

Fiscal revenue growth drops in first half

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Many local governments in China are struggling with serious financial difficulties amid the current economic downturn, with their fiscal revenue growth slowing in the first half. But economists noted Wednesday that the situation is manageable despite the difficulties.

A number of provincial governments including Jilin, Hunan, Jiangxi and Guizhou provinces have reported a sharp drop in their fiscal revenue growth for the first half year. For instance, Southwest China's Guizhou Province saw its fiscal revenue growth slow to 18.5 percent in the first half, compared with 36.36 percent in the same period of 2012.

Provinces in central and western regions of China, and especially those relying heavily on natural resources, have been particularly stressed financially. Northwest China's Shaanxi Province reported 12.6 percent growth in fiscal revenue for the first half, compared with 20.1 percent a year earlier.

Along with the slowing fiscal income, local governments are also burdened with mounting debts as a result of the massive investments in the past years. Around 53 percent of local governments' debt is due by 2013, according to information from the National Audit Office.

Though China's overall fiscal revenue only grew 7.5 percent year-on-year in the first half, the central government debt is well under control and the potential risk lies with the local governments, said Tian Yun, editor-in-chief of the China Macroeconomic Information Network website.

The ongoing tax reform that aims to cut taxes has also posed challenges to the local government's financial situation, according to Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges.

China's value-added tax reform, designed to avoid double taxation for businesses, has expanded nationwide starting August 1, which will trim the governments' tax income.

Last month, the State Council issued a regulation to temporarily exempt the value added tax and business tax for some micro and small enterprises starting August.

Transfer payments to local governments will also be cut in the second half of this year, Lou Jiwei, the finance minister, said in a speech in July.

"The local governments have to reform their financial spending to face the challenges," Xu said, noting that local governments should make spending plans in accordance with their income and should always be alert of the financial risks.

The Ministry of Finance said in a posting on its website Wednesday that governments at all levels should continue to run a tight budget in 2014, and the "three public expenditures," including official overseas trips, spending on public automobiles, and official receptions, will also be tightly controlled.

Xu noted that the financial risks of local governments at present are still under control and pose no systemic risks for now, but efforts are needed to ensure a more transparent and efficient spending scheme at the local government level.

"There might be some small-scale defaults... but the government is still capable of solving the current problems," said Tian.