

## Research note

# Debt Risk after the Reform: China's Land-Backed Municipal Bonds

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### Summary

Land-backed borrowing emerged as one of China's major economic risks after the accumulation of local-government debts and the implementation of the CNY 4 trillion fiscal stimulus package in 2008. Despite the introduction of far-reaching debt reform and the reorganization of local-borrowing mechanisms in 2015, the era of land-backed debt increases and the leveraging of public-land resources is not yet over. As exemplified by the recent developments in China's municipal-bond market, new mechanisms for land-backed borrowing were introduced on a trial basis in 2017 under the novel debt-management regime. By critically evaluating the introduction of land-backed municipal bonds, this paper sheds light on recent developments in local-government borrowing in China that have not been discussed in detail so far by the scholarship. My evaluation draws on an in-depth analysis of central and local policy documents issued after 2008, a dataset on municipal bonds issued after 2017, insights from preliminary field research trips, and secondary literature on the topic. I argue that the introduction of land-backed bonds reflects an attempt to strengthen the top-down control over local borrowing, with the leveraging of land necessarily being upheld due to institutional constraints and path dependency.

**Keywords:** local debt, municipal bond markets, land-based finance, financial stability, central-local relations, real-estate market

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