Special Comment

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Review and Outlook of Infrastructure Investment and Financing Policies: Increased supervision and debt elimination while promoting corporate transformation

Since 2021, the central government’s supervision of domestic infrastructure investment and financing (hereinafter referred to as “infrastructure investment”) has entered a tightening cycle. In 2023, under the guidance of the central government's "debt package policy", starting with the issuance of special refinancing replacement bonds by local governments and banks' participation in operating debt swaps, multiple departments will work together to increase efforts to resolve existing debts. At the end of September 2023, the State Council issued the "Guiding Opinions on Resolving Debt Risks of Financial Support Financing Platforms" (hereinafter referred to as "Document No. 35"), proposing unprecedented strict and clear guidance. The document strengthens the debt management and control of general financing platforms, proposes an implementation framework for financing platform debt in key provinces, and standardizes the risk control mechanism of financing platforms. The 12 key high-risk provinces include Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, and Ningxia, which will be subject to strict supervision in the future. This article reviews and summarizes policy changes in 2023 and looks forward to the trends and impacts of policy changes in 2024.

Policies Overview

In 2023, the regulatory thinking of the capital investment industry will continue to be based on the main tone of "controlling growth and reducing deposits". However, factors such as the downturn in economic fundamentals and the strain on local land fiscal revenue due to the continued downturn in the real estate industry have led to the intensification of local fiscal revenue and expenditure conflicts and credit risks. Against this background, policy support for localized debt has increased significantly. Under the guidance of the July Politburo meeting to formulate and implement the "debt package plan", multi-department cooperation will be used to solve the existing debt, starting with local governments being allowed to issue the fourth round of special refinancing replacement bonds and banks more closely participating in debt swaps. Resolution and new debt approval matters.

First of all, banks will become the new focus of policy in 2023. The China Banking and Insurance Regulatory Commission work conference in January 2023 emphasized the need to actively cooperate to resolve local government debt risks. In March of the same year, the "2023 Government Work Report" proposed in more detail the need to optimize the debt maturity structure and reduce the interest burden. Secondly, the fourth round of special refinancing replacement bonds was restarted. Since Inner Mongolia took the lead in issuing special refinancing bonds in September 2023, 29 provinces have issued approximately 1.39 trillion by the end of 2023, which has become an important means to solve the hidden debt repayment of local infrastructure investment companies and ease the pressure of local project payment, especially in hidden areas. On the issue of making sexual debt explicit, local governments can complete the overall coordination and statistics of debt. In addition, a series of policies continue to emphasize that different regions explore ways to reduce debt according to local conditions. In March 2023, the Ministry of Finance pointed out that "local government debt problems are mainly unevenly distributed. Some places have higher debt risks and greater pressure to repay principal and interest." In this context, following high-risk areas such as Guizhou, we have carried out measures to reduce debt risk levels. After the pilot, Document No. 35 further clarified 12 key provinces, requiring financial institutions to support the resolution of existing debts of infrastructure investment companies in key provinces this year and next, and strictly control the increase in the scale of various debts of infrastructure investment companies; at the same time, a new round of special repayment The issuance quota of financing replacement bonds is also tilted towards the above-mentioned 12 key provinces; "Document No. 35" also delineated the "3899 list" and "four hurdles" system, using the list system to manage and control new urban investment liabilities, and the use is more clear The land business division mechanism and the more biased urban investment review mechanism encourage urban investment companies to actively transform into industrial companies. Even preparing for the worst-case scenario, in November 2023, Central Bank Governor Pan Gongsheng stated that the People's Bank of China would provide emergency liquidity loan support to areas with relatively heavy debt burdens if necessary. Finally, the New Deal strengthens the optimization of government debt management mechanisms. In October 2023, the Central Financial Work Conference proposed to establish a long-term mechanism to prevent and resolve local debt risks and establish a government debt management mechanism that is compatible with high-quality development. One month ago, the 14th National People's Congress Standing Committee released its legislative plan, which included "regulating government debt" in the legislative plan.

Policies Impact

First of all, multi-sector linkage bonds, focusing on the issuance of special refinancing bonds, have reduced the liquidity pressure on capital investment companies and enhanced corporate credit quality and debt management flexibility. For urban investment companies in most regions, especially those with less debt repayment pressure and higher credit quality, this special refinancing bond can efficiently convert debt; for urban investment companies in areas with ample regional quotas and good economic development levels For enterprises, this special refinancing bond can optimize the debt structure, reduce repayment pressure, and boost market sentiment. According to the Chengtou CAIR risk index, the overall index after June has declined significantly. With the official launch of special refinancing bond quotas, the urban investment bond market in the supported provinces has been greatly boosted. Credit spreads have continued to narrow and the scale of early redemptions has increased. In particular, some risks are not low and have not previously been expected to receive quota support. The regional credit environment has accelerated as the provinces in the scope have received support from larger-than-expected quotas, but whether a sustained positive market can form remains to be seen in 2024.

However, the pressure on infrastructure investment companies will diverge as the progress and effectiveness of regionalized bonds diverge, and weak areas still require continued attention. The issuance of special refinancing bonds will occupy the explicit debt balance space. Under the explicit debt limit management system, the quota space in some areas with greater debt pressure will be limited. The issuance scale of special refinancing bonds will therefore be greatly restricted, which will have a great impact on local urban investment companies. The benefits will be relatively limited. Some provinces with high debt pressure, poor provincial mobilization capabilities and lower-than-expected special refinancing quotas are unlikely to see substantial improvements and are still facing pressure from certain valuation fluctuations. In the context of overall restrictions on available quotas, the quotas available in some regions are relatively limited. For regions with weak financial resources and high debt pressure, special refinancing bonds can only alleviate the debt risks of tail districts and counties, and have a negative impact on the overall regional credit The repair effect is limited, especially if the amount obtained in the tail area is lower than market expectations or even fails, it will further exacerbate the risk of bond valuation fluctuations. These companies that cannot improve their debt situation and pay off short-term principal and interest through special refinancing bond financing may seek other more costly channels for financing.

Finally, overall financing for infrastructure investment companies will be further tightened in 2023, and the pressure on corporate interest repayments will still be high. At the end of September 2023, the State Council issued "Document No. 35", proposing unprecedented strict and clear guidance. In response to the problem of regional differentiation in the previous article, key regional management and a list system were proposed to limit the debt financing paths of weak qualification areas and credit risk-sensitive companies. In terms of resolving maturing debts in key provinces, first of all, if the debts of financing platforms due in 2024 and 2025 cannot be repaid, financial institutions will resolve them through debt restructuring, debt replacement, etc.; secondly, the review of bonds needs to be accelerated to support the repayment of principal loans. Old, well-qualified platforms lend uniformly; in addition, for existing non-standard debt, it is necessary to negotiate a discount on the existing non-standard interest rate, and at the same time, banks issue project loans to replace non-standard funds; finally, in terms of liquidity risk management and control, the central bank has established emergency liquidity We will provide additional loans to support the resolution of liquidity risks on debts due before the end of 2025. For companies that are in better shape than those at the bottom, the New Deal's "four hurdles" mechanism has made it more difficult for capital investment companies to raise funds, clarified the criteria for judging the industry transformation of capital investment companies, and clearly encouraged the spirit of local capital investment companies to transform into industrial enterprises.

Outlook

First of all, there is a high probability that the urban investment industry will continue to maintain the main tone of "controlling increases and reducing deposits" and strictly control the increase in hidden debt. At the same time, the central government's package of debt policies will continue to have space, and the special refinancing swap bond policy will continue to be effective. The policy details for banks and other financial institutions to participate in operating debt swaps will gradually be implemented. Local governments, especially the key provinces or list-based "3899 List", will be implemented gradually. The debt structure adjustment process of the capital investment companies may be accelerated.

Secondly, under the guidance of clear new regulations, capital investment companies may accelerate the pace of their transformation in order to obtain smoother financing channels. According to the new regulations of "Document No. 35", there are four review procedures for exchanges, interbank urban investment companies, and new industrial bond issuances, which are called "four hurdles." Among them, a number of financial indicators are set for urban investment outside the list to identify its industrial attributes. These indicators include asset structure indicators, income structure indicators and profit structure indicators, aiming to determine the progress of urban investment companies in transforming into industrial companies. In terms of asset structure, government assets must account for less than 30%; in terms of income structure, government income must account for less than 30%; in terms of profit sources, more than 50% of profits must come from non-governmental sources. This article applies to determining government subsidies. If it has not been recognized as an industry category in previous reviews, it is generally difficult to add a new one. Unless high-quality urban investment in high-quality areas with low debt ratios meets all requirements, it can be discussed on a case-by-case basis. This new regulation clarifies the criteria for determination, while tightening the channels for debt issuance by infrastructure investment companies and encouraging companies under financial pressure to actively transform to obtain space for borrowing.

Finally, the financial status of capital investment companies may further diverge, and risk mitigation for weakly qualified entities depends on policy execution. Judging from the recent progress of localized debt, regions with strong regional endowments and relatively sufficient debt resources are expected to accelerate their credit qualifications and experience larger credit spreads after receiving higher amounts of special refinancing bond support. compression. For example, under the background that Tianjin continues to connect with financial institutions and actively activate the bond overlay market, it is expected to obtain higher amounts of special refinancing bonds, and the primary and secondary markets for urban investment bonds have recently improved significantly. Although the recent debt reduction policy has gradually eased the liquidity of the investment industry, it should be noted that the current debt reduction policy is the result of a multi-party game between the central government, local governments, financial institutions, investment companies, etc., and the debt reduction measures focus on For debts that have matured in the past two years, the policy gives priority to solving short-term problems, and the sustainability and implementation of the policy will have an important impact on infrastructure investment companies. Under the trend of accelerated differentiated development of infrastructure investment enterprises, infrastructure investment enterprises in weak areas and weak qualifications will It may face the dual problems of insufficient resource advantages for transformation and development and the prevention and resolution of existing debt risks. Its credit risk mitigation depends to a large extent on the subsequent implementation of the current debt-reduction policy.

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