee. The Regulations on Government Investment issued on May 5, 2019 provide comprehensive regulations on standardizing government investment activities. They restrict the sources of government investment funds, stipulating that such funds must originate from: fiscal budgetary investment funds, various special construction funds, national sovereign foreign debt funds, and other government-related funds. This approach controls the scale of government investment at its source, preventing its indiscriminate expansion and mitigating local fiscal challenges.

On the other hand, government explicit and implicit debt has been regulated through policy documents. Between 2010 and 2018, a series of policy documents were issued. In October 2014, the State Council issued the "Opinions on Strengthening the Management of Local Government Debt" (State Council Document [2014] No. 43). This document outlined specific requirements regarding the entities authorized to incur debt, borrowing methods, debt scales, and borrowing procedures, while stripping financing platform companies of their government financing functions. This established a clear policy framework for local government debt management, thereby creating China's fundamental policy system for managing local government debt. On October 27, 2016, the "Notice on Issuing the Emergency Response Plan for Local Government Debt Risks" (State Council General Office Document [2016] No. 88) and the Notice on Issuing the Guidelines for Classified Disposal of Local Government Debt Risks (Cai Yu [2016] No. 152). Local government debt subject to quota management is explicitly defined as local government bonds and outstanding government debt that has not yet been replaced with government bonds; it also includes identified contingent liabilities and debts where certain rescue responsibilities may exist. A tiered response mechanism is established, categorizing government debt risk events into four levels based on the nature, scope of impact, and severity of the risk event for graded management. Additionally, the State Council issued the "Notice on Strengthening the Management of Local Government Financing Platform Companies" (Guofa [2010] No. 19). The Notice on Further Regulating Local Government Debt Financing Activities (Cai Yu [2017] No. 50). Notice on Resolutely Stopping Local Governments from Illegally Raising Funds Under the Guise of Government Procurement of Services (Cai Yu [2017] No. 87). Guiding Opinions on Strengthening Asset-Liability Constraints for State-Owned Enterprises (State Council Bulletin, No. 27, 2018) and other documents.

The primary documents publicly released from 2019 to 2021 regarding the regulation of government fiscal revenue and expenditure include: Implementation Opinions on Promoting the Standardized Development of Government and Social Capital Partnerships (Cai Jin [2019] No. 10). Notice of the General Office of the Ministry of Finance on Sorting Out PPP Projects That Increase Local Governments' Hidden Debt (Cai Ban Jin [2019] No. 40). Opinions on Further Deepening the Reform of the Budget Management System (State Council Document [2021] No. 5).

The approaches adopted by various countries to address local government debt crises can be broadly categorized into administrative disposal measures and judicial restructuring procedures (Liu, Z. Q., 2024, pp. 149-166). China's current approach primarily relies on administrative means to resolve debt issues. However, when local government finances struggle to sustain normal operations, judicial reorganization aimed at "rebirth" becomes necessary to free local governments from heavy debt burdens. The reorganization system can further solidify local government accountability, properly address local government debt problems, strengthen budgetary discipline, bring government borrowing under the rule of law, and promote the development of a sound local government debt management system in China (Wei, X., & Zhao, X., 2024, pp. 35-49). Furthermore, given local governments' unique

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role in providing specialized public services, restructuring must be—and can only be—fiscal in nature (Ding, R., 2018, pp. 15-18). The 2016 State Council Notice on the Emergency Response Plan for Local Government Debt Risks stipulated the conditions and content for fiscal restructuring of city and county-level local governments. However, the stability and predictability of laws are unmatched by administrative regulations. When necessary, consideration should be given to enacting a Government Restructuring Law as the definitive solution for government fiscal issues, enhancing the efficiency of government fiscal restructuring through restructuring procedures.

Research on the rule-of-law-based resolution of China's local government debt issues has yielded substantial theoretical outcomes. Numerous scholars have conducted comparative studies to analyze corresponding rule-of-law frameworks suited to China's national conditions: Sun Yue (2011) (Sun, Y., 2011, pp. 122-136, p. 182) conducted an empirical analysis of the Yubari City government restructuring case in Hokkaido, Japan, drawing insights for preventing government restructuring and avoiding fiscal crises in China. The State Council Research Office U.S. Local Government Debt Study Mission (2017) Drawing on U.S. debt management experience, this study summarizes lessons and proposes countermeasures from the perspectives of leveraging market incentives and constraints and preventing debt liquidity crises. Yan Zheng, Cai Dongdong (2022) (Yan, Z., & Cai, D. D., 2022, pp. 105-112) summarizes the experiences of EU countries in managing local government debt risks, drawing insights including implementing government debt risk response measures that combine fiscal assistance with regional consolidation, improving fiscal management methods, strengthening the formulation of legal systems for local government debt management and resolution, establishing independent institutions to carry out fiscal supervision and adjudication, and adjusting fiscal autonomy; Zhang Liyi (2022) (Zhang, L. Y., 2022, pp. 101-112) compared China's debt swap system with the U.S. restructuring framework, concluding that the U.S. restructuring system fails to reform local government management mechanisms, while China's debt swap system does not align with market-oriented and legalized trends.

Based on the premise that research indicates the necessity of addressing China's local government debt issues through the rule of law, numerous scholars have explored how to establish corresponding institutional frameworks. Hua Guoqing and Sheng Junyu (2019) (Hua, G. Q., & Sheng, J. Y., 2019, pp. 101-107) argue that local fiscal restructuring requires clearly defining the economic criteria, procedural standards, and allocation of responsibilities within the fiscal restructuring system. Simultaneously, to ensure the effectiveness and sustainability of the local fiscal restructuring system, attention should be paid to its effective integration with fiscal management systems such as budgeting and public debt. Hu Guangzhi and Wang Lu (2020) (Hu, G. Z., & Wang, L., 2020, pp. 139-146) propose key measures to place local fiscal restructuring within a legal framework, including: establishing value-oriented principles for exercising local fiscal restructuring authority, standardizing implementation procedures, and constructing intergovernmental cooperation mechanisms for fiscal restructuring. Shen Zhaohui (2021) (Shen, Z. H., 2021, pp. 505-521) China's post-event disposal mechanism for local government

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debt risks should incorporate the principle of separation of administrative and judicial powers. The functional operation of judicial authority is specifically manifested throughout the entire judicial restructuring process, including judicial review of acceptance conditions, approval of draft restructuring plans, and judicial oversight of plan implementation. Wei Xi and Zhao Xin (2024) (Wei, X., & Zhao, X., 2024, pp. 35-49) propose that the initiation stage of restructuring should clarify the initiation criteria, initiating entities, and accepting institutions. When local governments apply to courts for initiating fiscal restructuring, they must submit a detailed draft of the fiscal restructuring plan, including a restructuring proposal formulated by the debtor themselves. Fiscal restructuring measures can be directly categorized into two types: passive adjustments primarily focused on reducing expenditures and active adjustments primarily focused on increasing revenues, with further refinements under each type.

Overseas research on rule-of-law approaches to resolving government debt issues primarily focuses on constructing relevant legal frameworks. Liu and Waibel (2010) (Liu, L., & Waibel, M., 2010) argue that relying solely on ex ante and ex post regulatory systems cannot guarantee the sustainability of local government debt. Without a rule-of-law-based restructuring mechanism to manage, reorganize, and adjust debts, ex ante debt management systems struggle to fulfill their intended functions. Christine Sgarlata Chung (2015) (Chung, C. S., 2015, pp. 44-79) argues that when a local government faces a severe debt crisis, the priority should be ensuring its normal operations to maintain the government's function of providing essential public services to the region, thereby preserving local social order. In other words, when the interests of creditors conflict with social interests, the latter should be prioritized. Ryan Preston Dahl (2007) (Dahl, R. P., 2007, pp. 295-340) argues that resolving local government debt crises through the rule of law involves decisions and measures that impact public interests. Therefore, agreements negotiated through collective bargaining to restructure debt should include participation from citizens and government employees. Fiscal restructuring of local governments requires the collective engagement of the entire society.

This aligns with the views of Chinese scholars Zhu Daqi and Wang Zhendong (2024) (Zhu, D. Q., & Wang, Z. D., 2024, pp. 57-71), who argue that public participation mechanisms serve as crucial vehicles for the public to engage deeply in local debt practices and support local debt decision-making. Improving the legal framework for local government debt must uphold the people-centered approach. By leveraging the underlying logic of fiscal democracy and relying on mechanisms such as the People's Congress system and public participation, we can enhance the democratic nature of local debt regulation. This ensures that taxpayers—the people—are substantively involved in the operational processes of local debt, thereby practicing whole-process people's democracy.

In summary, current research predominantly focuses on theoretical studies, primarily centered on comparative legal research of foreign government bankruptcy reorganization systems. This approach seeks to extract insights applicable to China's national conditions and explore how to establish a fiscal reorganization system suited to China's context. Empirical analysis of applying reorganization systems

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to China's local government debt has received relatively little attention. This paper conducts empirical analysis using real data on local government debt, providing a new comparative sample for the restructuring of Chinese local governments and offering fresh directions for the rule-of-law-based resolution of local government debt in China.

This paper is primarily divided into three sections. The first section introduces the sample collection, empirical research methods, and hypotheses. It conducts an empirical examination using data jointly released by the Enterprise Early Warning System and the Language Debt Market from government official websites, statistical bulletins, statistical yearbooks, government economic operation reports, and fiscal budgets and final accounts. This data covers nationwide economic, fiscal, debt, and financing information, presenting the true state of current local government debt. The second part elucidates the findings and results of the empirical analysis. The third part proposes implementation pathways for restructuring protection mechanisms for China's local governments.

## 2. Empirical Examination of Local Government Debt in China

### 2.1 Sample Description

To conduct empirical research, one must first select the sample for examination. In China, local governments authorized to issue debt are categorized into provincial-level entities (provinces, autonomous regions, and municipalities directly under the central government) and city/county-level governments. However, given that provincial-level governments bear public service responsibilities across larger regions, academic consensus currently holds that provincial-level governments should not undergo restructuring (Ma, W. L., 2019, pp. 48-59). However, since local governments below the provincial level require bond issuance, provincial governments uniformly issue bonds and then lend them to municipal and county-level governments. Therefore, when examining the overall debt levels of local governments nationwide, it is appropriate to analyze the debt situation of provincial governments. China is a vast country with numerous administrative divisions, totaling 34 provincial-level units. (4 municipalities directly under the central government, 23 provinces, 5 autonomous regions, 2 special administrative regions), 333 prefecture-level divisions (293 prefecture-level cities, 7 prefectures, 30 autonomous prefectures, 3 leagues), 2,844 county-level divisions (973 urban districts, 388 county-level cities, 1,312 counties, 117 autonomous counties, 49 banners, 3 autonomous banners, 1 special zone, 1 forestry district). Due to the excessive number of county-level and prefecture-level units and the lack of separately published fiscal data for some, statistical analysis is impractical. Therefore, this study selects the fiscal and debt situations of 31 provincial-level entities (excluding Hong Kong, Macao, and Taiwan) as its research sample. On October 23, 2014, the Ministry of Finance issued the "Measures for the Inclusion of Local Government Legacy Debt in Budget Management and Screening" to initiate the screening and identification of local government debt. Therefore, data selection begins in 2014. As of the data collection cutoff, the 2023 government fiscal situation has been fully disclosed. This paper will select fiscal data from 2014 to 2023 as the sample for examination. Additionally, it will examine the

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changes in fiscal and debt conditions within 2023 by comparing the data from 2023 with that from 2022. While original data from fiscal budget and final accounts published on People's Government websites should serve as the empirical basis, this study utilizes the Regional Economic Data Handbook 2024 Edition jointly released by Enterprise Early Warning Platform and Language Bond Market. This handbook provides detailed statistics on regional economic data across all administrative levels, serving as the foundational dataset for examining local government debt. Statistical analysis yielded national economic data and economic samples from 31 provincial-level local governments for the period 2014-2023.

*2.2 Research Hypotheses and Methods*

The purpose of this empirical study is to analyze local government debt conditions, provide a basis for the necessity of enacting a local government reorganization law, and establish a legal framework for resolving government debt. The prerequisite for local governments to apply the reorganization law is whether their financial status meets the conditions for reorganization. Generally, cash flow and balance sheet are two key criteria for determining whether a debtor qualifies for reorganization. China's governments at all levels serve as executive bodies of state authorities. Local government assets differ from corporate assets; local governments cannot liquidate government assets to repay debts. Therefore, assessing local government eligibility for reorganization cannot rely on asset-liability conditions, necessitating the use of cash flow standards. The debt ratio is the ratio of year-end debt balance to comprehensive fiscal capacity for the year, measuring a local government's overall debt repayment capability and equivalent to the cash flow standard. The liability ratio is the ratio of year-end debt balance to regional GDP for the year (Zhang, L. Y., 2014, pp. 21-27), which measures the local economy's capacity to bear debt and is equivalent to a balance sheet standard. Based on the theory of judging government restructuring using the cash flow standard, this paper selects local government debt balance and debt ratio as key influencing factors, supplemented by debt-to-GDP ratio, fiscal self-sufficiency rate, and bond financing conditions for quantitative analysis.

After sampling, the critical empirical phase begins. While current empirical legal research methods in China exhibit diversity—including causal analysis and machine learning alongside traditional descriptive statistics—the primary objective of empirical legal research remains understanding the world's actual conditions, clarifying the inherent nature of phenomena and their causal relationships. Quantitative research, through collecting, organizing, analyzing, and applying data across broader scales, can reflect the operational patterns of legal systems. However, the primary objective of conducting empirical legal research is to grasp the true state of the world, discern the inherent nature of phenomena, and clarify their causal relationships. Quantitative research, through the collection, organization, analysis, and application of large-scale data, can reflect the actual state of legal systems in operation and reveal the underlying objective causes. Descriptive statistical analysis provides an intuitive understanding of prevailing realities. Therefore, this paper adopts descriptive statistical analysis as a crucial empirical research method within quantitative research.

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*2.3 Empirical Research*

2.3.1 Local Government Debt Stock

The figures for local government debt balances published annually by China's fiscal system primarily reflect the scale of local governments' explicit debt (Lin, S. Q., 2021, pp. 36-40). Although the combined total of explicit and implicit debt accurately reflects the true level of local government debt, the publicly released explicit debt data holds greater representativeness. From 2014 to 2023, the national local government debt balance showed an upward trend in all years except 2015. Specifically, the average annual increase was approximately 1 trillion yuan from 2016 to 2017, followed by increases of about 2 trillion yuan in 2018, 3 trillion yuan in 2019, and 4 trillion yuan in 2020. And an average annual increase of 5 trillion yuan from 2021 to 2023. Overall, from 2014 to 2023, the national local government debt balance increased from 15 trillion yuan to 40 trillion yuan in 2023, representing an increase of over 25 trillion yuan and an overall growth rate of 164.4%. As shown in Figure 1 below. Despite this, the outstanding local government debt balance continued to rise in 2023 compared to the previous year. Statistics show that only Xinjiang saw a decrease in its debt balance, while the remaining 30 provinces all exhibited an upward trend. Among them, 23 provinces recorded increases exceeding 100 billion yuan, and 7 provinces saw increases between 0 and 100 billion yuan. Guangdong and Shandong recorded the largest increases at 481.087 billion yuan and 393.278 billion yuan, respectively. Eleven provinces saw increases exceeding 200 billion yuan, while ten provinces recorded increases above 100 billion yuan. Overall, local government debt balances continued their upward trajectory, with over 90% of local governments still needing to increase borrowing to address fiscal challenges. As shown in Figure 2 below.
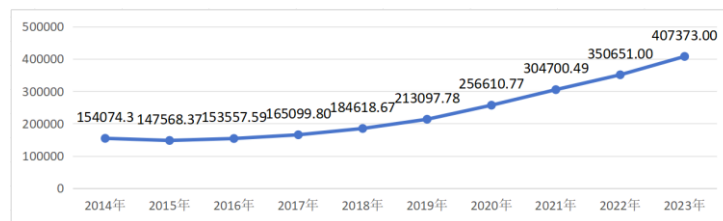


**Figure 1. Outstanding Local Government Debt Balances (in billions of yuan)**

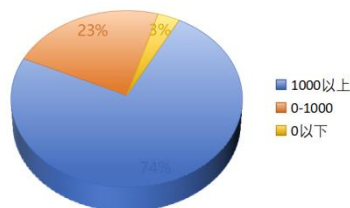Data source: This table is self-compiled.



**Figure 2. Increase in Local Government Debt Balances by Province in 2023 (in billions of yuan)**

Data source: This chart is self-generated.

2.3.2 Fiscal Self-Sufficiency Ratio of Local Governments

The fiscal self-sufficiency ratio represents the ratio of a local government's general public budget revenue to its general public budget expenditure. It reflects the health of the region's economic development and its endogenous economic momentum (Huang, Y. X., 2024, pp. 66-69), embodying local governments' capacity for fiscal sustainability and risk management (Huang, Z. J., Xu, Q., & He, C. F., 2024, pp. 18-30, p. 65). Governments typically allocate expenditures rationally based on fiscal revenue (Chen, J. W., Ji, Y. B., & Li, F. Y., 2024, pp. 59-65). A higher fiscal self-sufficiency rate indicates that a local government's revenue covers a greater proportion of its expenditures, granting it more flexible cash flow and enabling smoother fund operations. Local governments with low fiscal self-sufficiency rates must rely on central government transfer payments or debt issuance to meet general public budget expenditures. Statistics show that over the past nine years, the fiscal self-sufficiency rate of local governments has generally declined, decreasing by 13 percentage points overall from 2014 to 2020. The rate dropped significantly in 2015, 2019, and 2020, by 6%, 4%, and 5% respectively, while averaging a 1% annual decrease from 2016 to 2018. During the 2021 pandemic, the rate increased by 8 percentage points before resuming its downward trajectory. As shown in Figure 3 below.

Compared to the previous year's data, the fiscal self-sufficiency rate of provincial governments generally increased in 2023. This occurred despite reduced government revenue due to overall economic changes and the implementation of various policy measures by local governments to strictly control direct or indirect investments. Among the provinces, 26 saw improvements, with increase rates ranging from 0.21% to 5.85%. Nine provinces recorded increases between 0% and 1%, while 17 provinces achieved gains exceeding 1%. However, five provinces still showed declining fiscal self-sufficiency rates: Tianjin (-5.85%), Shanxi (-4%), Inner Mongolia (-2.74%), Shaanxi (-1.11%), and Ningxia (-0.3%). As illustrated in Figure 4 below.
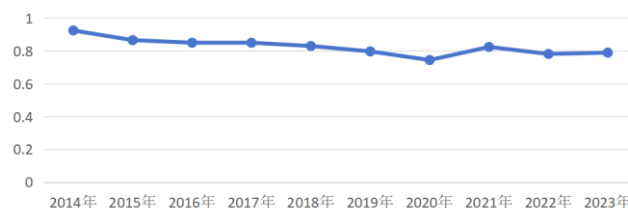


**Figure 3. Fiscal Self-Sufficiency Rate of Local Governments Nationwide (%)**
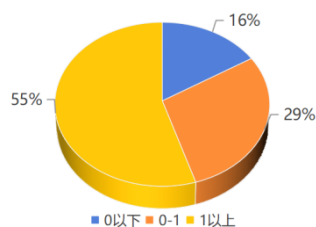
Data source: This table is self-compiled.

**Figure 4. Increase in Fiscal Self-Sufficiency Rate of Provincial Governments in 2023 (%)**

Data source: This chart is self-generated.

2.3.3 Trends in Local Government Debt-to-Revenue Ratios

The debt-to-revenue ratio represents the proportion of local government debt outstanding relative to the sum of general public budget revenue and government fund revenue. When local government debt ratios remain low, increased debt can stimulate regional economic growth. However, when debt ratios are elevated, substantial debt burdens crowd out private investment, leading to significant economic suppression from debt expansion (Chen, S., Wang, X. Y., & Yao, S. B., 2023, pp. 79-89). The local government debt ratio serves as a key indicator for measuring local government debt. Research data reveals that from 2014 to 2023, the national local government debt ratio showed an overall upward trend. However, between 2014 and 2018, driven by substantial housing demand across regions—particularly from investors treating real estate as an investment vehicle—property prices rose continuously and remained at elevated levels. Many regions even introduced purchase restrictions to curb investment-driven home buying. Correspondingly, land transfer fees collected by governments during land sales also surged. Local governments generated substantial revenues through land-based fiscal policies. Simultaneously, significant capital was required for infrastructure development. Consequently, during these years, the national local government debt ratio only decreased marginally, averaging an annual reduction of approximately 1%-4%. However, starting in 2018, the real estate bubble began to deflate. The number of homebuyers declined, investment-driven purchases plummeted, and land-based fiscal revenues contracted significantly. Compounded by the outbreak of the pandemic in 2019, the economy remained sluggish for three years afterward, sharply reducing local government revenues. Yet, the construction of essential public infrastructure projects must continue. Local government debt ratios surged from 71% in 2018 to 142% in 2023—doubling in just five years with an average annual growth rate exceeding 10%. As of now, national local government debt ratios remain at elevated levels. As shown in Figure 5 below.

Looking at the debt-to-revenue ratios of provincial governments in 2023, three provinces saw decreases compared to the previous year, though they remained at relatively high levels. Xinjiang, Jilin, and Tibet recorded reductions of 81.55%, 55.9%, and 16.46%, respectively. Even after these declines, their debt ratios remained exceptionally high at 335.69%, 533.20%, and 248.44%, respectively. Two provinces recorded growth rates below 10%, while 26 provinces saw increases exceeding 10%. Among these,

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Guangxi, Hunan, and Anhui exhibited notably high growth rates of 86.21%, 59.69%, and 52.49%, respectively. By 2023, the debt-to-revenue ratios of five provinces—Qinghai, Heilongjiang, Jilin, Yunnan, and Gansu—had exceeded 500%, as shown in Figure 3 below. Additionally, seven provinces recorded ratios surpassing 300%. Except for Shanghai at 74.98%, all other 30 provinces maintained ratios above 100%.As illustrated in Figure 6 below.
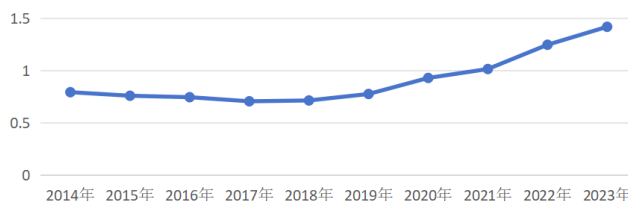


**Figure 5. Local Government Debt-to-Revenue Ratios (%)**

Data source: This table is self-compiled.



**Figure 6. Increase in Local Government Debt-to-Revenue Ratios by Province in 2023 (%)**

Data source: This chart is self-generated.

2.3.4 Trends in Local Government Debt-to-GDP Ratios

Compared to the absolute size of debt balances, debt-to-GDP ratios reveal the relationship between debt scale and economic development across provinces and municipalities. They indicate the extent to which local government debt balances account for regional economic output. Higher ratios signify larger borrowing scales, greater debt risks faced by local governments, and lower debt-bearing capacities (Zhou, T. Y., 2024, pp. 5-11, p. 127). Although the debt ratio primarily reflects local governments' asset-liability status, it also partially indicates their debt levels. Similar to the trend in the debt-to-asset ratio, the debt-to-revenue ratio showed an overall upward trajectory from 2014 to 2023. However, between 2014 and 2017, it exhibited a slight annual decline. From 2018 to 2023, the overall growth rate exceeded 12%, with an average annual increase surpassing 2%. By 2023, the national local government debt-to-revenue ratio stood at 32%. As shown in Figure 7 below.

Regarding provincial local government debt ratios in 2023, using the internationally recognized EU warning threshold of 60% as a reference, four provinces exceeded this level: Qinghai (87.85%),

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Guizhou (72.32%), Tianjin (66.42%), and Jilin (65.56%). The remaining 27 provinces maintained debt ratios below 60%, indicating a healthy level. As illustrated in Figure 8.
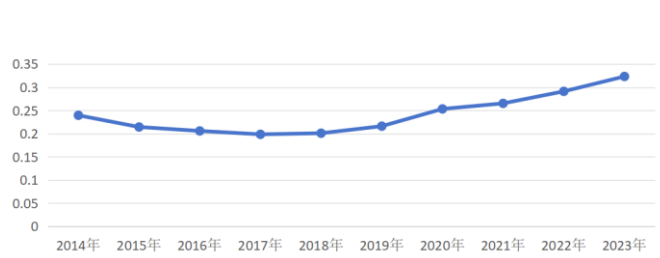


**Figure 7. Local Government Debt-to-Revenue Ratios (%).**
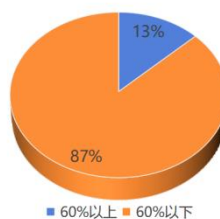
Data source: This table is self-compiled.



**Figure 8. Healthy Proportion of Local Government Debt-to-Revenue Ratios**

Data source: This chart is self-generated.

2.3.5 Local Government Bond Issuance

The issuance of government bonds directly reflects local governments' borrowing activities for the year. Given the significant role of urban investment bonds in China's local government debt, the statistical calculation of local government debt must include both debts for which the government bears repayment responsibility and the amount of urban investment bonds (Wang, C., & Zhang, M. J., 2023, pp. 117-128).

2.3.5.1 Local Debt Issuance Volume

Local government bonds constitute the primary component of government debt balances. Statistical findings indicate that in 2023, only three provincial-level governments—Beijing, Shanghai, and Shanxi—saw issuance volumes decline compared to 2022, with reductions of 121.91 billion yuan, 68.25 billion yuan, and 7.961 billion yuan, respectively. The remaining 28 provinces all recorded year-on-year increases in issuance. The eight provinces with the largest increases were Tianjin, Guizhou, Hunan, Anhui, Inner Mongolia, Liaoning, Yunnan, Guangxi, and Shandong, each exceeding 100 billion yuan. Their respective increases were 216.555 billion yuan, 204.615 billion yuan, 187.3 billion yuan, 178.897 billion yuan, 160.221 billion yuan, 144.135 billion yuan, 124.625 billion yuan, 124.38 billion yuan, and 108.621 billion yuan. As shown in Figure 9 below.
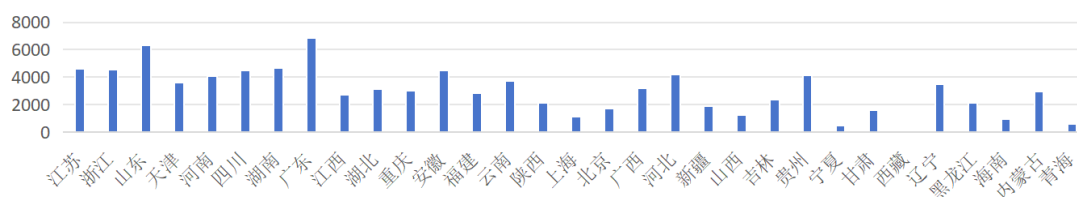
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**Figure 9. Provincial Local Government Bond Issuance in 2023 (in billions of yuan)**

Data source: This table is self-compiled.

2.3.5.2 Municipal Bond Issuance Volume

In recent years, municipal bond issuance has grown rapidly, further increasing the debt burden on municipal financing platforms. Some platforms possess relatively weak financial strength and exhibit high dependence on fiscal support from local governments (Liang, R. D., & Chen, H. Y., 2021, pp. 45-48). Backed by government credit, municipal bonds have long existed as implicit local government debt. In 2023, issuance volumes increased year-on-year across 27 provinces except Shanghai, Guizhou, Heilongjiang, and Qinghai. The largest increases occurred in Jiangsu, Zhejiang, Shandong, Tianjin, and Henan, with respective growth amounts of 220.343 billion yuan, 198.975 billion yuan, 196.262 billion yuan, 126.214 billion yuan, and 112.782 billion yuan, respectively. The top three provinces for municipal bond issuance in 2023 were Jiangsu, Zhejiang, and Shandong, with respective volumes of ¥1,493.695 billion, ¥817.313 billion, and ¥641.903 billion. In five provinces—Jiangsu, Zhejiang, Shandong, Tianjin, and Jiangxi—municipal bond issuance even surpassed government bond issuance. As shown in Figure 10 below.
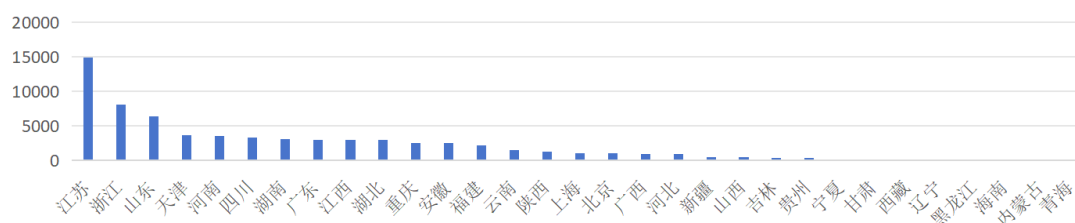


**Figure 10. 2023 Provincial Local Government Urban Investment Bond Issuance (in billions of yuan)**

Data source: This table is self-compiled.

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## 3. Empirical Findings on China's Local Government Debt

### 3.1 Empirical Findings on Government Restructuring Protection

Empirical analysis of local government debt reveals: (1) Since systematic tracking began, local government debt balances have risen annually, with the annual increase accelerating over time. Growth has particularly accelerated in the past five years. (2) Fiscal self-sufficiency rates have declined across all local governments nationwide, while reliance on debt financing to sustain fiscal expenditures continues to rise. Despite some mitigation through central government policies strictly regulating local fiscal spending, fiscal self-sufficiency rates remain in decline in certain provinces. (3) Although debt ratios generally remain at healthy levels, some local governments exhibit disproportionately high debt burdens. (4) The issuance of local government explicit debt showed an overall upward trend in 2023. Although local governments have introduced various debt-reduction policies, they still need to alleviate fiscal expenditure pressure by increasing borrowing quotas. (5) The issuance of local government urban investment bonds remains substantial, exacerbating local governments' debt issues.

The above findings indicate that the situation regarding China's local government debt is far from optimistic, characterized by high debt balances, declining fiscal self-sufficiency rates, elevated debt-to-revenue ratios, and substantial borrowing volumes. This state of affairs stems from systemic, human, and environmental factors. The inability to restructure local governments through formal procedures during debt crises poses significant risks to regional economic stability and the livelihoods of local residents. Although many local governments have effectively achieved debt protection through fiscal restructuring, the absence of rigid legal frameworks prevents numerous debt-burdened local governments from readily entering restructuring procedures. The lagging societal understanding of government restructuring and the lack of binding institutional regulations make it difficult for local governments to resolve debt crises through restructuring processes.

### 3.2 Empirical Findings on Restructuring Protection for Local Government Debt Crises

3.2.1 Legislation is Excessively Fragmented and of Low Hierarchical Level

Currently, China's legislation addressing local debt crisis resolution exhibits significant deficiencies. It operates at a low hierarchical level, lacks centralization, and has yet to form a scientific and rigorous legal system. The legislative tier of the existing local debt legal framework is generally low, with its core structure largely dependent on numerous normative documents issued by departments such as the Ministry of Finance. While these documents provide practical guidance, their lower legal status results in the entire system lacking sufficient authority and stability (Zhu, D. Q., & Wang, Z. D., 2024, pp. 57-71). This situation not only weakens the rigid constraints of law on local debt management but also intensifies the tendency for policy to dominate local debt management. Consequently, it has to some extent hindered the advancement of the rule of law in local debt management and failed to fully leverage the role the rule of law should play in local debt governance.

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### 3.2.2 Lack of Clear Legislation for Restructuring Systems

Although the Emergency Response Plan for Local Government Debt Risks proposed the concept of a "fiscal restructuring plan," its practical implementation has revealed numerous limitations. There remains insufficient legal support for effectively addressing local government debt risks and designing fiscal restructuring systems. Currently, local government debt management relies heavily on ad hoc policy documents issued by administrative bodies like the State Council. While this flexible approach is necessary, it contradicts the core principle of rule-of-law governance and undermines long-term stability and predictability (Wei, X., & Zhao, X., 2024, pp. 35-49). Specifically, as a crucial emergency mechanism in local government debt management and a market-based approach to mitigating existing debt risks, fiscal restructuring urgently requires more systematic and standardized institutional arrangements to enhance its effectiveness.

### 3.2.3 Central Government Concerns over Negative Impacts of Local Government Restructuring

Examining local governments that have undergone fiscal restructuring reveals that their credit ratings decline post-restructuring, making financing more difficult. This leads to slower local economic development. With industrial gaps widening, more labor migrates out, causing regional economic growth to decelerate or even stagnate, while social stability declines. This further intensifies overall resistance to the restructuring system.

### 3.2.3.1 Impact on Regional Economies

(1) Deteriorating Investment Environment: Government restructuring often coincides with fiscal austerity and credit rating downgrades, creating an unfavorable investment climate. Heightened investor risk aversion may trigger capital outflows, making it difficult to attract funding for new projects and thereby undermining regional economic growth momentum.

(2) Stagnation or Deterioration of Infrastructure: Restructuring may lead to funding shortages for public services and infrastructure development. Maintenance and improvement projects for roads, bridges, schools, hospitals, and other infrastructure may be suspended or scaled back, adversely affecting residents' quality of life and constraining the region's long-term economic development. (3) Disruption of Industrial Chains: Government restructuring may also impact local businesses, particularly those reliant on government contracts or subsidies. Factors such as broken funding chains and declining market demand may trigger business closures, leading to disruptions in industrial chains and causing chain reactions throughout the regional economy. (4) Labor Market Instability: Corporate bankruptcies and public sector layoffs resulting from government restructuring will directly cause significant unemployment. This not only increases financial burdens on residents but may also fuel social discontent and instability, further hindering regional economic recovery.

### 3.2.3.2 Threats to Social Stability

(1) Declining Public Service Standards: Government restructuring implies cuts to public service budgets, including reduced investments in education, healthcare, public safety, and other sectors. This may lead to deteriorating service quality, leaving residents' basic needs unmet and potentially

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triggering social discontent and protests.

(2) Worsening Social Inequality: During government restructuring, the living standards of vulnerable groups are often disproportionately affected. Basic livelihood guarantees for groups like impoverished families, the elderly, and persons with disabilities may be jeopardized, exacerbating social inequality. Such disparities can fuel social tensions and conflicts. (3) Trust Crisis: Government restructuring erodes public confidence in governance. When governments fail to fulfill commitments and deliver essential public services, citizens may question governmental capacity and integrity. This trust crisis may persist long-term, undermining governmental legitimacy and governing foundations. It could even precipitate social unrest.

### 3.2.4 Lagging Social Perceptions

Outdated perceptions within the political system constitute a major obstacle to establishing local government restructuring mechanisms. In many regions, government officials and the public still view "restructuring" negatively, associating it with failure and incompetence. This mindset leads local governments facing fiscal crises to favor maintaining superficial stability through tactics like borrowing new debt to repay old debts or delaying problem resolution, rather than proactively seeking restructuring protection and implementing structural reforms. Furthermore, widespread misunderstandings and doubts about the purpose, role, and effectiveness of restructuring mechanisms hinder their efficient advancement.

## 4. Legal Pathways for Resolving Local Government Debt in China

### 4.1 Core Institutional Framework: Local Government Fiscal Restructuring System

Fiscal restructuring serves as the core component and most critical institutional innovation within the legal resolution pathway. It provides severely financially distressed local governments with an orderly, standardized "rebirth" procedure, institutionally dismantling the rigid expectation that "governments cannot go bankrupt." Establishing this system requires meticulous design across its entire process.

### 4.1.1 Trigger Mechanism: Standardized "Entry Point" Management

Initiating the fiscal restructuring process must be governed by clear, quantifiable, and rigid legal thresholds to prevent local governments from abusing the procedure or higher-level governments from arbitrarily intervening. Legislation should meticulously define restructuring criteria and explicitly stipulate the triggering conditions for initiating fiscal restructuring. These standards must be objective and easily measurable, potentially incorporating one or more of the following indicators: Debt service ratio indicators, where annual principal and interest payments consistently exceed a high threshold (e.g., 20%) relative to annual available fiscal capacity; Liquidity crisis indicators, such as repeated or substantial defaults on statutory debt obligations that cannot be resolved through conventional means; Fiscal deficit indicators, where annual budget execution results in unexpectedly large deficits that cannot be addressed through budgetary adjustments. Empirical data indicates that debt ratios and fiscal self-sufficiency rates in many Chinese regions have reached alarming levels, providing empirical

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justification for establishing these quantitative thresholds.

Clarify the initiating entity and receiving authority: In principle, the initiating entity should be the local government facing financial difficulties, which must submit a financial restructuring application to its higher-level government. To prevent local governments from delaying applications due to "saving face," the law should authorize higher-level governments or central fiscal oversight departments to forcibly initiate investigation procedures and order restructuring applications when monitoring indicates a local government meets restructuring criteria. The receiving and approving body: The higher-level government should establish a dedicated "Local Fiscal Crisis Assessment Committee" composed of experts in finance, law, banking, auditing, and related fields. This committee would conduct independent, professional reviews of restructuring applications. Upon approval, the application would be submitted to the same-level government for authorization and reported to the central finance department for record. This procedural design aims to ensure the professionalism and authority of decision-making.

4.1.2 Formulation and Approval of Restructuring Plans: Rebalancing Through Multi-Party Negotiation

Once the restructuring process commences, the core task is developing a feasible fiscal restructuring plan. This formulation should be a collaborative, negotiated process within the legal framework, involving multiple stakeholders including the local government, higher-level government, creditors, and the public. Establish a Professional Restructuring Management Team: Led by the higher-level government or entrusted to independent third-party professional institutions (such as accounting firms or law firms), a team of "fiscal restructuring managers" should be formed to guide and supervise the local government in formulating and executing the restructuring plan. The professional competence of this team is critical to the success of the restructuring.

Core Elements of the Restructuring Plan: The draft plan must be comprehensive and actionable, covering at least the following aspects: A thorough audit and classification of all debts, including explicit and implicit liabilities, to conduct a complete inventory, registration, and categorization while verifying their legality and compliance. An asset inventory and disposal plan, involving a comprehensive assessment of all government-accessible assets (including state-owned equity and non-core public assets) and proposing an orderly plan for their sale or revitalization. Fiscal "cost-cutting" measures: Formulate stringent expenditure reduction plans, such as suspending non-essential government investment projects, reducing "three public expenditures" (official receptions, overseas trips, and official vehicles), optimizing government institutional structures, and temporarily adjusting certain welfare standards. Fiscal Revenue Enhancement Measures: Within legal authority, propose revenue-increasing measures such as improving state-owned asset operational efficiency and exploring new tax sources. Debt Restructuring Plan: This is the core of creditor negotiations. The plan may include various combinations such as principal reductions (haircuts), extended repayment terms, and interest rate reductions. The negotiation process should establish a "Creditors' Committee" to ensure all creditor types (e.g., bondholders, banks, suppliers) can fairly voice concerns and participate

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in voting. Approval procedures for the restructuring plan require the draft to be submitted for deliberation by the local People's Congress and approved by the Creditors' Committee. Ultimately, the higher-level government that approved the restructuring provides final authorization. This multi-tiered approval mechanism aims to balance stakeholder interests while enhancing the plan's legitimacy and enforceability.

4.1.3 Implementation and Oversight of Restructuring: Ensuring Plans Stay on Track

The implementation phase of restructuring plans represents the "last mile" of the entire system, necessitating robust oversight mechanisms. Supervision by Higher-Level Governments and Administrators: Throughout the restructuring period (typically 3-5 years), major fiscal decisions, budget formulation, and execution by local governments must undergo strict supervision by higher-level governments and fiscal restructuring administrators. Certain approval authorities may even be temporarily elevated. Judicial Intervention and Safeguards: A judicial review mechanism should be established. When disputes arise between local governments and creditors during plan execution, or when creditors believe their legitimate rights are infringed, they may file lawsuits with specialized administrative courts or tribunals. The involvement of judicial procedures provides a final avenue for rights redress during the restructuring process, serving as a crucial indicator of rule of law. Public and Social Oversight: All financial reports and progress updates on plan implementation during the restructuring period must be regularly disclosed to the public and subject to oversight by citizens and media. This helps prevent misconduct during restructuring and fosters public trust in the government.

4.1.4 Exit Mechanism: Orderly Return to Normalcy

Upon achieving the primary objectives of the restructuring plan, demonstrating significantly improved fiscal conditions, and receiving independent audit confirmation of restored sustainable debt-servicing capacity, a local government may apply to its superior government—either independently or through its administrator—to exit the fiscal restructuring process. Upon approval, the local government regains full fiscal autonomy, marking the successful completion of an institutionalized risk resolution.

*4.2 Refining and Reconstructing the Legal Framework: Fortifying the Rule of Law Foundation*

A standalone fiscal restructuring system cannot operate in isolation. To maximize its effectiveness, it must be embedded within a coordinated, tiered legal framework. This requires systematic "supplementation" and "upgrading" of the existing legal system.

4.2.1 Top-Level Design: Enacting the "Local Government Fiscal Restructuring Law" or "Local Government Bankruptcy Law"

The fundamental solution to the current issues of fragmented legislation and low hierarchical status lies in enacting a high-level specialized law. This legislation could be titled the Local Government Financial Restructuring Act, or more innovatively, the Local Government Bankruptcy and Restructuring Act. Its core mission is to: Systematically consolidate and codify relevant provisions currently scattered across the Budget Law, Guarantee Law, and various policy documents into a unified "parent law." Clarify legal status by formally establishing local governments as independent civil

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entities at the national legal level, enabling them to enter bankruptcy-like legal procedures under specific conditions, thereby legally dispelling the myth that "governments never go bankrupt." Authorization and Regulation: Provide explicit legal authorization and rigid norms for specific designs within the fiscal restructuring system (such as initiation criteria, plan formulation, creditor rights, judicial intervention, etc.), enhancing its authority and enforceability.

4.2.2 Coordinated Revision of Related Laws

While enacting the special law, complementary revisions to related legislation must be undertaken to create a cluster effect: Revise the Budget Law to further refine local government debt ceiling management, enhance transparency requirements for budget preparation and final accounts, and effectively link fiscal restructuring procedures with budget review and oversight processes. Revise the Enterprise Bankruptcy Law to explicitly include special state-owned enterprises such as local government financing platforms (urban investment companies) within its scope of application. Refine rules for separating assets and liabilities between local governments and enterprises during bankruptcy proceedings to ensure effective isolation of government and corporate risks. Improve the Regulations on Open Government Information by establishing a dedicated chapter for local government debt information. This chapter should specify mandatory disclosure content, formats, frequencies, and channels, while imposing strict legal liabilities for inaccurate, delayed, or concealed reporting.

4.2.3 Establishing an Independent Fiscal Oversight and Evaluation System

The rule of law encompasses not only legislation but also enforcement and oversight. It is recommended to draw on international experience and establish a fiscal oversight body independent of local governments, similar to the U.S. Government Accountability Office (GAO) or independent fiscal commissions in other countries. Its primary responsibilities should include: routine monitoring of debt risks, conducting regular independent assessments of local governments' debt levels and fiscal health, and publicly releasing risk reports to the People's Congress and society. Providing professional support for fiscal restructuring by offering expert, neutral third-party opinions on decision-making for initiating restructuring and evaluating plans. Implementing accountability mechanisms by launching independent investigations into officials violating laws or regulations in debt management, submitting recommendations for disciplinary actions to supervisory or judicial authorities, and establishing effective deterrence.

*4.3 Implementation Path: A Pragmatic Strategy of Pilot Programs and Phased Advancement*

Such profound institutional reform cannot be achieved overnight. Given China's vast regional disparities, directly implementing a nationwide fiscal restructuring system could trigger unforeseeable risks. Therefore, adopting a cautious strategy of "pilot programs first, phased advancement" is the only realistic choice.

4.3.1 Phase One: Top-Level Design and Pilot Preparation (Present-2027)

Accelerate the legislative process: Mobilize expertise from legal scholars, economists, and practitioners to promptly initiate drafting of the Local Government Fiscal Restructuring Act, aiming to complete a

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draft within 2-3 years and advance it through legislative procedures. Select pilot regions: Choose 2-3 prefecture-level or county-level cities as the first fiscal restructuring pilots, considering factors such as debt risk levels, local governments' reform willingness and management capacity, and regional representativeness. These regions should be representative, including resource-based cities facing fiscal depletion due to traditional industry decline and new districts burdened by excessive investment leading to high debt levels. Establish supporting mechanisms by creating a national-level steering group to guide pilot operations and building the aforementioned professional administrator reserve pool to provide organizational and talent support for the pilot initiatives.

### 4.3.2 Phase II: Pilot Implementation and Experience Summarization (2028-2030)

Launch pilot cases in selected regions, strictly following the procedures outlined in the draft legislation to initiate actual fiscal restructuring cases. Test the scientific validity of restructuring standards, the feasibility of restructuring plans, the effectiveness of creditor negotiation mechanisms, and the smoothness of judicial intervention in practice. Conduct comprehensive tracking evaluations through independent third-party assessments of pilot cases, systematically collecting data to summarize successful practices and lessons learned. Pay particular attention to the short-term impacts of restructuring processes on local public services, social stability, and financial markets, while researching and formulating corresponding buffer and supporting policies. Dynamically refine the draft legislation by repeatedly revising and improving the Local Government Financial Restructuring Law based on issues identified during pilot implementation, ensuring it better aligns with China's national conditions and enhances operational feasibility.

### 4.3.3 Phase Three: Comprehensive Rollout and Institutional Consolidation (Post-2031)

Formal enactment of legislation: Building on robust pilot experience and a mature draft, formally enact the Local Government Financial Restructuring Act, marking the final establishment of the institutional framework for a rule-of-law-based resolution pathway. Roll out the system in phases and by region, setting timelines based on each area's fiscal health and readiness to gradually extend the restructuring framework nationwide. Initially target high-risk regions before expanding to all areas. Establish long-term mechanisms to integrate rule-of-law debt management into local government performance evaluations, fostering a governance culture where "every debt incurs accountability for results, and every failure incurs accountability for outcomes." This fundamentally transforms local officials' debt-incurring behavior patterns.

### 4.4 Challenges and Risks: Acknowledging the Complexity of Reform

Advancing the rule-of-law-based resolution of local government debt represents a profound governance revolution that will inevitably encounter numerous challenges and resistance. The greatest challenge lies in shifting entrenched political will and perceptions, particularly the deeply ingrained notions of "unlimited government credit" and "central government bailouts." Permitting local governments to enter quasi-bankruptcy procedures requires immense political courage and resolve. Local officials may fear repercussions for their performance evaluations and career advancement, financial institutions may

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worry about asset losses, and the public may anticipate disruptions to public services. Therefore, extensive social communication and outreach are essential to clarify the necessity of a rule-of-law approach for long-term stability and gradually shift societal perceptions. Risks to Social Stability: Fiscal restructuring typically involves painful austerity measures, potentially leading to halted public projects, civil servant pay cuts, and reduced public service levels, which may trigger social tensions in the short term. Therefore, restructuring plans must establish a "basic public service guarantee" floor and create supporting social security and unemployment assistance mechanisms to cushion the pain of reform. Fiscal restructuring in specific cases, particularly those involving principal debt reductions, may impact financial institutions holding substantial local debt portfolios, potentially triggering regional financial risks. Therefore, coordinated efforts with financial regulators are essential. This includes conducting stress tests in advance, establishing financial stability protection funds, and implementing tailored strategies ("one bank, one policy") to provide necessary capital injections or restructuring for severely impacted institutions, thereby safeguarding against systemic financial risks. Legal and technical capability challenges: Local government fiscal restructuring is a highly complex and specialized field, placing stringent demands on legislative techniques, judicial capacity, and professional service teams. China currently faces a severe shortage of professionals with expertise in both finance and law, while the judicial system lacks experience in handling such cases. Consequently, talent development and capacity building must be pursued as long-term strategic priorities.


## 5. Conclusion

Local governments serve as the executive organs of the central government, acting as vital channels connecting the central government with the public and ensuring sustained local economic development and social stability. This study examines fiscal data released by local governments from 2014 to 2023 to empirically analyze the evolution of China's local government debt and its current scale. Findings reveal significant issues including: a large outstanding debt balance; declining fiscal self-sufficiency rates; and increasing debt-to-revenue ratios and debt-to-revenue ratios. The paper proposes a phased approach to resolving local government debt: first, establishing core institutional frameworks for fiscal restructuring; second, improving and reconstructing the legal system; adopting a pragmatic strategy of piloting initiatives followed by gradual implementation; and acknowledging the risks and challenges inherent in reform complexity. However, institutional reforms for local government fiscal restructuring will inevitably impact local credit ratings, affect financing capabilities, and influence regional economic development levels. The construction of China's local government restructuring system should also prioritize post-restructuring fiscal and personnel arrangements to better advance economic development and public welfare in restructured regions.

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