Empirical Research on Fiscal Sustainability of Local Debt in Anhui from the Perspective of Tax and Fee Reduction

Zheng Zhang¹, Jinghan Huang², Yukun Ma³

¹School of Finance and Public Administration, Anhui University of Finance and Economics, Bengbu, China
²School of Finance, Anhui University of Finance and Economics, Bengbu, China
³School of Management Science and Engineering, Anhui University of Finance and Economics, Bengbu, China

Abstract

In the context of high-quality economic development, in order to cope with the downward pressure on the economy, large-scale tax and fee reductions are still the key content of the current active fiscal policy. Although this policy has unleashed the vitality of the market economy, it has widened the fiscal revenue and expenditure gap of local governments and exacerbated debt risks. This paper builds an intertemporal budget constraint model, and conducts a co-integration test on the financial revenue and expenditure data of Anhui Province from 2002 to 2022. The results show that the current financial operation of Anhui Province has weak sustainability. According to the current situation of fiscal revenue and expenditure and local debt, this paper puts forward countermeasures from the aspects of perfecting my country’s local taxation system, innovating financial management system, setting up debt risk warning, and scientific and efficient debt management system to achieve sustainable local finance.

Keywords

Tax Cuts and Fee Reductions; Intertemporal Budget Constraints; Local Debt; Fiscal Sustainability.

1. Introduction

Under the new normal, in order to alleviate the downward pressure on the economy and promote the continuous enhancement and efficiency improvement of proactive fiscal policies, the central government has proposed a combined tax and fee support policy, a package of policies to stabilize the economy, and subsequent measures after implementing larger-scale tax and fee reductions. Anhui Province strictly implements the new policy of tax reduction and fee reduction, and strengthens the financial counter-cyclical adjustment function. In 2022, the tax reduction and fee reduction and tax refund and tax deferral will add a total of 127.69 billion yuan. On the one hand, the tax and fee reduction policy has enhanced the vitality of market entities and promoted the high-quality development of micro-entities. On the other hand, it has also made local finances unable to make ends meet, increasing the pressure on balance of payments, and the economy continues to operate at a low level. In order to achieve stable economic growth, local governments use bond issuance as the “main channel” of financing, but large-scale borrowing will bring greater debt risks. According to the theory of intertemporal constraints, a debt ratio that exceeds a critical value will inevitably affect fiscal stability. Continued negative effects. Based on this, under the continuous promotion of tax and fee reduction policies, studying the impact of debt status on Anhui’s fiscal sustainability can not only reasonably deal with regional debt risks, but also provide reference for fiscal development in other regions of the country.
2. Literature Review

2.1. Local Debt

Scholars’ research on local debt mostly focuses on the causes, risk measurement and prevention. The reasons for the gradual expansion of local debt in existing research mainly include the following three aspects: First, in terms of the fiscal system, the financial and administrative powers of local governments are misaligned, and more special transfer payments reduce the flexibility of fiscal funds, forcing the government to adopt Borrowing to meet development[1]. Second, in terms of the political system, promotion incentives and the tenure system make local officials prone to opportunism, making them keen to develop "short-term performance projects" through heavy borrowing [2]. Third, in terms of the investment and financing system, local governments have a single financing method and source of funds, lack of budget "soft constraints", and the use of debt funds is inefficient [3]. Other factors such as intergovernmental competition [4], population aging [5], digital finance [6], etc. will also affect the formation of debt risk. For the research and measurement of debt risk, scholars generally construct the KMV model to conduct empirical tests on local data. For example, Ni Xiaonan (2022) found that the general bond default probability of Huai’an city government is relatively high by constructing this model [7]. In order to prevent and control debt risks, Guo Chuanhui (2022) stated that debt information monitoring and disclosure should be strengthened, the quality of information disclosure should be improved, and multiple parties should participate in government debt supervision[8]; Liu Zhexi (2022) believed that government infrastructure supporting funds should be scientifically allocated, and Introduce an audit mechanism and implement heterogeneous cross-regional fund transfers between regions [9].

2.2. Fiscal Sustainability

Buiter (1985) first proposed the meaning of fiscal sustainability, that is, a state or ability to maintain fiscal operations. It can be understood that if the government can pay off debts in time, then the fiscal performance will be sustainable [10]. Domestic and foreign research on fiscal sustainability tends to focus on measurement and evaluation methods. There are two commonly used evaluation methods, one is to measure the level of local fiscal sustainability through a single measure of fiscal sustainability or by constructing a comprehensive evaluation index system. Liu Jianmin, Xue Yan (2022) selected 12 indicators from the three dimensions of fiscal revenue stability, fiscal expenditure rationality, and fiscal risk controllability to build an evaluation index system for county-level fiscal sustainable development in Hunan Province. For 122 county-level units The level of financial sustainable development is evaluated, and the analysis shows that the local finance is in a weak sustainable state [11]. However, due to the uncertainty of variables and the lack of consideration of individual differences, the academic community generally believes that the rigor of the indicator method is low.

Another test method is to construct the budget constraint equation, and judge whether the relevant indicators meet the financial sustainability standard by solving it. Barro (1979) used the single-period basic budget constraint model for the first time, and proved that equal fiscal revenue and expenditure is a sufficient condition for realizing the sustainability of debt scale [12]. On this basis, McCallum (1984) put forward a new condition for achieving sustainability, that is, the growth rate of debt is not always higher than the growth rate of disposable income [13]. Hamilton and Flavin (1986) conducted cointegration tests on time series and empirically analyzed the government debt convergence path based on intertemporal budget constraints [14]. The research results confirmed McCallum’s conclusion. In this direction, Bohn (1995, 1998, 2005) established a fiscal response function to test fiscal sustainability, and believed that a positive correlation between the fiscal surplus ratio and the debt ratio can meet the conditions
of intertemporal budget constraints, and thus the fiscal sustainability [15]. Later, many scholars continued to use the above-mentioned ideas to conduct co-integration tests on the government’s actual debt burden or government fiscal revenue and expenditure, such as Zhou Maorong (2007) [16], Zhu Jun (2014) [17], Jin Chunyu (2018) [18], etc. The overall test tool empirically measures the financial sustainability level, and proposes an optimization path based on the test results.

2.3. **The Impact of Local Debt on Fiscal Sustainability**

Government debt is an important policy tool for local governments to achieve economic growth, but there is not always a positive relationship between it and economic growth, that is, the benefits of local debt to economic growth are limited. Before the local debt reaches the optimal scale, the government's issuance of bonds is conducive to the deployment of social funds, making up for the gap in fiscal expenditure in the short term, and conducive to maintaining fiscal sustainability. The overall performance is positive growth in benefits. Once the government debt exceeds a certain threshold, the government will increase the scale of bond issuance, which will exacerbate the imbalance of fiscal revenue and expenditure [19], increase the pressure of debt risk prevention and control, negative growth in benefits, and fiscal unsustainability.

The existing literature pays more attention to the study of national fiscal sustainability, less consideration is given to the differences in economic development and financial conditions among regions, and there is a lack of fiscal longitudinal research that combines practice and theory and focuses on debt and fiscal sustainability. Specifically for Anhui Province, there are relatively few existing literatures on the sustainable development of its finance and debt. Based on the actual development of Anhui Province, this paper studies the status quo of fiscal revenue and expenditure and local liabilities from vertical and horizontal perspectives, and based on previous research, builds an intertemporal budget constraint model to test the co-integration relationship between fiscal revenue and expenditure, and empirically analyzes Sustainability of local finance, providing local governments with fiscal policy recommendations in line with local development.

3. **Development Status of Financial Revenue and Expenditure and Local Debt in Anhui Province**

According to traditional government finance and debt-related theories, the level of local government debt and its fiscal sustainability are often affected by factors such as local economic development, the balance of fiscal revenue and expenditure, and the scale of debt. This paper analyzes the financial revenue and expenditure of Anhui Province vertically, and selects the two indicators of liability ratio and debt rate of five surrounding provinces horizontally to further study the sustainable situation of local government debt and more accurately evaluate the risk level of local debt.

3.1. **Current Status of Fiscal Revenue and Expenditure**

Fiscal revenue is the basis of fiscal expenditure and the source of financial resources consumed by the government to perform various functions. Stable and sufficient fiscal revenue is also an important guarantee for sustainable fiscal development. The absolute amount of financial revenue in Anhui Province has shown a trend of increasing year by year, from 207.5 billion yuan in 2013 to 358.9 billion yuan in 2022, an increase of 1.7 times, indicating that the rapid economic and social development in the past ten years has brought financial revenue to Anhui Province. Positive external effects; From the perspective of the growth rate of fiscal revenue, the growth rate of fiscal revenue in Anhui Province has been fluctuating in the past ten years. From 2013 to 2020, it showed an overall slowdown trend. With the emergence of the new
crown epidemic, the growth momentum of fiscal revenue and income is insufficient, and there has been an obvious economic shutdown. In 2021, Anhui Province’s economy will continue to recover steadily, commodity market transaction prices will rise, and the trend of restorative growth in fiscal revenue will be obvious. In 2022, Anhui Province will strictly implement the policy of stabilizing the economy, implement the new policy of reducing taxes and fees from the central government, add a total of 127.69 billion yuan in new tax reductions and fee reductions, and the general public financial budget revenue will reach 358.9 billion yuan, an increase of 9.9% over the previous year. It has played an important role in stabilizing the expectations of market players, stabilizing the employment of social players and the fundamentals of economic and social development.

Data source: compiled according to "Anhui Statistical Yearbook".

Figure 1. 2013-2022 Financial Revenue and Expenditure of Anhui Province

Continuously expanding the scale of fiscal expenditure will destroy the balance of fiscal revenue and expenditure and affect the realization of fiscal sustainability goals. In recent years, the absolute amount of financial expenditure in Anhui Province has been rising. In 2013, the general public budget expenditure was 435 billion yuan, and it rose to 837.9 billion yuan in 2022, an increase of 402.9 billion yuan in ten years. The fiscal expenditure has grown rigidly. From the perspective of expenditure growth, the growth rate of fiscal expenditure in Anhui Province fluctuates greatly. In 2019, the growth rate of fiscal revenue continued to decline. On the contrary, the growth rate of fiscal expenditure is growing positively. The gap between the two has reached the highest level in recent years. In 2020, with the impact of the epidemic and the global economy entering a downturn, the growth rate of fiscal expenditure will drop sharply, only 1.1%. In the future, although the growth rate of fiscal revenue and fiscal expenditure both showed an upward trend, the expansion of the active fiscal policy gradually made the growth rate of fiscal expenditure significantly exceed the growth rate of income, and the gap between fiscal revenue and expenditure continued to widen unexpectedly, hindering fiscal sustainability Ongoing implementation process.

3.2. Current Status of Local Debt

Liability ratio, as one of the commonly used indicators in academic circles to study local government debt issues, can not only reflect the relationship between local debt and GDP, but also effectively measure the sustainable level of local debt. In 2022, the central government approved the debt limit of Anhui Province to be 11,437.1 billion yuan. The actual debt balance of Anhui for the whole year reached 1,330.41 billion yuan, with a debt ratio of 29.5%. Although
there is still a certain distance from the international warning line of 60%, a horizontal comparison with neighboring provinces, the debt ratio of Anhui Province is higher than that of the five surrounding provinces, especially compared with Jiangsu, which has a relatively high level of economic development, the debt ratio of Anhui Province is nearly twice that of Jiangsu Province. Judging from this data, the debt ratio basically exhibits characteristics that deviate from the level of economic development. The higher the level of regional economic development and the more stable the fiscal revenue, the greater the protection of the actual utilization efficiency of debt. Therefore, compared with Anhui, Jiangsu The province's overall debt ratio is low. However, due to factors such as geographical location, resource endowment conditions, and policy orientation, Anhui Province's regional economic development is at a relatively backward level, the government's debt problem is prominent, and the test of fiscal sustainability is even more severe.

Data source: Calculated based on provincial economic operation bulletins and financial budget and final account reports.

**Figure 2.** Local government liability ratio in 2022 in some regions

The debt rate is also considered to be an indicator that can directly measure the debt problem. This indicator is mainly used to measure the local government's control over the debt repayment ability. The lower the debt ratio, the stronger the government's repayment ability, which can make up for it to a certain extent. The debt ratio cannot reflect the relevant situation of debt repayment. In 2022, the debt ratio of Anhui Province will reach 123%, which is in the middle level among the debt ratio rankings of its surrounding provinces. The debt ratio of Shandong Province will be the first, reaching 138.2%. Previously, the National People's Congress made a resolution clearly stating that the risk warning value of local government debt ratio is 100%, which means that the debt balance of each locality cannot exceed the comprehensive financial strength of the region. The debt ratios of Shandong, Hubei, Henan, Anhui and Zhejiang have obviously exceeded the warning standard, indicating that the current economic development of local governments is generally driven by debt, there is a certain gap in finance, and the economy is not developing in a healthy and healthy way. In general, with the increasing downward pressure on the economy and the slowdown in the growth rate of fiscal revenue, Anhui Province as a whole is facing great debt pressure. The insufficient fiscal revenue must not only meet the needs of fiscal expenditures, but also plan funds well. The risks to fiscal sustainability in repaying accumulated debt cannot be underestimated.
Data source: Calculated based on provincial economic operation bulletins and financial budget and final account reports.

Figure 3. Local government debt rate in 2022 in some regions

4. Empirical Testing and Result Analysis

4.1. Model Setting

This paper builds an intertemporal budget constraint model to test the strength of Anhui’s fiscal sustainability. The theory of intertemporal budget constraints allows the government to run a deficit in a certain period of time, but the government budget can be satisfied in a long enough period in the future, that is, the actual value of existing debt must be equal to the discounted value of future government budget surplus. Based on the accounting perspective, the theory is expressed by the accounting identity of government revenue and expenditure as follows:

\[ FE_t + (1 + r_t)B_{t-1} = FR_t + B_t \]  

(1)

In formula (1), \( FE_t \) represents the fiscal expenditure deducted from debt interest payments, \( B_t \) represents the debt accumulated in period \( t \), \( FR_t \) represents fiscal revenue, and \( r_t \) represents the actual interest rate of debt. Transpose the above accounting identity:

\[ B_t = (FE_t - FR_t) + (1 + r_t)B_{t-1} \]  

(2)

Under normal circumstances, the government can exist indefinitely and maintain normal operation, and the following budget constraint model can be obtained by successive iterations according to time sequence.

\[ B_t = \sum_{n=1}^{\infty} \frac{FR_{t+n}-FE_{t+n}}{\prod_{i=1}^{n}(1+r_{t+i})} + \lim_{n \to \infty} \prod_{i=1}^{n} \frac{B_{t+n}}{(1+r_{t+i})} \]  

(3)

The intertemporal budget constraint theory needs to satisfy the non-Ponzi game conditions, and the present value of future debt must converge to 0, that is, \( \lim_{n \to \infty} \prod_{i=1}^{n} \frac{B_{t+n}}{(1+r_{t+i})} = 0 \), so the debt stock of the government in any period in the future will be equal to the present value of the current fiscal surplus. In this sense, it can be understood as fiscal sustainability. In practical tests, the above models cannot be directly used for the test of fiscal sustainability, and formula (1) needs to be transformed algebraically. Assuming that the real interest rate maintains a stable process with an average value of \( r \), there is \( FE_t = FE_t + (r_t - r)B_{t-1} \), and then the present value constraints of government loans are obtained:

\[ B_{t-1} = \sum_{n=0}^{\infty} \frac{FR_{t+n}-FE_{t+n}}{(1+r)^{n+1}} + \lim_{n \to \infty} \frac{B_{t+n}}{(1+r)^{1+n}} \]  

(4)
Convert the variables in the above formula according to the nominal GDP variable, set $G_t$ to be the nominal GDP in the t-th year, and $g_t$ to be the real growth rate of the GDP in the t-th year. Assuming that the real GDP growth rate $g_t$ also remains constant, that is, $g_t = g$, the budget constraint model can be transformed into the following form:

$$b_{t-1} = \sum_{n=0}^{\infty} \left( \frac{1+g}{1+r} \right)^{1+n} (\vartheta_{t+n} - \varphi_{t+n}) + \lim_{n \to \infty} b_{n+s} \left( \frac{1+g}{1+r} \right)^{1+n}$$  \hspace{1cm} (5)

Among them, $b_t = \frac{B_t}{G_t}$, $\vartheta_{t+n} = \frac{E_t}{G_t}$, $\varphi_{t+n} = \frac{FR_t}{G_t}$. According to the above non-Ponzi game conditions, the limit value on the right side of the equation is 0, and this condition can be brought into equation (5) to get:

$$b_{t-1} = \sum_{n=0}^{\infty} \left( \frac{1+g}{1+r} \right)^{1+n} (\vartheta_{t+n} - \varphi_{t+n})$$  \hspace{1cm} (6)

Based on the above derivation, we can first conduct a unit root test on the debt stock after GDP conversion, and then conduct a co-integration test on the fiscal surplus converted from GDP and the subsequent debt stock, and then judge fiscal sustainability.

Based on the above intertemporal budget constraints, there is also an empirical method to test the co-integration relationship of fiscal revenue and expenditure to determine whether government finance is sustainable. Assuming that the total government expenditure is $TE_t = FE_t + rB_{t-1}$, and the joint equation $E_t = FE_t + (r_t - r)B_{t-1}$, the intertemporal budget constraint equation is obtained as follows;

$$TE_t - FR_t = \sum_{n=0}^{\infty} \frac{(\Delta FE_{t+n} - \Delta E_{t+n})}{(1+r)^{n-1}} + \lim_{n \to \infty} \frac{\Delta B_{t+n}}{(1+r)^{1+n}}$$  \hspace{1cm} (7)

The above equation requires the first-order difference between $TE_t$ and $FR_t$ to be stable and first-order integrated. The test of financial sustainability is transformed into judging whether there is a co-integration relationship between $TE_t$ and $FR_t$. If there is long-term cointegration, fiscal sustainability exists. The cointegration equation is expressed as:

$$TE_t = \alpha + \beta FR_t + \mu_t$$  \hspace{1cm} (8)

When $\beta = 1$, the government finance has strong sustainability; when $0 < \beta < 1$, the government fiscal sustainability is weak; when $\beta < 0$, the government finance is not sustainable.

### 4.2. Description of Variables and Data

This paper selects the annual data of Anhui Province’s fiscal revenue and expenditure and Gross Regional Product (GRP) from 2002 to 2022 for empirical analysis. All the data come from the "Anhui Statistical Yearbook". Due to the adjustment of the statistical caliber of fiscal revenue in the "Anhui Statistical Yearbook" from 2021, in order to unify the measurement indicators to ensure the validity of the empirical analysis, this paper uses the sum of tax revenue and non-tax revenue as the basis for fiscal revenue measurement, accounting for fiscal revenue. The ratio of GRP is defined as $frev$, and the proportion of fiscal expenditure in GRP is defined as $pfe$, and then the financial sustainability of Anhui Province is analyzed. According to the regression equation of cointegration test $TE_t = \alpha + \beta FR_t + \mu_t$, this paper sets the following models to be tested:

$$frev_t = \alpha + \beta pfe_t + \mu_t$$

### 4.3. Unit Root Test

In order to avoid the "pseudo-regression" phenomenon caused by the time series in the regression analysis, it is necessary to conduct a stationarity test on the financial expenditure and fiscal revenue before the co-integration test. By observing the time series diagram of
variables, it is found that there is a certain trend in the sequence, so this paper chooses the existence of both constant items and time trend items for empirical testing.

<table>
<thead>
<tr>
<th>Table 1. ADF test results</th>
</tr>
</thead>
<tbody>
<tr>
<td>variable</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>$frev_t$</td>
</tr>
<tr>
<td>$\Delta frev_t$</td>
</tr>
<tr>
<td>$pfe_t$</td>
</tr>
<tr>
<td>$\Delta pfe_t$</td>
</tr>
</tbody>
</table>

Note: (c, t, n) is the form of ADF test, where c means with a constant term, t means with a trend term, n is the number of lag periods, determined by the SIC criterion, "*" means a significant level of 5%, $\Delta$ represents the first-order difference.

According to the test results in Table 1, the original data variables of Anhui Province, the fiscal revenue ratio $frev$ and the fiscal expenditure ratio $pfe$, are both non-stationary, and they are stable after the first-order difference, which are recorded as $I(1)$ integrated sequences. At the 5% significance level, the two variables are integrated at the same order, and it is possible to further test whether there is a co-integration relationship between the variables.

4.4. Cointegration Test

Since the measurement test in this paper is a small sample test and only contains two variables, the E-G co-integration test method is selected to test whether the time series is co-integrated. First, the ordinary least squares method (OLS) is used to perform regression analysis on the two columns of data $frev$ and $pfe$, and the regression equation is established, and the following results are obtained:

$$frev_t = 0.468158pfe_t - 0.003196$$

$$(0.004518)(0.024686)$$

$t = (-0.707299)(18.96426)$

$$R^2 = 0.949821 \quad \bar{R}^2 = 0.94718 \quad F = 359.6432 \quad DW = 1.2609$$

Secondly, the assumption that there is a unit root in the residual sequence is put forward, and the ADF test is performed on the residual sequence $\varepsilon_t$ obtained from the regression equation, and there is neither a trend item nor a constant item. The test results are as follows:

<table>
<thead>
<tr>
<th>Table 2. Test results of residual stationarity</th>
</tr>
</thead>
<tbody>
<tr>
<td>variable</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>$\varepsilon_t$</td>
</tr>
</tbody>
</table>

At the 5% significance level, the ADF statistic of the residual sequence $\varepsilon_t$ is less than the corresponding critical value, and the null hypothesis is rejected. Therefore, there is no unit root in the residual sequence, that is, the stationary sequence $I(0)$, the variable $frev$ and the variable $pfe$. There is a co-integration relationship between them, and there is a long-term stable equilibrium relationship between fiscal revenue and fiscal expenditure. It can be seen from the regression equation that the adjusted coefficient of determination reaches 0.9472, the model fit is high, and the co-integration coefficient $\beta$ is 0.4682, which satisfies $0<\beta<1$, indicating that the financial sustainability of Anhui Province is weak.
4.5. **Analysis of Empirical Results**

From the perspective of fiscal revenue and expenditure balance, the long-term co-integration relationship between income and expenditure is a necessary condition for satisfying intertemporal budget constraints. The empirical results show that under the "new normal" of the economy, there is financial sustainability in Anhui Province, but it generally reflects a weak state. Combined with the previous analysis of the current situation, the slowdown in fiscal revenue growth and high debts make the current financial situation of Anhui Province severe. Although the co-integration analysis does not specifically show the pressure that debt accumulation has brought to Anhui’s finances, the potential budget management Institutional problems such as inappropriateness and uncontrollable debt risks, as well as structural problems such as social security will likely break this co-integration relationship in the foreseeable future. Under my country’s current fiscal and taxation system, excess local power and scarce financial resources form a contradiction in the management of grassroots governments. On the surface, local governments control financial autonomy, but in reality they are required to meet excessive expenditure needs with limited financial resources, this fiscal imbalance makes it difficult to effectively control the balance of fiscal revenue and expenditure, and the fiscal deficit is showing a trend of gradually expanding unexpectedly, so local governments have to raise debt for financing. Financing happens frequently. Fiscal sustainability will be severely damaged if the problem of defaulting on debt due to expanding funding needs is not substantially resolved. Based on reality, although Anhui Province is located in East China, its resource endowment conditions are poor, and the location factors for industrial development are also limited, making it difficult for the economy to develop efficiently. At the same time, in response to the positive fiscal policy and tax and fee reduction policies, on the one hand, the government has expanded the scale of bond issuance to strengthen local economic construction and stimulate local economic development; on the other hand, preferential tax policies have reduced local government fiscal revenue. The gradual scarcity of financial resources has reduced the solvency of government debt and the ability to guarantee credit, and the risk of government debt default will further increase.

5. **Policy Recommendations**

5.1. **Improving My Country's Local Taxation System**

Taxation is the main source of government fiscal revenue. Improving the local taxation system can enhance the government’s fiscal revenue capacity, ease the pressure on fiscal revenue and expenditure, and improve the fiscal sustainability of local governments. On the one hand, on the basis of giving full play to the effectiveness of shared taxes such as value-added tax, local governments have promoted further reforms such as property tax and consumption tax, and explored the establishment of local main tax categories. The provincial government can also cultivate a new economy and develop new industries based on its own resources, promote the transformation and upgrading of existing industries to high-quality high-tech fields, vigorously explore, cultivate and maintain high-quality tax sources, and create new growth points for local government tax revenue. On the other hand, the government should improve the local tax protection mechanism, increase the investigation and punishment of tax evasion and other illegal activities, and at the same time deepen the local tax collection and management system, reduce unnecessary costs in the tax collection and management process, and improve the level and efficiency of the current tax collection and management work, to ensure no loss of tax revenue.
5.2. Reform the Financial Management System

My country's current fiscal system is less systematic and standardizes the distribution of powers and financial powers between the central and local governments. The reform of the tax-sharing system has resulted in the situation of "money powers up and powers down" which makes it impossible for local governments to effectively control the balance of fiscal revenue and expenditure. The problem of the expenditure gap has increased the risks to fiscal sustainability. Based on this, it is necessary to deepen the distribution of powers and responsibilities between the upper and lower governments, and clarify the scope of expenditure responsibilities that each needs to bear. Fiscal power can achieve the goals required by the expenditure responsibility and ensure the long-term stable balance of local government fiscal revenue and expenditure. At the same time, efforts should be made to improve the transfer payment system. The central government should further reduce the special transfer payment funds with clear purposes and increase the amount of general transfer payment. Livelihood projects. Local governments should also consider appropriately reducing their dependence on higher-level transfer payments to achieve sustainable regional financial development.

5.3. Establish an Early Warning Mechanism for Local Debt Risks

Building an appropriate debt risk prevention system requires local governments to take future development and construction needs as indicators, comprehensively consider the matching degree of regional economic development level, fiscal revenue level, debt repayment ability and bond issuance scale, standardize the measurement standards of possible hidden risks, and scientifically set Risk early warning value, strengthen all-round risk dynamic monitoring and forecasting, make hidden risks explicit and possible risks direct. Strict approval and effective management and control are carried out for some projects with high potential competitiveness in the market and the breeding of bad behavior, formulate risk resolution plans, and avoid risks in advance.

5.4. Constructing a Scientific Debt Management System

The core of fiscal sustainability is the debt issue. The previous analysis pointed out that the current overall debt ratio in Anhui Province is relatively high. In order to alleviate the debt pressure, the government should establish a scientific debt management system, standardize the form of local debt, strengthen the governance of local hidden debt, and promote the realization of fiscal sustainable. First of all, it is necessary to standardize the government debt financing mechanism. On the one hand, due to the different solvency of local governments, the debt repayment period is also different, so it is necessary to classify government debts reasonably. On the other hand, it is necessary to strengthen the restraint of local borrowing, limit the scale of borrowing and the use of funds, etc., clarify the flow of debt funds, and make them invest more in areas with strong publicity and externalities. And implement performance management on local government debt to ensure the efficiency of fund use and maximize the effectiveness of government debt. Second, implement the responsibilities of local officials. When the main leaders are in office, implement the accountability system for their inappropriate financial decision-making behaviors to prevent them from borrowing on a large scale to develop the local economy due to short-term performance projects; after the government cadres leave office, they strictly review, analyze and evaluate the economic business during the entire working time The results of the fulfillment of responsibilities and strengthen the management of local cadres. Finally, it is necessary to properly disclose debt information, improve the transparency of government debt behavior, allow the public to participate in debt supervision, and effectively protect the public's right to know and supervision.
Acknowledgments

Anhui University of Finance and Economics undergraduate scientific research innovation fund project support (XSKY22045ZD).

References


