

At the press conference on 6 March, Lou Jiwei, Minister of Finance, said that the administration had asked for approval from the National People's Congress to recognize some legacy debt borrowed by the local government investment vehicles (LGFVs).

- This is for the first time MoF made a public statement that it recognizes the legacy loans borrowed by LGFVs. Lou even went further suggesting at the press conference that borrowed money must be repaid based on contract spirit.
- We understand that MoF planned a large sum of bond issuance quota for roll-over of LGFV debt, on top of the regular local debt quota. According to local press *Economic Information*, MoF would grant Rmb3 tn special debt issuance for the local debt roll-over, with Rmb1 tn quota reaching the provincial authorities already.
- If this is confirmed, we believe that the measure would significantly ease the risks of local debt default and hence shadow banking implosion. This would have significant implications to Chinese banks' asset quality.

We understand that MoF planned a large sum of bond issuance quota for roll-over of local investment vehicle's debt, on top of the regular local debt quota (set at Rmb600 bn). According to local press *Economic Information* (经济观察报), MoF would grant Rmb3 tn special debt issuance for the local debt roll-over, with Rmb1 tn quota reaching the provincial authorities already. This probably cannot cover the entire local debt (Rmb17.9 tn as of 2013), but should be more than enough to cover the local debt due this year. If this is confirmed, we believe that the measure would significantly ease the risks of local debt default, and hence, shadow banking implosion. This would have significant implications to Chinese banks' asset quality.