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Research on Local debt Resolution and Financial risk Prevention and Control in Sichuan and Chongqing

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Abstract:

This paper focuses on the local debt resolution and financial risk prevention and control in Sichuan and Chongqing. Through the in-depth analysis of the debt scale, structure, causes and risks of the region, it is found that the local debt in Sichuan and Chongqing is mainly driven by infrastructure construction, public services and social investment, and its risk comes from overinvestment, fiscal imbalance and institutional reasons. In view of these problems, this paper discusses the possible debt resolution mechanism and financial risk prevention and control strategy, and puts forward more reasonable risk identification, assessment, early warning and disposal measures in order to reduce the debt risk and maintain the stability of the financial market. Continue to promote the steady development of the local economy and financial risk prevention and control to provide reference, but also for other parts of the country to provide reference and enlightenment.

1. introduction

The Sichuan-Chongqing region in southwest China, encompassing Sichuan and Chongqing, is abundant in natural and human resources. Fueled by the Chengdu-Chongqing metropolitan area construction, it has evolved into China's fourth development pole. Despite rapid economic growth, local government debt has emerged as a pressing issue, impacting economic stability and financial risks. National macroeconomic policy adjustments and the expanding scale of local government debt intensify the urgency of resolving debt and controlling financial risks.

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Local government debt primarily arises from infrastructure, public service, and social project investments. Limited hematopoietic function in local governments, coupled with reliance on debt financing for development funds, leads to escalating debt and increasing risk. This study analyzes the scale and structure of local debt in Sichuan and Chongqing, exploring causes and risks. It delves into the interplay between local debt resolution and financial risk control, proposing policy recommendations for coordinated efforts. By examining the local debt resolution mechanism and financial risk control strategy, the paper aims to offer effective resolution methods and risk prevention measures for the region, holding practical significance and research value for addressing local debt issues.

2. Overview of local debt in Chongqing

Sichuan and Chongqing, as an important economic center in southwest China, its local debt problem is not only related to the steady economic development of the region, but also has a great impact on the prevention and control of financial risks in the whole country. The following will make a detailed analysis of the scale and structure of local debt, the causes and risks of debt in Sichuan and Chongqing.

（1）Debt scale and structure

Sichuan and Chongqing's local debt scale is substantial, drawing widespread attention. Government debt in the region consistently grows, notably in infrastructure, public services, and social projects. These sectors, with lengthy investment cycles and substantial fund requirements, constitute major sources of local government debt. Additionally, hidden debts like government guarantees and future payment responsibilities in service purchases contribute to increased debt risks. The structure of local government debt primarily comprises bank loans, bond issuance, and trust financing. While this diversified structure eases financial pressure, it also brings higher costs and more intricate debt management challenges, impacting local governments' financial situations significantly.

（2）Causes and risks of debt

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The burgeoning local government debt in Sichuan and Chongqing stems from multiple causes. Foremost, overinvestment plays a pivotal role, driven by the dual pressure of pursuing economic growth and performance evaluations. Local governments, aiming to stimulate growth, embark on extensive infrastructure and public service projects, incurring substantial capital investment and subsequently escalating their debt burden.

Furthermore, the imbalance between fiscal revenue and expenditure compounds the local government debt risk. As the local economy develops and demand for improved livelihoods grows, fiscal expenditure rises at a pace unmatched by the growth in revenue, exacerbating the imbalance and intensifying debt repayment pressures.

Additionally, institutional factors contribute significantly to the swift growth of local government debt. Evaluation mechanisms for local officials prioritize economic growth, incentivizing officials to boost economic development through debt financing. Intense inter-governmental competition further accelerates debt expansion as local governments strive to secure dominance in the economic race.

These factors collectively form the bedrock of local debt risk in Sichuan and Chongqing. In essence, overinvestment and fiscal imbalances diminish local government solvency, while institutional factors amplify the speed and complexity of debt expansion. A comprehensive approach to resolving local debt risk in Sichuan and Chongqing necessitates a nuanced understanding of the multifaceted influences and mechanisms at play.

3. Local debt Resolution Mechanism in Sichuan and Chongqing

Local debt resolution in Sichuan and Chongqing is a complex and urgent task. In order to effectively resolve the debt risk, Sichuan-Chongqing region has explored some specific ways to resolve it. This part will carry on the detailed analysis to the Sichuan and Chongqing area debt resolution path, and through a concrete case to show how these paths play a role in practice.

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(1) Solution path

The resolution of local debt in Sichuan and Chongqing encompasses several key measures. Firstly, optimizing the debt structure involves adjusting maturity to decrease short-term debt, alleviating immediate repayment pressure. Introducing low-cost long-term funds further reduces debt expenses, easing the burden on local governments. Strengthening fiscal management is crucial, enforcing budget constraints, trimming general spending, and enhancing expenditure efficiency. Simultaneously, robust tax collection improves fiscal revenue quality, bolstering local government solvency.

Promoting economic development is vital, involving heightened investment attraction, industry consolidation, and fostering new growth points. This not only enhances solvency but also expands the scope for debt resolution. Broadening financing channels through market-oriented strategies and engaging social capital in infrastructure projects lightens the government debt load. Collaboration with financial institutions leverages their expertise and resources, delivering tailored financing services for local governments.

(2) Case analysis

In addressing severe local debt risk, a city in Sichuan and Chongqing has implemented effective measures. Firstly, optimizing the debt structure involved issuing long-term bonds with below-market interest rates and involving social capital in infrastructure projects, reducing short-term debt proportions and overall debt costs. Secondly, fiscal management was enhanced by instituting a strict budget system, significantly cutting general expenditure, and intensifying tax collection efforts to combat evasion, thus improving fiscal revenue quality. Thirdly, economic development was spurred by attracting high-tech enterprises and fostering key industries, boosting tax revenue and economic strength. These efforts injected vitality into the local economy.

Collectively, these measures enabled the city to successfully navigate local debt risks, achieving steady economic development and social harmony. The case serves as a

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valuable reference for other regions in Sichuan and Chongqing, as well as a broader guide for nationwide local debt resolution efforts.

4. the application of financial risk prevention and control strategy in Sichuan and Chongqing

Local debt often coexists with financial risk twins. As an important economic center in southwest China, the steady operation of its financial market is of great significance to the economic development and social stability of the whole region. In order to effectively prevent financial risks, Sichuan and Chongqing areas need to establish a sound risk prevention and control strategy system. This part will make a detailed analysis of the application of financial risk prevention and control strategies in Sichuan and Chongqing, and through a specific case to show how these strategies play a role in practice.

(1) Risk identification and assessment

To prevent financial risks effectively in Sichuan and Chongqing, a robust risk identification and evaluation system must be established, encompassing aspects like asset quality, liquidity, market, and credit risks. A comprehensive assessment aids in timely identification of potential risk points, forming the basis for targeted prevention measures. Practical methods include leveraging big data analysis to mine and analyze business, customer, and market data, revealing risk patterns. Additionally, real-time monitoring through machine learning enables timely detection and handling of potential risks in financial institutions.

(2) Early warning mechanism and policy measures

After establishing a comprehensive risk identification and evaluation system, Sichuan and Chongqing must institute a robust financial risk early warning mechanism and policy measures. This mechanism encompasses risk monitoring, assessment, early warning, and disposal to ensure prompt detection and handling of financial risks. Policy measures involve macro-prudential management, micro-prudential regulation,

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and market constraints to uphold financial market soundness. Specifically,

Sichuan-Chongqing can implement policies such as tailored macroeconomic strategies, stringent micro-prudential supervision, and market-oriented exit mechanisms, fostering compliance, risk prevention, and market adaptability in financial institutions.

(3) Case analysis

Facing escalating financial risk challenges, a financial institution in Sichuan and Chongqing has implemented key measures for effective prevention. Firstly, it established a robust risk identification and assessment system, promptly identifying potential risk points in areas like credit, market, and liquidity. Tailored prevention measures were then implemented, focusing on credit approval, risk pricing, and portfolio optimization. Secondly, the institution instituted a real-time early warning mechanism, promptly detecting market and liquidity risk signs and applying preventive measures to avoid potential losses. Lastly, policy measures were adopted, emphasizing macro-prudential management and micro-prudential supervision to ensure sound financial market operation. Successful implementation of these measures secured the institution against financial risks, ensuring steady market operation.

5. challenges and countermeasures

(1) Problems faced

Sichuan and Chongqing face intricate challenges in local debt resolution and financial risk control. The colossal and intricate debt scale, driven by urbanization and industrialization demands, includes explicit, hidden, and contingent debt, heightening resolution complexity. Additionally, the financial market, while developing, exhibits issues like a small scale, limited financial products, and irregular market behavior. These imperfections, coupled with an immature market body, escalate the difficulty of risk prevention. Moreover, regulatory efforts, though made, grapple with imperfections like an incomplete system, outdated means, and low efficiency. These

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factors collectively impede the desired outcomes of risk prevention efforts.

(2) Countermeasures and suggestions

In view of the above challenges, the following countermeasures and suggestions are put forward:

Optimize the debt structure and reduce the cost and risk of debt: through the issuance of long-term bonds, the introduction of social capital and other ways to reduce the proportion of short-term debt and debt costs. At the same time, we should promote debt marketization, improve debt transparency and liquidity, and reduce debt risk.

Strengthen the strength of financial supervision and market constraints, improve the robustness of the financial market: establish and improve the financial supervision system, strengthen the awareness of risk management of financial institutions, and increase the punishment of violations. At the same time, we should improve the information disclosure system, improve the transparency of the market, and give full play to the binding role of the market.

Improve the regulatory system and means to improve the effect of risk prevention: strengthen the cooperation and information sharing of regulatory departments, establish risk early warning mechanism and emergency response mechanism. At the same time, the use of big data, artificial intelligence and other modern scientific and technological means to improve regulatory efficiency and accuracy.

Promote economic development and broaden financing channels, enhance solvency and reduce debt risk: improve regional economic strength and tax revenue by attracting investment and developing characteristic industries. At the same time, we should promote innovation in financial markets, broaden financing channels, and lighten the burden of government debt.

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5. Conclusions and prospects

Analyzing local debt resolution and financial risk control in Sichuan and Chongqing reveals progress, yet challenges persist. Future efforts should deepen research and practice, exploring innovative solutions. Emphasis should be on debt resolution methods like restructuring and debt-for-equity swaps. Financial market innovation, including fintech application and green finance promotion, warrants exploration. Strengthening collaboration with domestic and international institutions, learning from global experience, and improving local debt resolution and risk prevention capabilities are vital for fostering a healthy economy and robust financial market operation in Sichuan and Chongqing.

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