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The financial value of the within-government political network: Evidence from Chinese municipal corporate bonds

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Abstract

This paper examines the effect of the political network of Chinese municipal leaders on the pricing of municipal corporate bonds. Using municipal leaders' working experience to measure the political network, we find that this network improves the credit ratings of the issuer, local government financing vehicles, reducing their issuance yield spreads. The relationship between political networks and issuance yield spreads is strengthened in areas where financial markets and legal systems are less developed.

Keywords: Political Network, Guanxi, Local Government Financing Vehicles, Municipal Corporate Bonds, Credit Risk

JEL: G12, G14, G28, H74

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1. Introduction

The impact of political connections on financial markets is a heavily studied topic in academia (Agrawal and Knoeber, 2001; Khwaja and Mian, 2005; Claessens et al., 2008; Boubakri et al., 2008, 2012; Butler et al., 2009; Duchin and Sosyura, 2012; Kusnadi, 2019; Klusak et al., 2020). In particular, research using Chinese data has received much attention because China is a relation-centered society, and guanxi (personal networks in Chinese) plays a crucial role in lubricating business and helping companies compete for resources in both the private and public sectors (Park and Luo, 2001; Li et al., 2008; McNally, 2011; Tsai et al., 2019; Li and Jin, 2020; Gao et al., 2020).

Unlike previous studies that have mostly focused on the connection between the government and corporations, this paper examines political networks within the Chinese government. Specifically, we investigate whether Chinese municipal leaders' political networks, measured by their working experience in upper-level (provincial or central) governments, affect the issuance pricing of municipal corporate bonds (MCBs). The seemingly contradictory term "MCB" comes from the fact that although these bonds are issued by a nongovernment entity called the local government financing vehicle (LGFV) in

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a strict legal sense, they are implicitly backed by municipalities. For this reason, we hypothesize that MCBs are highly susceptible to municipal leaders' political networks when securing financial resources to avoid default.

Using the hand-collected data of municipal leaders' working experience, we find that the political network reduces the credit risks of LGFVs and their issuance yield spreads. To alleviate endogenous concerns, we use the subsample of the municipalities that have experienced changes in the network status (i.e., gain or loss of political connection) during our sample periods and a propensity score-matched sample. The results from the two alternative samples remain robust to the potential selection biases. We also employ a policy change that attempts to remove the implicit guarantee and find that MCB issuance yield spreads are still significantly negatively associated with the political network. Further analyses show that in regions where financial markets and legal systems are less developed, the political network has a stronger effect on the issuance yield spreads of MCBs.

This paper contributes to the literature on MCBs and Chinese shadow banking by adding a dimension of political connection (Liu et al., 2017; Chen et al., 2020).[1] Given that the risk profile of off-balance-sheet financial products is inherently more obscure, noneconomic factors such as political power will presumably play additional roles in the issuance pricing of shadow banking products. Our findings support this presumption.

2. Institutional Background

The LGFV and MCBs have interesting policy backgrounds and are the keys to understanding concerns regarding the mounting debt of China's local governments (Chen et al., 2020). The birth of the LGFV has primarily been attributed to the tax-sharing system reform and budget law that were enacted in 1994, which reallocated a large portion of tax revenue from local governments to the central government and prohibited local governments from issuing debt. In response, local governments started using the LGFV to finance large infrastructure development off their balance sheets. The use of the LGFV exploded in 2009 as a vital channel for implementing the four-trillion-yuan economic stimulus package to cope with the economic slowdown after the 2008 global financial crisis. As the main target of the stimulus was local infrastructure development, the central government encouraged municipal governments to use LGFVs, circumventing the 1994 budget law. An MCB is a bond issued by a LGFV and, along with a bank loan, is a primary source of LGFV funding. In particular, local governments started heavily issuing MCBs in 2012 to refinance mature bank loans (Chen et al., 2020).

Due to the above background and China's long history of a centrally planned economy, it is not surprising that investors widely believe that the government will bailout the LGFV in the case of default

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[1]Gao et al. (2020) is one of a few exceptions that uses political connection, but they focus on the bank loan of LGFVs rather than MCB. Qian (2018) investigates the effect of the anti-corruption campaign on the LGFVs and MCBs, but reports insignificant impact on the yield spread.

and consider MCBs safe. However, which government (i.e., municipal, provincial, or central) is liable for the MCB issued by the municipal LGFV and to what extent it is liable are unclear. In fear of the growing risk of LGFVs and the government's guarantee being taken for granted, the State Council issued Article No. 43 in 2014 to prohibit local governments from raising debt via LGFVs and providing a guarantee for existing LGFV debt. Although the article's effect was virtually negated by the subsequent orders due to debt rollover pressure[2], it is an important regulation change to test the persistence of the political network's impact.

Therefore, how government bailout expectations are reflected in MCB pricing is an ongoing research question. Ang et al. (2018), assuming that the central government eventually backs MCBs, focus on macroeconomic variables. Liu et al. (2017) argue that the fiscal conditions of the municipal (and provincial to some extent) government became important pricing determinants after the first LGFV default in 2011. In line with this research, we investigate municipal leaders' political network.

3. Data

We collect the yield data of 1,552 MCBs issued by 217 municipalities between 2009 and 2017 from the WIND database. Although MCBs are also issued by provinces, we focus on municipal MCBs, as we are concerned with upward political connections. We collect the yield of China Development Bank (CDB) bonds or Chinese government bonds with the same maturity to measure MCB issuance yield spread. We construct municipal leaders' political network by manually collecting information from the People's Republic of China Official Records, People's Daily, and Xinhuanet. Specifically, municipal leaders form the political network ($Network = 1$) if the municipal Communist Party Committee Secretary has experience working for (1) the central or provincial government, (2) the central or provincial People's Congress, or (3) the central or provincial People's Political Consultative Conference. The People's Congress is China's law-making body, and the People's Political Consultative Conference has official advisory powers. Otherwise, the leader has no political network ($Network = 0$). Our sample includes 329 municipal leaders from related municipalities.

We consider variables for macroeconomic conditions (1-year Chinese government bond yield, PMI, M2, CPI, and stock market index) and local economic conditions (municipal-level GDP per capita, municipal government financial soundness, marketization index, and legalization index) to control for the issuing price of MCBs. We also control for issuer characteristics (size, leverage, ROE, growth rate of operating revenues, and solvency rate), leader characteristics (age and education) and bond characteristics (issuance amount, maturity, external guarantee, and credit ratings). See Table A1 for the list of control variables and their source.

Table 1 reports the descriptive statistics of key variables for a full sample and a propensity score-

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[2]In fact, MCB issuance increased after Article No. 43.

matched sample. To mitigate a potential endogeneity concern, we use the propensity score matching method. Specifically, we predict the probability of a municipality being politically networked using local economic conditions and issuer and leader characteristics. Then, we match each issuance observation in a politically-networked municipality with the one in a non-networked municipality without replacement. The matched sample includes 638 bonds issued under political network and 638 bonds issued under no network.

Panel A of Table 1 provides comparisons of various characteristics for subsamples by network and shows that the characteristics of municipality with political network differ substantially from those without network in various dimensions, which suggests that unobservable omitted variables may influence on both political network and other issue characteristics. After propensity score matching, the descriptive statistics are presented in Panel B of Table 1. Most of the significant mean differences across politically networked and non-networked issues become small and insignificant, alleviating selection bias concerns.

4. Empirical Results

We first analyze the impact of the political network on the issuance yield spread of MCBs as follows:

$$YS = \beta_0 + \beta_1 Network + \gamma Control + \varepsilon, \tag{1}$$

where YS refers to the issuance yield spread of an MCB. Network is the political network of the leader in the municipality, where the focal MCB is issued. $Control$ includes the control variables for economic conditions, the characteristics of municipalities, issuers (LGFVs), leaders, and bonds (MCBs), and the issuance year of MCBs. Network and all control variables are lagged in our analysis.

The results are reported in Table 2. First, using a full sample in Panel A, we find that municipal leaders' political network plays a significant role in reducing the issuance yield spreads of MCBs. On average, the municipalities with political network issues MCBs with yield 18 basis points lower than those without network. The results are robust to two alternative definitions of the yield spread, YS_{CDB} and $YS_{GovBond}$. The estimates of the other control variables are generally consistent with previous research (Liu et al., 2017). Notably, the yield spread is negatively correlated with the fiscal health of the LGFV ($Asset$) and municipality ($LocalFinancingGap$).

One may argue that the leader's political connection is endogeneous to the municipality characteristics that influence the MCB yield spread. In China, the municipal leaders are appointed by the Communist party and politically networked leaders may be favorably appointed to the municipalities whose fiscal condition is sound or going to improve. In fact, approximately a half of issue observations are from the municipalities where the network status remains unchanged through the leadership changes. Considering that one municipality has approximately seven party secretaries on average during our sample period, it suggests that the appointment is not purely random in location. To address this selection issues, we use the subsample of municipalities where there has been at least one transition of the leader's political

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network. Panel B shows that even after dropping the observations with potential selection bias, our results remain unaffected.

To further alleviate the potential selection bias, we reestimate our regression models with a propensity score-matched sample described in Table 1. After the matching, the non-networked municipalities are otherwise identical to the politically networked ones. Therefore, the endogeneity problem associated with the municipality characteristics can be reduced. Panel C shows that the significance and magnitude of the Network coefficient are barely changed. Together with the fact that the independent variable is lagged by a month, the findings suggest that the decrease in the MCB issuance yield spread in the politically networked municipality is neither driven by observable differences in municipalities nor by unobservable selection bias.

Next, to identify the channel of reduced issuance yield spreads, we employ a structural model for mediation analysis (Heckman et al., 2013; Heckman and Pinto, 2015). Using LGFVs' credit ratings as a mediator variable, we can infer the direct and indirect effects of the political network. Table 3 shows the following simultaneous equation analysis performed on the subsamples with network status changes (Panel A) and propensity score-matched sample (Panel B):

$$
\begin{aligned}
Credit &= \delta_0 + \delta_1 Network + \theta Control + \eta \\
YS &= \beta_0 + \beta_1 Network + \beta_2 Credit + \gamma Control + \varepsilon,
\end{aligned}
\tag{2}
$$

where $Credit$ is the credit rating of the LGFV who issues the MCB. Controls include the same variables used in Equation (1). The results are robust to the two sample sets. Specifically, Column (1) and (3) of each Panel shows that the political network significantly enhances the credit ratings of LGFVs. In Columns (2) and (4) of each Panel, the issuance yield spreads decrease with both the political network and credit ratings. Our results support the hypotheses that the political network enhances the credit ratings of LGFVs and that these enhanced credit ratings, in turn, serve as an effective channel for reducing the borrowing costs of municipalities. The standalone effect of the political network is still significant, and this implies that the political network can explain the MCB yield spreads beyond the effect of the credit improvement channel.

Finally, we examine the robust association between network and issuance yield spreads with the propensity score-matched sample in Table 4.[3] First, when the political network is decomposed into those with the central and provincial governments, we find that the network's impact on the issuance price of MCBs is mainly driven by the municipality–province connection in Column (1) of each Panel. This finding is not only intuitive but also consistent with Liu et al. (2017). Since the central government tries to reduce outstanding municipal MCBs by switching to more transparent municipal bonds issued by provinces, Liu et al. (2017) argue that the fiscal conditions of provinces have become important determinants of MCB

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[3]In untabulated tests, we use full and subsamples with changes in the network status for the robustness checks and find that our results are robust to the choices of the samples.

pricing. As the swap program is managed with strict provincial quotas, we naturally expect that the municipality-province connection will be a favorable element for securing the quota.

As an additional robust test, we examine whether heterogeneities across municipalities influence the political network's strength. We analyze the interaction between the political network and the marketization (legalization) index measuring municipal governments' development stage. Column (2) and (3) of each Panel show that the interaction terms have significantly positive coefficients, indicating that the influence of the political network is more pronounced in regions with less developed financial markets and legal systems. This finding is consistent with Xin and Pearce (1996) in that guanxi plays a larger role in the absence of institutional support. The negative standalone impacts of the indices on the issuance yield spreads are presumably due to the illiquid secondary market and higher issuance cost in these regions.

Finally, we examine whether there are significant differences in the political network's effect before and after Article No. 43 as an important regulation change. The Chinese government announced the regulation in September 2014 to prohibit LGFVs from being used as financing platforms and to end the relationship between LGFVs and local governments. The insignificant interaction term in Columns (4) of each Panel implies that the regulation has had little effect on the relationship between the political network and the issuance price of MCBs. Chinese investors seem to continue to value political network despite government's intention.

5. Conclusion

This study examines the impact of municipal leaders' political network on the issuance pricing of MCBs. Specifically, we analyze whether the political network can give more assurance to the MCBs issued by the associated LGFVs and find that the political network reduces the credit risks of these LGFVs, leading to a reduction in their issuance yield spreads. The network that matters for the borrowing cost of MCB is the connection to the provincial government, rather than to the central government. Furthermore, in regions where the market and legal systems are less developed, the political network has a stronger effect on the issuance yield spreads of MCBs. We also find evidence that Article No. 43, which was introduced to curb the "incorrect" investor perception of implicit guarantees on MCBs, has had little effect in that its introduction has not significantly changed the influence of the political network. Lastly, in spite of our best efforts, we acknowledge that the potential endogeneity concern between political network and the issuance pricing of MCBs may still remain. Employing an exogenous shock to lead the unexpected changes in municipal leaders' political network can overcome our limitation of the endogeneity issue and be fruitful in future work.

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Table 1: **Descriptive Statistics for Full Sample and Propensity Score-Matched Sample**

This table presents descriptive statistics of key variables for the full sample and propensity score-matched sample. The variables are defined in Table A1. The *t*-statistics of the differences in all variables between non-networked and networked groups are shown. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

| | Panel A: Full Sample | | | | | Panel B: Propensity Score-Matched Sample | | | | |
| | Without network | | With network | | | Without network | | With network | | |
Variables	Mean	Median	Mean	Median	Mean Diff	Mean	Median	Mean	Median	Mean Diff
Bond Variables										
Maturity	1.95	1.95	1.95	1.95	0.00	1.95	1.95	1.95	1.95	0.01
IssueAmounts	11.56	11.51	11.60	11.61	-0.04*	11.56	11.51	11.59	11.61	-0.03
Guarantee	0.26	0.00	0.24	0.00	0.02	0.27	0.00	0.24	0.00	0.03
Issuer Variables										
CurrentRatio	6.30	4.48	6.94	4.58	-0.63*	6.75	4.65	6.94	4.58	-0.19
EBITDA	0.20	0.10	0.17	0.08	0.03*	0.17	0.10	0.17	0.08	0.00
Leverage	39.91	40.08	40.86	41.33	-0.95	41.03	40.84	40.88	41.33	0.15
ROE	3.68	3.29	3.29	2.82	0.39***	3.46	3.14	3.31	2.83	0.15
Growth	29.47	6.29	27.30	9.04	2.17	28.79	4.56	27.61	9.37	1.18
Asset	14.05	14.02	14.22	14.17	-0.16***	14.18	14.14	14.21	14.15	-0.03
City Variables										
MunicipalGDP	10.62	10.57	10.72	10.72	-0.10***	10.68	10.67	10.71	10.72	-0.03
LocalFinancingGap	0.54	0.51	0.55	0.51	-0.01	0.54	0.52	0.55	0.52	-0.01
Leader Variables										
Age	3.98	3.97	3.96	3.97	0.01***	3.97	3.97	3.97	3.97	0.00
Education	1.96	2.00	2.12	2.00	-0.16***	2.05	2.00	2.10	2.00	-0.06
Observations	904		648			638		638		

Table 2: **The Impact of Political Network on Issuance Yield Spreads**

This table presents regression results of issuance yield spreads on political network. The results with full sample are reported in Panel A. In Panel B, we report the regression results for the subsample of municipalities with changes in the network status. The results with propensity score-matched sample are reported in Panel C. The dependent variable is issuance yield spreads and all independent variables are defined in Table A1. The t-statistics reported in parentheses are based on heteroscedasticity-robust standard errors clustered by municipality. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Panel A: Full sample		Panel B: With changes in network status		Panel C: PS-matched	
	YS_{CDB}	$YS_{GovBond}$	YS_{CDB}	$YS_{GovBond}$	YS_{CDB}	$YS_{GovBond}$
	(1)	(2)	(1)	(2)	(1)	(2)
$Network$	-0.187***	-0.181***	-0.187***	-0.183***	-0.182***	-0.171***
	(-4.06)	(-3.84)	(-2.87)	(-2.70)	(-3.81)	(-3.53)
$Maturity$	0.580**	0.548**	0.268	0.304	0.660**	0.636**
	(2.53)	(2.46)	(0.57)	(0.67)	(2.49)	(2.48)
$IssueAmounts$	-0.191***	-0.225***	-0.156*	-0.195**	-0.175***	-0.212***
	(-3.39)	(-3.77)	(-1.85)	(-2.16)	(-3.05)	(-3.38)
$Guarantee$	-0.102	-0.080	0.030	0.057	-0.122*	-0.093
	(-1.61)	(-1.30)	(0.33)	(0.64)	(-1.78)	(-1.39)
$CurrentRatio$	-0.001	-0.002	0.002	-0.000	-0.004	-0.005
	(-0.45)	(-0.71)	(0.42)	(-0.04)	(-1.44)	(-1.43)
$EBITDA$	0.056	0.045	0.016	0.023	0.131*	0.113
	(0.86)	(0.64)	(0.22)	(0.26)	(1.66)	(1.31)
$Leverage$	-0.001	-0.001	0.000	0.000	-0.001	-0.001
	(-0.47)	(-0.57)	(0.01)	(0.17)	(-0.53)	(-0.64)
ROE	-0.011	-0.007	-0.015	-0.012	-0.032***	-0.024**
	(-1.11)	(-0.70)	(-1.03)	(-0.81)	(-2.83)	(-2.01)
$Growth$	-0.000	-0.000	0.000	0.000	-0.000	-0.000
	(-0.43)	(-0.56)	(0.93)	(1.09)	(-1.04)	(-1.03)
$Asset$	-0.147***	-0.125***	-0.201***	-0.184***	-0.167***	-0.140***
	(-3.35)	(-2.73)	(-3.08)	(-2.72)	(-3.78)	(-2.92)
$MunicipalGDP$	0.043	0.033	-0.009	-0.027	0.058	0.048
	(0.74)	(0.57)	(-0.12)	(-0.35)	(0.93)	(0.77)
$LocalFinancingGap$	-0.531***	-0.512***	-0.334	-0.324	-0.515***	-0.489***
	(-3.55)	(-3.36)	(-1.44)	(-1.33)	(-3.18)	(-2.96)
Age	-0.290	-0.366	-0.924*	-0.997*	-0.205	-0.334
	(-0.82)	(-1.01)	(-1.70)	(-1.77)	(-0.50)	(-0.79)
$Education$	-0.004	-0.018	0.066*	0.054	0.020	0.009
	(-0.11)	(-0.53)	(1.70)	(1.33)	(0.51)	(0.24)
PMI	0.076**	0.048*	0.073	0.041	0.033	0.015
	(2.49)	(1.72)	(1.41)	(0.85)	(0.89)	(0.41)
$M2$	-0.064**	-0.059**	-0.094***	-0.094***	-0.051**	-0.043*
	(-2.58)	(-2.43)	(-2.60)	(-2.71)	(-1.99)	(-1.69)
CPI	0.304***	0.391***	0.378**	0.480***	1.028***	0.965***
	(2.83)	(3.64)	(2.37)	(3.06)	(4.89)	(4.94)
$Stock$	-0.000	-0.000	-0.000	-0.000	0.000	-0.000
	(-0.28)	(-0.36)	(-0.81)	(-0.71)	(0.06)	(-0.14)
$1YrTreasury$	-0.287***	-0.127***	-0.255***	-0.095	-0.188***	-0.034
	(-5.86)	(-2.61)	(-4.04)	(-1.57)	(-3.20)	(-0.58)
Constant	-27.247***	-34.090***	-30.722**	-38.686**	-99.914***	-91.735***
	(-2.65)	(-3.30)	(-2.02)	(-2.57)	(-4.84)	(-4.80)
r^2_{adj}	0.532	0.620	0.516	0.607	0.496	0.591
Observations	1,552	1,552	733	733	1,276	1,276

Table 3: **Mediation Analysis with Credit Risk**

This table presents the impacts of credit risks on the relationship between the political network and issuance yield spreads with subsample with changes in the network status and propensity score-matched sample. We present the results of mediation analysis with credit rating scores. The dependent variable is issuance yield spreads and all independent variables are defined in Table A1. The t-statistics reported in parentheses are based on heteroscedasticity-robust standard errors clustered by municipality. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Panel A: Subsample with changes in network status				Panel B: PS-matched sample			
	$Credit$	YS_{CDB}	$Credit$	$YS_{GovBond}$	$Credit$	YS_{CDB}	$Credit$	$YS_{GovBond}$
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
$Network$	0.12***	-0.13**	0.12***	-0.12*	0.18***	-0.09**	0.18***	-0.08*
	(2.62)	(-2.13)	(2.63)	(-1.93)	(5.17)	(-2.10)	(5.20)	(-1.82)
$Credit$		-0.42***		-0.44***		-0.53***		-0.54***
		(-7.64)		(-7.86)		(-11.61)		(-11.27)
$Control_{Bond}$	No	Yes	No	Yes	No	Yes	No	Yes
$Control_{Issuer}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{City}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{Leader}$	No	Yes	No	Yes	No	Yes	No	Yes
$Control_{Macro}$	No	Yes	No	Yes	No	Yes	No	Yes
$Control_{Year}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	733	733	733	733	1,276	1,276	1,276	1,276

Table 4: **Political Network and Issuance Yield Spreads: Robustness**

This table presents the relationship between political connections and issuance yield spreads with propensity score-matched sample. The dependent variable is issuance yield spreads and all independent variables are defined in Table A1. The t-statistics reported in parentheses are based on heteroscedasticity-robust standard errors clustered by municipality. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Panel A: YS_{CDB}				Panel B: $YS_{GovBond}$			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
$Network_{Province}$	-0.19***				-0.18***			
	(-3.90)				(-3.66)			
$Network_{Central}$	-0.04				-0.01			
	(-0.27)				(-0.04)			
$Network$		-0.19***	-0.19***	-0.19***		-0.18***	-0.18***	-0.18***
		(-4.26)	(-4.07)	(-3.41)		(-3.87)	(-3.71)	(-2.97)
$Network \times Market$		0.06**				0.06**		
		(2.60)				(2.21)		
$Market$		-0.10***				-0.10***		
		(-5.05)				(-4.95)		
$Network \times Legal$			0.02***				0.02**	
			(3.16)				(2.52)	
$Legal$			-0.02***				-0.02***	
			(-3.71)				(-3.07)	
$Network \times$ No.43				0.02				0.01
				(0.27)				(0.14)
No.43				-0.23				-0.70***
				(-1.42)				(-4.29)
$Control_{Bond}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{Issuer}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{City}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{Leader}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{Macro}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$Control_{Year}$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
r^2_{adj}	0.497	0.510	0.503	0.498	0.592	0.601	0.595	0.608
Observations	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276

Table A1: **Variable Definitions**

Variable Name	Definition	Sources
YS_{CDB}	Yield difference between MCB and CDB bond with the same maturity	WIND
YS_{GBond}	Yield difference between MCB and Chinese government bond with same maturity	WIND
Network	Dummy variable equal to 1 if the municipal secretary has work experience in upper-level government and 0 otherwise	Manual Collection
Maturity	Log of the debt maturity	WIND
IssueAmounts	Log of the issuance amount	WIND
Guarantee	Dummy variable equals to 0 if there is no external guarantee by third party, and 1 otherwise	WIND
CurrentRatio	Current ratio of the issuing company	CSMAR
EBITDA	EBITDA divided by interest-bearing debt	CSMAR
Leverage	Total liability divided by total asset	CSMAR
ROE	Return on equity	CSMAR
Growth	Annual growth rate of operating revenues	CSMAR
Asset	Log of the issuing company's asset	WIND
MunicipalGDP	Log of GDP per capita in the municipality	Local Finance Bureau
LocalFinancingGap	Government revenue divided by government expenditure of the fiscal year prior to the issuance date	Local Finance Bureau
Age	Log of municipal secretary's age	CSMAR
Education	Municipal secretary's education level of below undergraduate, undergraduate, postgraduate/MBA and PhD	CSMAR
PMI	Purchasing managers' index	NBSPRC
M2	Monthly year-on-year growth of broad money	NBSPRC
CPI	Consumer price index	NBSPRC
Stock	Daily change of Shanghai Composite Index	WIND
1YrTreasury	Yield of one-year Chinese government bond	WIND
Credit	Firm credit rate when the bond is firstly issued	WIND
Market	Marketization index	China's Provincial market index report
Legal	Legalization index	China's Provincial market index report