

Summary Report: Policy Framework for Local Government Debt Resolution and LGFV Transformation

China's recent policy releases, including the Government Work Report, reports from the National People's Congress Financial and Economic Affairs Committee, and the outline of the 15th Five-Year Plan, provided clearer policy guidance on local government debt resolution and the transformation of local government financing vehicles ("LGFVs").

These policy documents collectively outlined a coordinated framework focusing on three key aspects: strict control of new implicit debt, optimization of debt resolution, and promotion of LGFV transformation. Strict fiscal discipline reinforced constraints on new implicit debt, while policy focus for existing debt shifted toward the management of operating debt, supported by restructuring, replacement, and coordinated fiscal-financial measures. The LGFV transformation aimed to promote their high-quality and sustainable development.

Preventing New Implicit Debt

These policies emphasized strict fiscal discipline and firm containment of new local government implicit debt. Regulatory authorities strengthened accountability mechanisms, including cross-departmental joint punishment systems, to address illegal borrowing and improper debt resolution. The Government Work Report emphasized the prohibition of implicit debt as a non-negotiable rule, while other policy report integrated this requirement into the management of government investment projects. The 15th Five-Year Plan further reinforced the prevention by proposing a full-scope monitoring and regulatory system.

The coordinated policy approach reflects a comprehensive governance framework that integrates penalties, procedural constraints, and long-term institutional mechanisms. This indicates a shift toward tightening the boundary of government borrowing and reinforcing discipline at both the initial and subsequent stages. The emphasis on a comprehensive monitoring system further demonstrates the government's intention to institutionalize risk prevention and establish a sustainable governance structure for local debt management.

Optimizing Debt Resolution

The policy focus shifted toward managing operating debt associated with LGFVs with particular emphasis on resolving non-standard debts. Authorities aimed to optimize debt restructuring and replacement mechanisms, while strengthening full-scope monitoring of local government liabilities and restricting the expansion of financing platforms.

Fiscal and financial policies were designed to work in tandem. Central government transfer payments, special government bonds, and long-term investment funds will provide fiscal support, while relaxed monetary policies, financing environment improvements, and innovative financing instruments will help ease refinancing costs and pressures. This coordinated approach reflects a move from reactive crisis management to proactive, full-process risk control, balancing debt resolution with economic resilience.

Driving Transformation

Policy directives emphasized the need to divest LGFVs of their government financing functions and promote their substantive transformation. Authorities called for a clear division of responsibilities between the government and enterprises, and for measures such as liquidation, restructuring, market-oriented transformation, and asset injection to facilitate the transformation of LGFVs. Simultaneously, strict restrictions were imposed on the establishment of new financing platforms. The 15th Five-Year Plan also provided specific development directions, including urban renewal, infrastructure upgrading, green development, and revitalization of existing assets, guiding the pathways for LGFVs to transform towards market-oriented and sustainable business models. This will drive LGFVs to transfer from entities primarily engaged in project financing and construction to roles such as urban operators and industrial development facilitators, thereby enhancing their ability to generate sustainable cash flow.

Note: This report is an executive summary. For full details, please refer to the original report “[守底线 优路径 促转型--多份政策文件协同发力，勾勒地方债务化解和城投转型全景](#)” published by China Lianhe Credit Rating Co., Ltd.

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