鵬元國際
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Non-rating Action Commentary: Which Chinese Local Governments Face Greater Fiscal Stress in 2022?

Chinese provincial local governments (LG) see a significant divergence in their growth of general public budgetary revenue (GPBR) in 2022

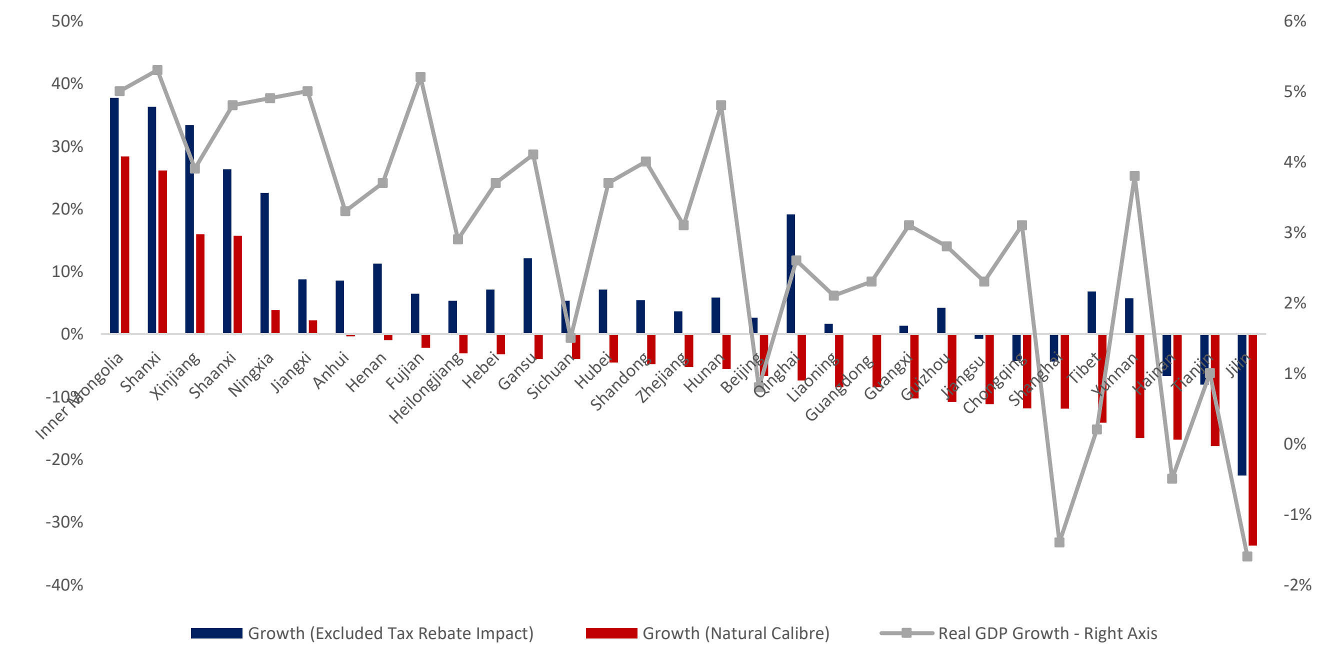
Affected by the tax rebate policies, only six provincial-level LGs' GPBR has seen a year-on-year upswing (natural calibre) in the first three quarters of 2022. Among them, Inner Mongolia, Shanxi, Xinjiang, and Shaanxi showed exceptional performance, with year-on-year GPBR growth of more than 15% due to the surging energy price in 2022, which greatly boosted the revenue and profit in the coal, oil, gas, and other resource sectors. Energy-driven economies have shown strong economic performance and rapid budgetary revenue growth, thereby strengthening the LGs' fiscal strength (Exhibit 1).

However, other provincial-level regions' GPBR declined to varying degrees under the natural calibre. Some provincial-level LGs such as Yunnan, Hainan, Tianjin, and Jilin saw a significant decrease in their GPBR in the first three-quarters since the perennial regional coronavirus pandemic, and the series of responsive measures against the pandemic have exerted a severe impact on these economies. Among them, Hainan, Tianjin, and Jilin also registered a decrease in GDP in the first nine months compared to a year ago.

The tax rebate initiative in terms of boosting the economy this year has hindered the fiscal revenue of local governments. If the impact of tax rebates is excluded, GPBR in most provinces and regions can achieve positive growth in the first three quarters. Regions such as Qinghai, Tibet, Yunnan, and Ningxia are more affected by the tax rebate policy than their peers. We believe that the main reason is that their tax sources are relatively simple, and they are more susceptible to national fiscal and taxation policies.

Overall, Chinese LGs' budgetary revenue is under pressure this year, except for resource-driven provinces. In addition, the sluggish property market this year has suppressed LG's land sales, so the source of LG's fiscal revenue has been substantially hindered. In the first three quarters of 2022, nationwide government fund revenue declined significantly by 24.8% year-on-year. As a result, we believe some provincial LGs' fiscal revenue is under heavy downside pressure, and the transfer payment increment from the central government is insufficient to offset the diminution in LGs' self-revenue. LGs further rely on special debt and other financing tools to support local fiscal expenditures and infrastructure investment, ensuing an increase in LGs' leverage.

Exhibit 1: YoY growth of LGs' general public budgetary revenue and GDP in the first three quarters of 2022



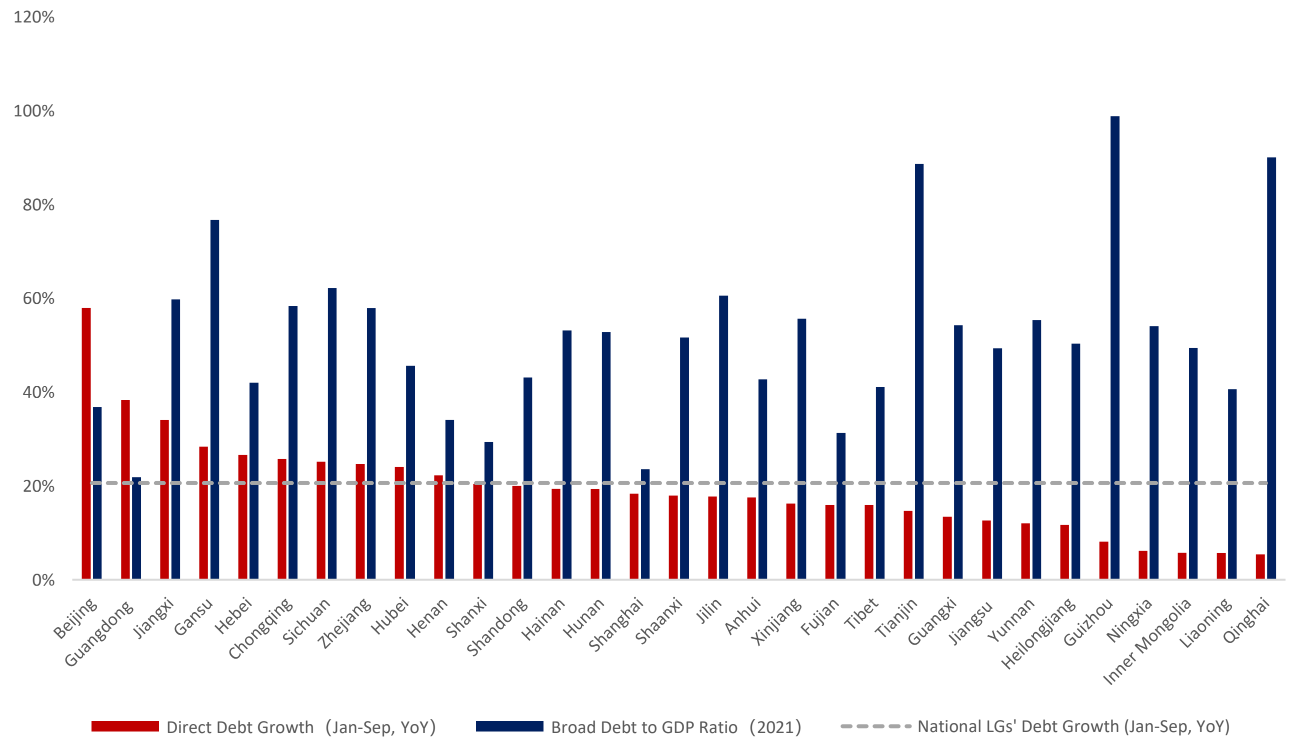
Sources: Ministry of Finance, LG bureaus, Pengyuan International

LGs with a higher debt burden decelerate borrowing

As of the end of September 2022, national local government debt balance was RMB34.7 trillion, which increased by 20.6% over the same period last year and grew by 13.9% versus that of the end of 2021. LGs' leverage overall is expected to rise further this year, but under the proactive fiscal policies, their direct debt growth rates may vary under proactive fiscal policies. Among them, Beijing and Guangdong saw the largest increase in direct debt in the first three quarters, but since their broad debt-to-GDP ratios are estimated to be low, debt growth should not put much pressure on them. However, Gansu, Sichuan, and Jiangxi have relatively high broad debt to GDP ratios, and have also experienced sharp debt expansion this year, meaning their debt burdens should be further exacerbated this year (Exhibit 2).

On the other hand, the indebted provincial regions have slowed the pace of debt raises this year, showing an inclination toward debt reduction. The Qinghai, Guizhou, Yunnan, and Tianjin, among other province-level regions, have seen year-on-year direct debt growth of less than 15% in the first three quarters, slower than the national average. We believe that against the background of greater downward pressure on the economy, the importance of preventing and defusing LG debt risks is gradually increasing, and some indebted regions are controlling debt growth and leverage. Nevertheless, fiscal revenues in these regions have been significantly suppressed this year, and overall fiscal pressure is still on the rise.

Exhibit 2: LGs' direct debts growth rapidly in 2022



Note: Broad debt = direct debt + hidden debt
Sources: Ministry of Finance, LG bureaus, Wind, Pengyuan International

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