

# Municipal debt market takes big step forward

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## Finance Ministry allows 10 local governments to directly issue bonds to help fund their projects

China will for the first time allow 10 local governments to sell bonds directly to fund development projects, a step that analysts said is a leap forward but still far from a Western-style municipal bond.

The Ministry of Finance on Wednesday posted a statement on its website that identified the 10 governments. They are the cities of Beijing, Shanghai, Shenzhen and Qingdao; the wealthy eastern provinces of Zhejiang, Jiangsu, Guangdong and Shandong; and the inland regions of Jiangxi and Ningxia.

The development confirmed a Tuesday report by China Daily.

Six localities were already covered under an earlier pilot program. Beijing, Qingdao, Ningxia and Jiangxi were newly added.

A major difference between the latest plan and the trial program is that the 10 governments may issue bonds independently. They're also responsible for repaying the principal and interest on their debt. Under the previous program, the Finance Ministry would repay the principal and interest on local governments' behalf, constituting de facto backing for the bond.

"The new plan means local governments will repay the debt from their own budgets. They can decide how the money raised is spent, which is a step forward," said Li Yan, an analyst with China Chengxin International Credit Rating Co Ltd.

Ivan Chung, senior vice-president of Moody's Investors Service, said the move will undoubtedly boost fiscal accountability and prudence of local governments.

"Before, their funds were mainly borrowed from financing vehicles, which lacked transparency and made it difficult for the central government to manage the risks. For local governments, selling bonds means they will face the market directly and they have to behave responsibly. Financing costs could be lowered compared with former ones. For investors, this means more investment options," Chung said.

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