ECONOMY OF CHINA: DEBT LOAD AND PACES OF ECONOMIC GROWTH

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The article discusses the problem of economic growth maintaining in China in the context of the need to reduce debt burden, substantiates the need to replace opaque financing schemes for municipal budgets with transparent ones, and also shows that a policy on combining fiscal and monetary incentives depending on the phase of the economic cycle may become optimal.

Keywords: bonds, debt burden, public debt, economic growth, China, fiscal policy, monetary policy, fiscal discipline, economic cycle.

Introduction

The Chinese government expects that in 2019, economic growth will be at the level of 6–6.5% [1]. At the same time, 2018 was the worst for China in the last 28 years: GDP grew “only” by 6.6%. On average, the Chinese economy over the past 30 years has grown annually by 9%, while the global average has been slightly less than 3% [2,3] (Figure 1). The main difficulty in ensuring the growth level announced for 2019 is that the model of the Chinese economy is built on an excessively high share of debt financing. And in the mass consciousness of market participants something like “debt phobia” developed, when any increase in debt is considered undesirable-and potentially dangerous. The Chinese government has a dilemma: on the one hand, it is necessary to maintain growth rates at a high level, and on the other, to prevent a further increase in the debt burden. However, a decrease in lending will inevitably lead to a slowdown in economic growth. To solve this problem, the Government of China in 2015 proclaimed a stimulating fiscal policy, which involves strengthening fiscal discipline and focus on municipal bonds as the main source of financing the budget of local governments.

Strengthening fiscal discipline According to official figures, China is not a leader in terms of public debt. However, firstly, in view of the largest volumes of the economy, the absolute size of the Chinese public debt is extremely substantial (more than $ 13 trillion - the dollar equivalent of Chinese yuan is given hereinafter).

Therefore, in the case of negative scenarios, the consequences for the global economy can be much more serious than, for example, in the case of Greece or Italy. Secondly, the above figure is official; informally, according to some estimates (in particular, the Institute of International Finance - IIF) [4], the ratio of the Chinese public debt to GDP can reach 300%. It is difficult to reliably calculate, because the system is extremely opaque - separate authorities and state institutions are each other's creditors, the credit structure is confused.

That is why one of the main tasks in the framework of stimulating policies was to strengthen fiscal discipline. In this regard, the Government of China sees as its task to create effective legal credit mechanisms in the form of municipal bonds (“open the front door” - additionally “open the front door”) and at the same time block all other financing schemes.
that do not meet requirements of legality ("close the back door" - the term "block the back door") [4].

Main focus of the study

In practice, the task takes the following forms: from 2015, a gradual replacement of the "old" debt of local self-government bodies (issued before 2015) with a "new" one (in the format of municipal bonds) began. The "old" debt, characterized by its non-transparency and the presence of gray schemes, after the excitement should be refinanced by the "new", transparent debt. At the same time, it is municipal bonds that should become that very "front door" ("the front door").

Municipal bonds Issuing municipal bonds can have different purposes. Short-term notes are usually sold against tax revenues or under future bond issues. This allows local governments to cover temporary or seasonal deficits. Long-term municipal bonds are issued to finance infrastructure projects, for example, the construction of schools, bridges, streets, airports, as well as to finance long-term budget deficits. Municipal bonds often imply various tax benefits [7].

As mentioned above, at the end of 2018, officially, China's domestic debt exceeded $13 trillion, which corresponds to half of GDP. Of these, 56%, or $7.3 trillion, falls on bonds; the remaining 44% is loans and the money market [6].

By the end of 2018, the volume of municipal bonds in circulation reached $2.6 trillion. (20%) and, thus, exceeded both the volume of bonds of the federal government and state-private banks - at 18%, or $2.35, each [1].

Municipal bonds - a relatively new phenomenon for China, were launched in 2009. Output has increased substantially since 2015, when the Chinese government increased quotas on them as part of the newly proclaimed stimulus policy. So, since 2015, the issue volume has increased by 16 times, while the issue of bonds of the federal government and state-private banks (Export-Import Bank of China and the Agricultural Development Bank of China) - only 1.3 times [ ]. The importance of municipal bonds in China's economy is expected to increase.

Conclusions

In order to implement a stimulating fiscal policy, it is necessary that the volumes of municipal bonds issue meet the demands of the economy, because if quotas do not meet demand, economic growth may slow down. Aspects of monetary policy In terms of monetary policy, an increase in the issue of municipal bonds (or, in other words, fiscal incentives) can lead to the overflow of financial resources from the private sector to the state.

This will require some measures of monetary policy from the Chinese authorities to mitigate this effect and maximize the growth of the economy as a whole. It is important to understand that the effect of monetary policy can be limited by the phase of the economic cycle (according to the "pushing on a string" principle, monetary policy is asymmetric: it is easier to limit growth than to stop recession). In addition, monetary policy should take into account not only internal and external factors, but also real and financial ones, although macroprudential policy is capable of balancing the influence of these factors to a certain extent [5].
The most practical approach is to follow a stimulating fiscal policy in times of slowdown in economic growth, as at present, and fiscal consolidation in periods when the economy is growing in accordance with its potential. In conclusion, we note that the determination of the Chinese authorities to strengthen financial discipline has increased markedly since 2015, and the tolerance to further accumulation of gray debt has decreased. The government is not ready to sacrifice financial stability in order to stimulate economic growth. In our opinion, this is an extremely positive signal for market participants, however, it is not necessary to monitor how effectively it will turn out to translate into practice.

References

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THE EFFECT OF AUDIT TENURE AND FIRM SIZE ON FINANCIAL REPORTING DELAYS

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The timeliness of financial reporting is an important characteristic of accounting information, since historical information will affect the economic decision-making process made by users of financial statements. This study aims to identify and analyze the effect of audit tenure and firm size on audit delay and its impact on timeliness. The population in this study are consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period 2014-2016. The sampling technique used in this research is purposive sampling. Based on predetermined criteria, the sample consisted of 30 companies with observations for three years is 90 observations. The data collected is secondary data in the form of audited financial statements of the firms using a documentary method via the Indonesia Stock Exchange. The method of analysis used in this research is the outer model and the inner model through SmartPls 3.0 program. The results of this study indicate that: audit of tenure and firm size have no effect on audit delay and timeliness, and audit delay significantly influences timeliness.