

# How to Change Land Financing in China's Local Fiscal System?

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May 21, 2013

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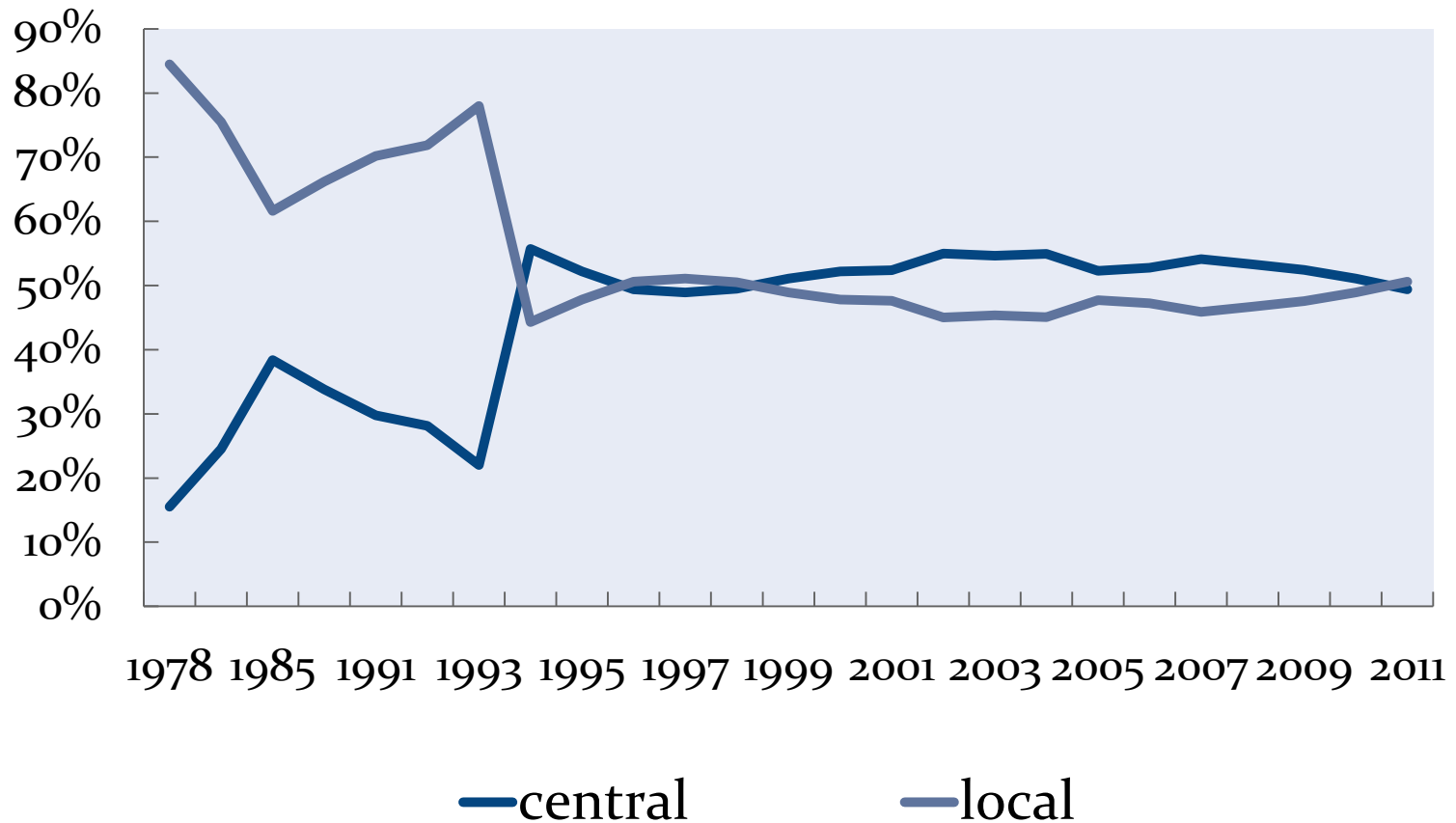
# 1.Introduction

- There is growing concern that the current tax-sharing system is unable to effectively perform the key functions of allocating fiscal resources in line with national goals, redressing disparity of local revenue and expenditure.
- This talk analyses current challenges in the land financing role in the local fiscal system.

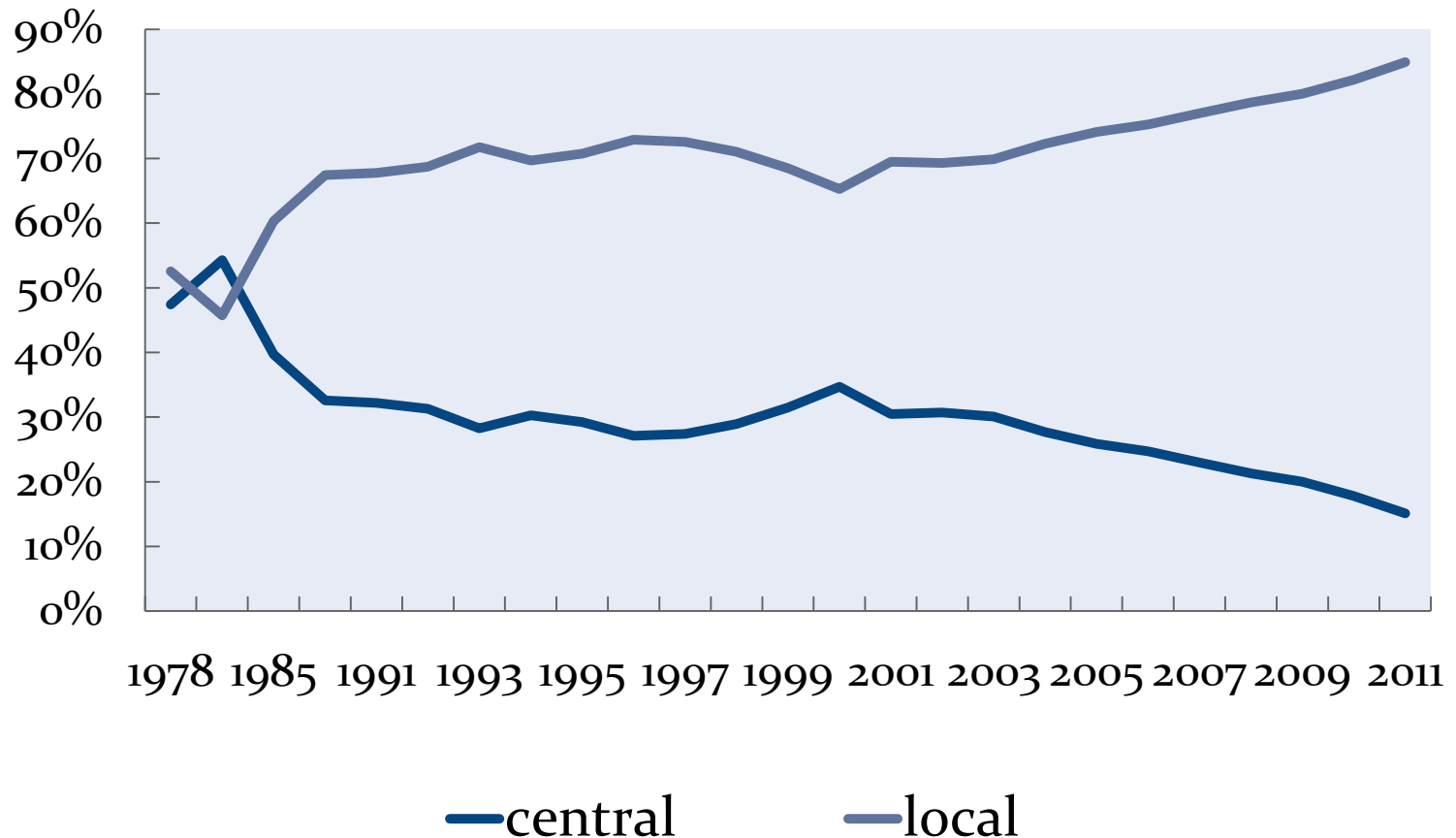
## 2. Overview of Tax-Sharing System

- Clearly, the tax-sharing reforms fundamentally changed distribution of tax-collecting because the tax-sharing system recentralized revenues but left expenditure assignments unchanged as Figure 1 shows, it created a huge fiscal gap for local governments.
- Figure 2 shows this mismatched fiscal stance for the local governments. As this brief account suggests, the most critical fiscal issue in local government debt today essentially arise from the disparity of more expenditures and less revenues between levels of governments.

# Figure 1 Revenue



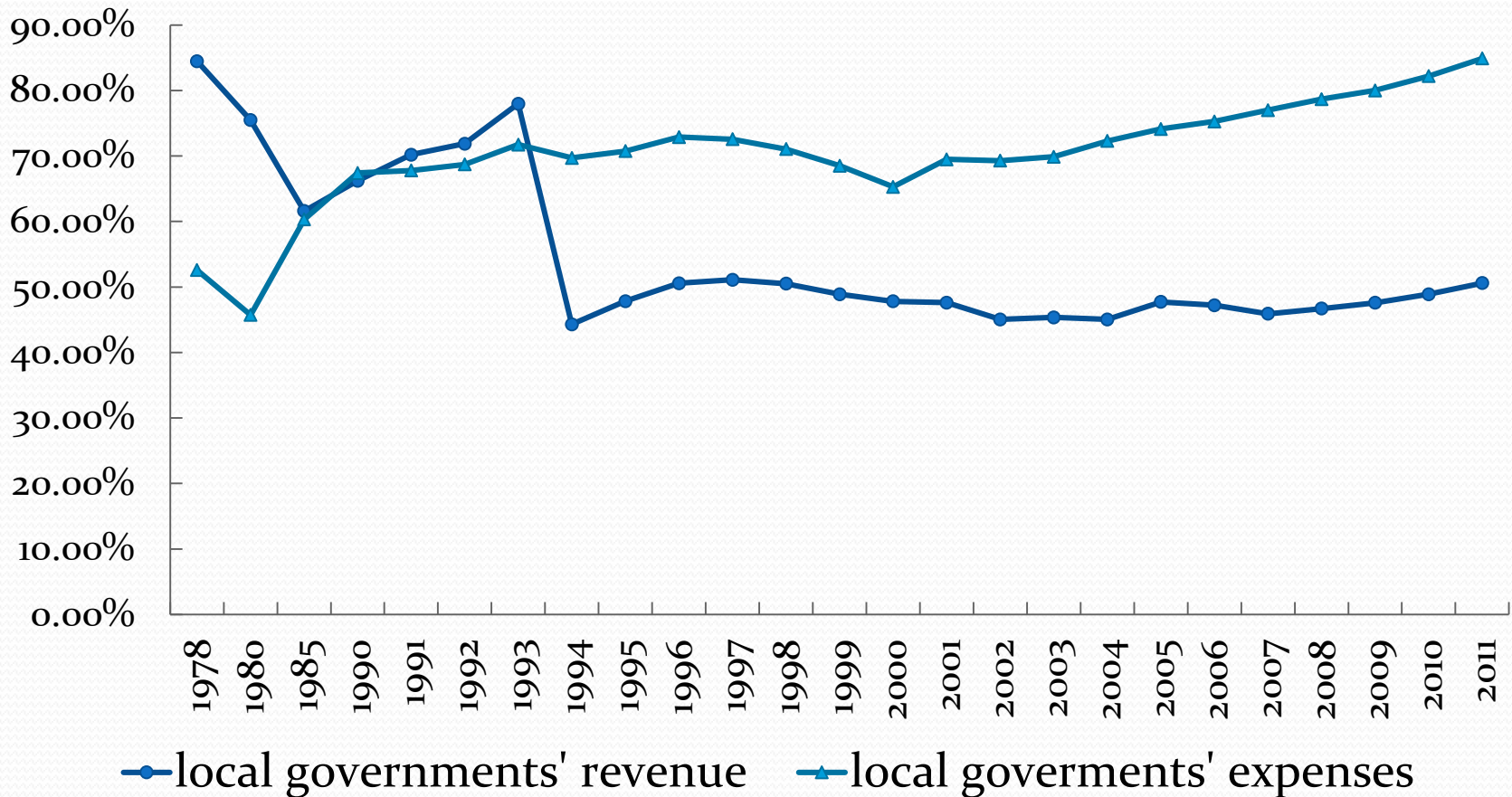
# Figure 2 Expenditure




# Discussion

- In sum, changes in central-local fiscal arrangement gave birth to a new kind of local developmentalism. Up to today, local governments still had a very strong incentive to promote growth in order to cover more obligations from public sector payment. In 2011, the share of local governments in total budgetary revenue was 50 percent, but they accounted for 85 percent of total budgetary expenditure, a share that has remained relatively stable during the past decade.

# Figure 3 Disparity of Revenue and Expenditure

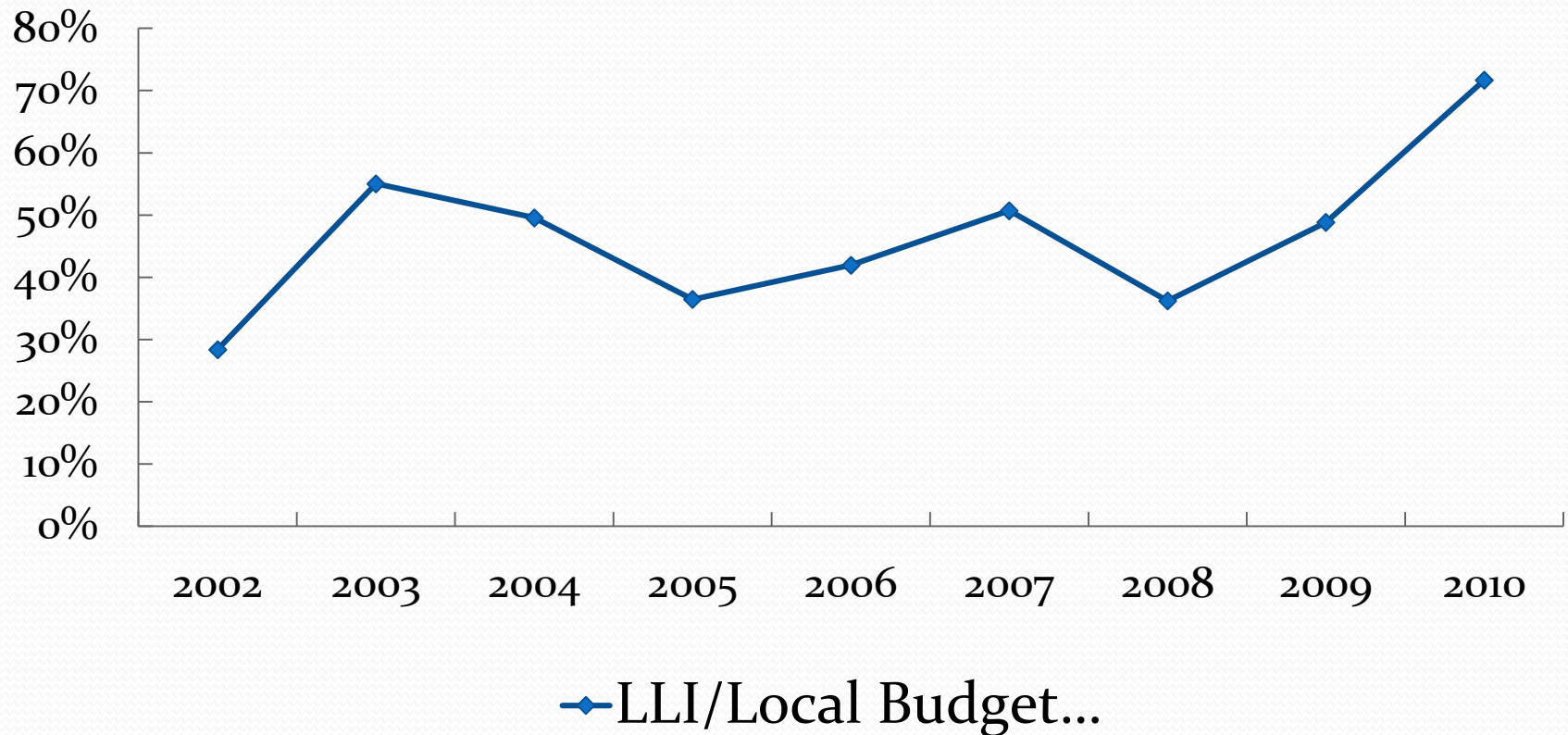


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- The tax assignment reform in 1994 changed the tax administration. Revenue became more centralized than expenditure, with expenditure gaps in provinces bridged by central transfers to the provinces, or by provinces' own financial channels such as extra-budgetary revenues.
  - This is a fiscal pattern that is with Chinese characteristics compared to other large countries.

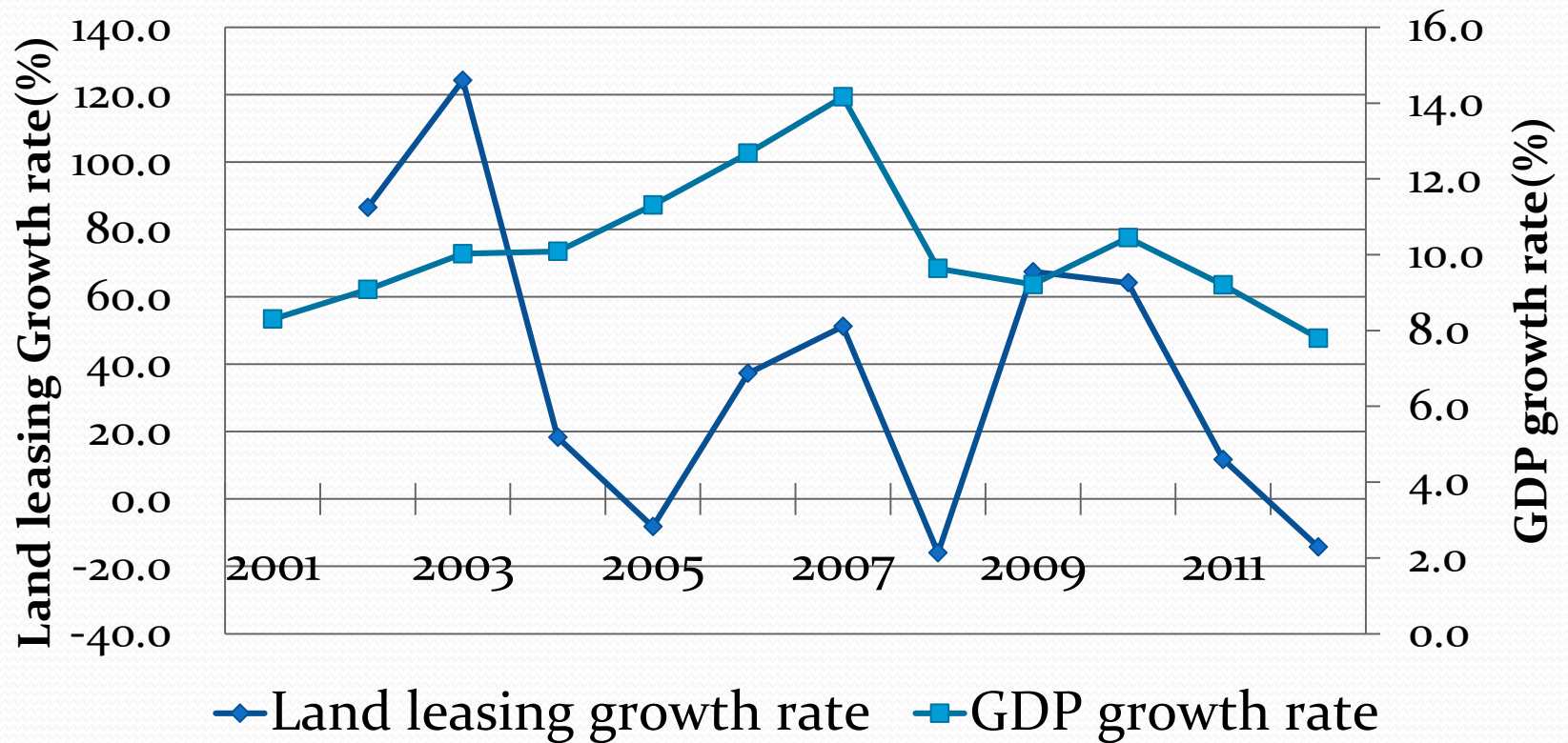
### 3. Land Financing and Fiscal Risks

- A land market did not exist under the planning economy. However, as industrialization and urbanization took off in the 1990s, the demand for commercial land skyrocketed and also changed the long-run land price.
- A. Incorrect Land Evaluation
- By analyzing the evolution of local governments' roles in China's growth in transition, it is necessary to explore local fiscal incentives to use subsidized land and infrastructure as key instruments in regional competition for growth. Figure 4 shows the share of land leasing income to local budgetary revenue from the period 2002 to 2010.

# Figure 4 The Share of China's Land Leasing Income in Local Budgetary Revenue



## B. Volatility of land Financing, Figure 5



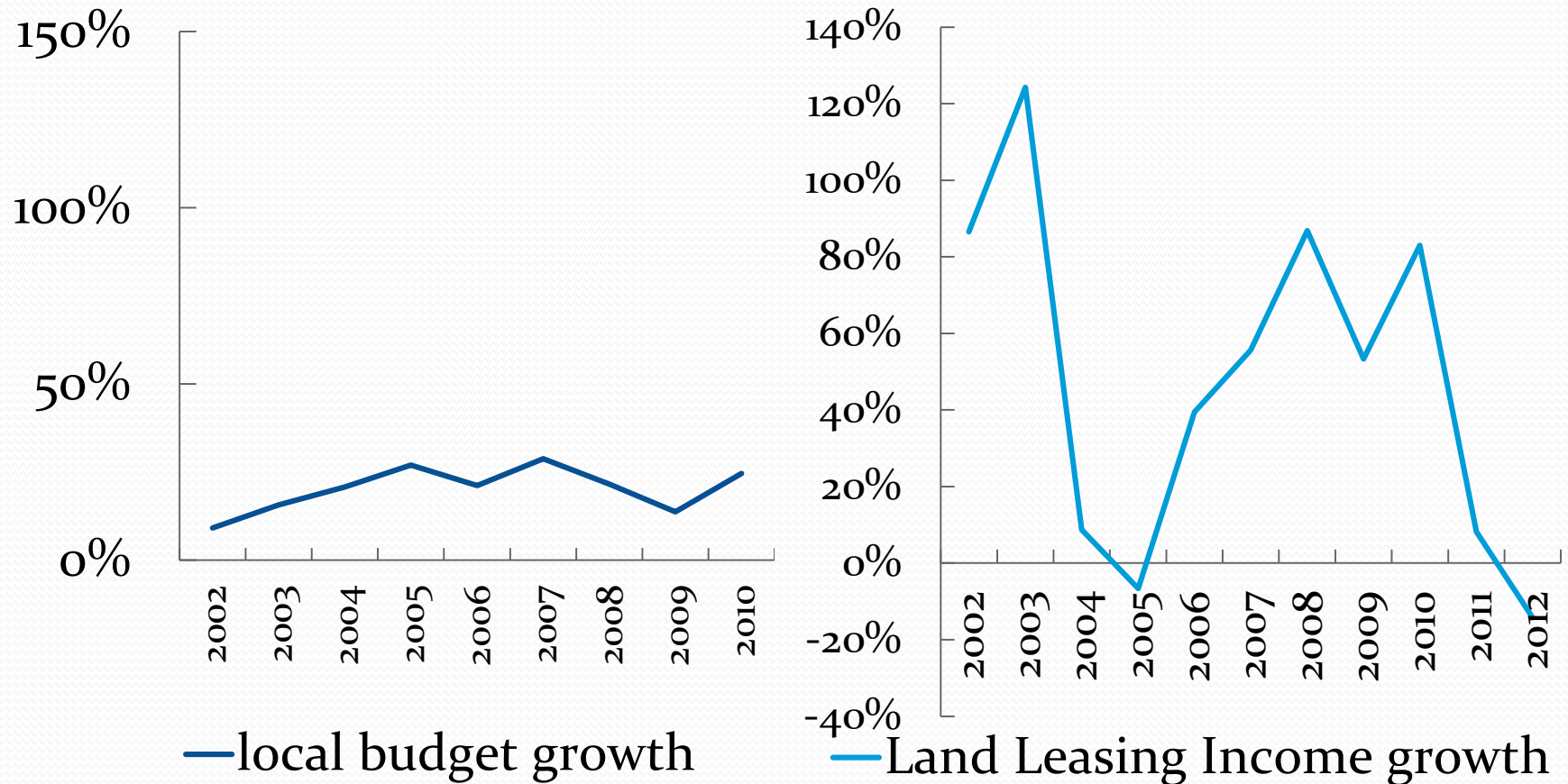
# China's Local Budgetary Revenue and Land Leasing Income

	Local Budget		Land Leasing Income		LLI/Local Budget
	Y. billion	Growth (%)	Y. billion	Growth (%)	Percentage (%)
2002	851.50	9.12	241.7	86.50	28.39
<b>2003</b>	<b>985.00</b>	<b>15.68</b>	<b>542.1</b>	<b>124.29</b>	<b>55.04</b>
<b>2004</b>	<b>1189.34</b>	<b>20.75</b>	<b>589.4</b>	<b>8.73</b>	<b>49.56</b>
2005	1510.08	26.97	550.5	-6.60	36.46
2006	1830.36	21.21	767.6	39.44	41.94
2007	2356.50	28.75	1194.8	55.65	50.70
2008	2864.49	21.56	1037.5	86.83	36.22
2009	3260.26	13.82	1591.0	53.35	48.83
<b>2010</b>	<b>4061.13</b>	<b>24.57</b>	<b>2911.0</b>	<b>82.97</b>	<b>71.68</b>
2011	5254.71	29.38	3150.0	8.21	59.95
2012			2701.1	-14.25	

# Discussion

- China collected 241.7 billion Yuan from land leasing in 2002, and jumped to 3150.0 billion Yuan in 2011, almost increasing by 13 times within ten years.
- If land leasing contribution affects local budgetary revenue, the revenues from land leasing was running at 28.39 percent of local budget in 2002, and rapidly increased to 71.68 percent in 2010.
- This massive land conversion has led to some undesirable consequences in local budgetary revenue dependence on land leasing income.

## Figure 6 Growth of Local Budgetary Revenue and Land Leasing Income



# Discussion

- Figure 6 shows a different picture of local budget growth and land leasing income growth trends, the former in Figure 6(a) has been relatively stable, while the latter in Figure 6 (b) has shown an imaginable turbulence.

## C. The Role of LLI in Coastal Budgetary Revenue

- Over this period, the income from land leasing has been more than doubled. Because of stimulus policy by the central government in 2009, the land leasing income soared to the sky over one-year time period from 1,591 billion Yuan in 2009 to 2,911 billion Yuan in 2010, and almost tripled, from 1,038 billion Yuan to 3,150 billion Yuan over three-year time period 2008-2011. But they quickly reduced to 2701.1 billion Yuan in 2012, which mirrors the turbulence of land leasing business.

# Coastal budgetary Revenue and Land Leasing Income, billion Yuan

	Land Leasing Income	Coastal/ National Percentage	Budgetary Revenue	Budgetary Expenditure	LLI/Coast Budgetary Revenue, %	LLI/Coastal Budgetary Expenditure, %
2007	830.95	69.55	1544.61	1945.50	53.80	42.71
2008	685.57	66.08	1845.94	2383.02	37.14	28.77
2009	1266.98	79.63	2082.06	2876.97	60.85	44.04
2010	1896.43	65.15	2551.12	3480.43	<b>74.34</b>	<b>54.49</b>

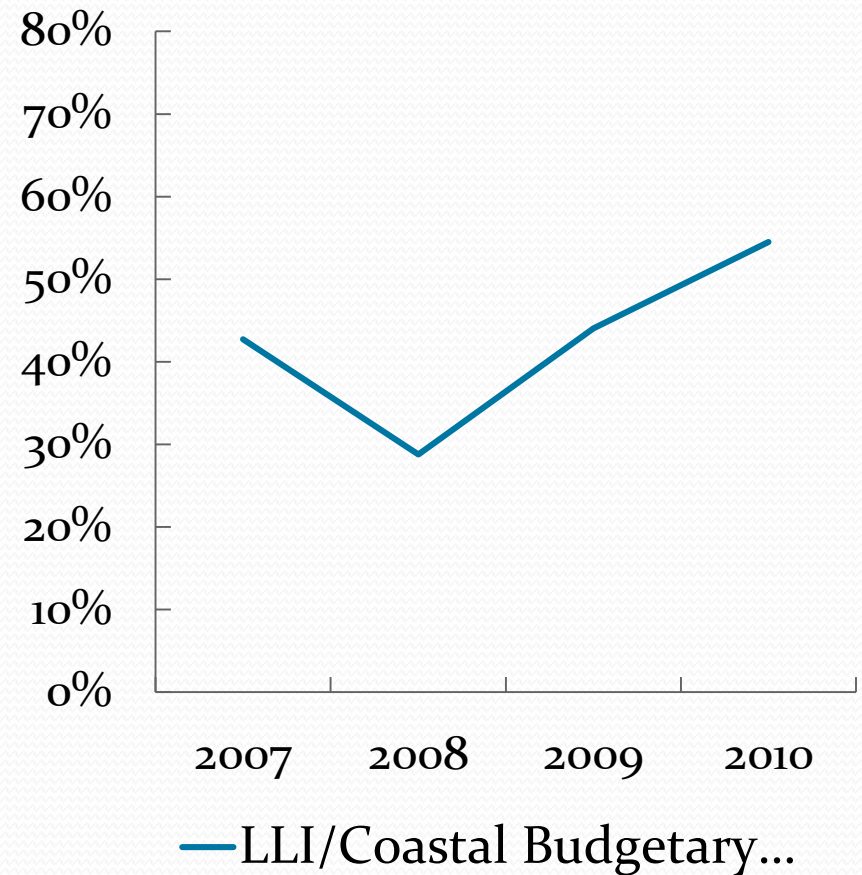
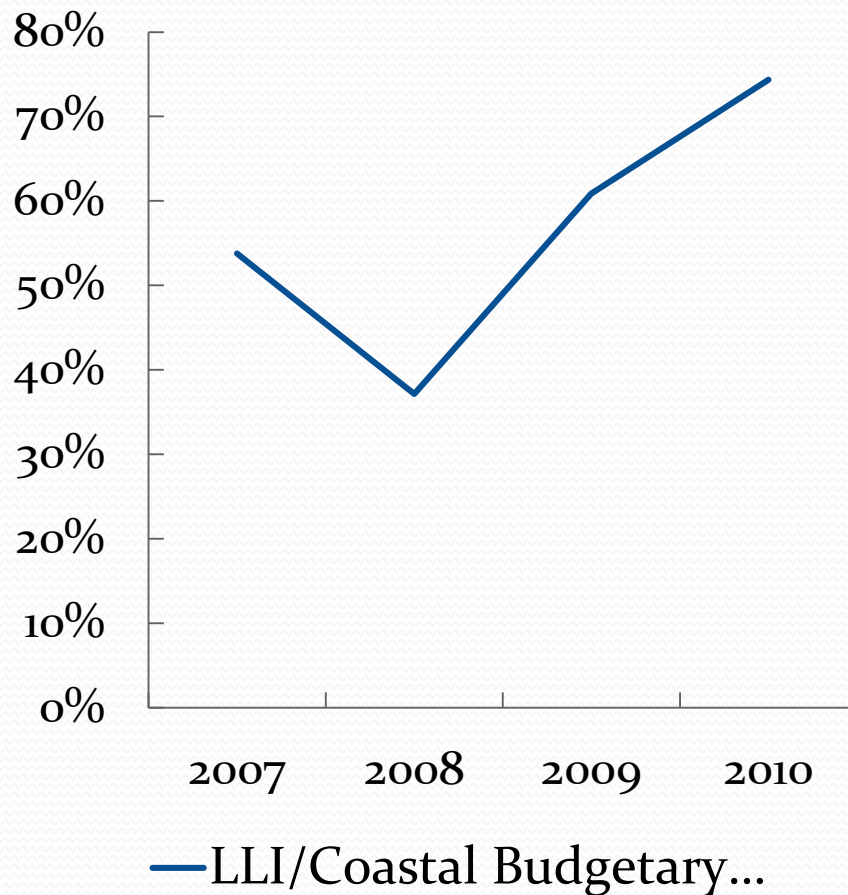
## D. Discussion on LLI/Off budget Revenues' Ratio

- It is recognized that land leasing income is an off budget source of local revenues. It would be useful to discuss land leasing income as a percent of total off budget revenues.
- The LLI for coastal governments amounted to 1896.43 billion Yuan, accounting for 67.25% of the national total in 2010. Comparison to the LLI, off budget revenues for the coastal regions accounted for 54.29% of the nation.

# Role of LLI in Fiscal Stance of Coastal Regions, 2010, billion Yuan

Region	LLI	(OBR) Off- Budget Revenue	LLI/Off Budget (%)	(OBE) Off Budget Expenditure	LLI/ Off Budget (%)	(BE) Budget Expenditur e	LLI/ Budget Expenditur e (%)
Beijing	131.89	13.25	995.75	9.56	1380.01	271.73	48.54
Tianjin	85.30	5.10	<b>1674.12</b>	5.22	<b>1635.59</b>	137.68	61.95
Hebei	107.63	15.88	677.79	16.30	660.24	282.02	38.16
<i>Liaoning</i>	191.67	14.88	1287.93	13.95	1373.68	319.58	59.98
Shanghai	88.01	13.03	675.28	18.60	473.27	330.29	26.65
Jiangsu	382.18	68.45	558.34	64.32	594.19	491.41	77.77
Zhejiang	364.02	59.12	615.73	68.38	532.33	320.79	<b>113.47</b>
Fujian	113.84	22.63	503.04	28.26	402.83	169.51	67.16
Shandong	254.44	24.40	1042.94	23.77	1070.36	414.50	61.38
Guangdong	135.00	11.71	1152.48	11.48	1175.56	542.15	24.90
Guangxi	42.47	66.13	64.22	63.78	66.58	200.76	21.15
<b>Coastal</b>	<b>1896.43</b>	<b>314.57</b>	<b>602.87</b>	<b>323.62</b>	<b>586.00</b>	<b>3480.43</b>	<b>54.49</b>
Coast/Nation (%)	67.25	5.43	/	56.24	/	47.11	/
Nation	2819.80	579.44	486.64	575.47	490.00	7388.44	38.17

# Figure 7 the Share of Land Leasing Income in Budgetary Revenue and Expenditure



# Discussion

- It is evident that the land leasing income has significantly supported the operation of local fiscal system and also persistently increased its share since 2008.
- One question may be asked, with strong incentive to push local economic development, the local governments can increase their extra-revenue from land leasing under the national economic growth plan. Nevertheless, it is not a stable financial source of income for local governments.
- Our real question is how growth rates will be in the coming three years.

## 4. Brief Conclusions

- The single-minded pursuit of revenue and economic growth by local governments, however, has brought about some adverse consequences.
- More discussion is needed, the ability to sale of land leasing to private sector is heavily dependent on demand for land, which will be decided by local economic growth.
- When China's economic growth rate will not be as high as previous years, the demand for land will decrease, therefore, less income could be collected by local governments.
- How to change it?



● THANKS!