Govt orders nationwide audit for local debt records

（Global Times, 2013-7-29, By Wang Xinyuan）

China will launch an official audit of public debt nationwide, the country's audit watchdog said Sunday, following rising market concerns that soaring local government debt will undermine the financial stability of the world's second largest economy.

"At the requirement of the State Council, the National Audit Office (NAO) will conduct auditing on government debt," the body said Sunday on its official website.

The announcement came on the heels of market information stating the State Council had issued an urgent order on Friday demanding an audit of local government debt nationwide while the NAO will dispatch teams to provinces as soon as August.

The move aims to "find out how exactly local governments are indebted so as to effectively prevent risks from building up," said Xu Hongcai, a senior economist under the China Center for International Economic Exchanges, a government think tank.

Unlike the central government's debt information, information as to local administrators' liabilities remains opaque.

This audit is the first of its kind under China's new leadership. In 2011, the NAO published an audit report revealing that local government debt had exceeded 10.7 trillion yuan ($1.74 trillion) by the end of 2010, about 27 percent of China's GDP.

The NAO published another audit report in June on 36 local governments showing that their outstanding debt totaled 3.85 trillion yuan by the end of 2012, up 12.94 percent from 2010. However, as this was not a nationwide audit, it couldn't accurately reflect the entire picture of local government debt.

Compared with previous audits on this scale, the NAO has added lower-level government targets, such as township governments, to its list, Jiang Chao, chief bond analyst at Haitong Securities, wrote on his Weibo account.

The decision also signals that local government liabilities linked with the property sector and shadow banking are generating risks hindering economic growth, Li

Youhuan, a senior economist with the Guangdong Academy of Social Sciences, told the Global Times Sunday.

Li warned that local administration debt was the second riskiest factor, behind real estate, for a potential financial crisis in China.

"The possibility of a debt crisis cannot be excluded," Xu said, adding that should a crisis break out, it would trigger massive levels of bad debt at banks with the resultant burden being taken on by all taxpayers.

But as long as political power remains stable, local government debt is not a fundamental threat, Lu Zhengwei, chief economist of the Industrial Bank, wrote on Weibo, adding that China's government debt to GDP ratio is much lower than that of other major economies.

US government debt stands above 100 percent of the country's GDP, and Japan's debt is over 200 percent of its economic output.

China's growth has become too dependent on the continued expansion of investment, much of it fueled by local government debt, the IMF said in a press release back in May.

In July, the IMF estimated that China's public debt, including that of central and local governments, had exceeded 45 percent of the country's GDP in 2012 from below 40 percent in 2008, close to the international warning line of 60 percent.

Fitch Ratings downgraded China's local currency credit rating in April partly due to growing risks of financial stability, given the opaque and mounting local government liabilities.

Many local governments repay old debt in part with new borrowings, with a domino reaction becoming very dangerous once cash flow is drained, Li said.