



Institute of Chinese Studies

WEDNESDAY SEMINAR

*China's Local Governments:
Can They Pull the Weight of
the Country's Economy?*

EXECUTIVE SUMMARY

Speaker :

Amit Kumar

28 May 2025

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Speakers: Mr. Amit Kumar, Staff Research Analyst, Indo-Pacific Studies Programme, The Takshashila Institution, Bengaluru.

Chair: Prof. Biswajit Dhar, Distinguished Professor, Council for Social Development; and, Honorary Fellow, Institute of Chinese Studies, New Delhi.

Date: 28 May 2025

Venue: Zoom Webinar

- The seminar addressed the mounting fiscal pressures on China's local governments, revealing a fundamental structural imbalance where local authorities shoulder over 85% of national budgetary expenditure while generating disproportionately lesser revenues. This exceptional degree of fiscal decentralisation distinguishes China from other major economies such as Brazil, where local government expenditure accounts for approximately 50% of national spending.
- The presentation highlighted a decline in local government revenue capacity, with income from the General Budget falling from 20.6% of GDP in 2016 to 17.5% in 2024. This downward trajectory has persisted despite China's overall economic growth, indicating structural challenges in subnational revenue-raising that extend beyond cyclical economic factors.
- The speaker highlighted that local government finances operate through a complex four-stream budgetary system, with the General Budget commanding the largest share at CNY 23.6 trillion in revenue and CNY 24.4 trillion in expenditure. The Social Insurance Fund Budget and Government-managed Fund Budget each handle over CNY 10 trillion annually, demonstrating the scale and complexity of local fiscal operations.
- According to Mr. Kumar, the central government transfer mechanisms have proven inadequate with regard to bridging the growing fiscal gap, despite redistributing 93% of central revenues to local governments. Moreover, transfers declined by CNY 0.23

trillion in 2024, further constraining local governments' ability to meet expenditure obligations through conventional channels.

- The analysis revealed the sustained decline of property-related taxes as a revenue source for local governments, reflecting broader challenges in China's real estate sector. This decline, the speaker argued, has compelled local authorities to seek alternative revenue sources through off-budget financing mechanisms that lack transparency and regulatory oversight.
- In conclusion, Mr. Kumar identified a fundamental disconnect between official fiscal statistics showing manageable deficit levels at 1.8% of GDP and widespread reports of financial distress among local governments. This discrepancy points to prevalent off-budget financing and hidden debt accumulation that has been occurring since the implementation of the Tax Sharing System and Budget Law in 1994.
- Prof. Dhar commended the comprehensive analysis but also pointed out the need to include data which would show the share of interest payments in the central government's total expenditure. This would be useful in comprehending debt sustainability.

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