Local governments struggle with less cash

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Local authorities are struggling to balance a shrinking fiscal income with an increasing demand for government-led investment to maintain economic growth.

FINANCE

According to half-year data from local statistics bureaus, most local governments saw their incomes rise by more than 10 percent. The exceptions to that were Beijing, Shanghai and Zhejiang and Guangdong provinces, which reported single-digit growth.

Nationally, the fiscal revenues of local governments amounted to 3.2 trillion yuan ($500 billion) in the first six months, up 14.4 percent from the previous year, according to the Ministry of Finance. The growth was much lower than the 36 percent for the same period last year.

The rate was nearly twice as much as the growth of the world's second-largest economy, which expanded 7.8 percent in the first half this year, but it may not be fast enough to meet the demand from the growing investment fever emerging among local authorities.

Of the 29 provincial-level regions that had published their first-half figures by Thursday, nearly half saw their GDP growth down more than 2 percentage points from the previous year.

Facing an economic slowdown, more local authorities are seeking investments. Changsha has released an 800 billion yuan investment plan for the next five years, while Wuhan vowed to invest 420 billion yuan in inter-province transportation projects.

Guizhou province topped them all with a program to develop its tourism industry — a 3 trillion yuan investment.

The aggregate spending of local governments increased 24 percent to hit 4.5 trillion yuan in the first half. In comparison, the central government's expenditure rose by only 9 percent, according to the Finance Ministry.

"We can't see where the money (for these projects) will come from," said Ye Tan, a financial commentator.

As the financial requirements for the plans never met with the governments' actual income, local authorities had to find other ways, such as equity funds, to raise money for their investment plans, Ye told China National Radio. More means are needed to facilitate such large projects, such as introducing private capital and raising money using bonds.

But "considering the possible rise in debt, the best solution is still to put a brake on such investment fever", she said.

Xiang Songzuo, chief economist with the Agricultural Bank of China, disagreed, saying the concern over investment is exaggerated.

"In the long term, it still depends on investment to drive China's growth, especially in the central and western regions," he said.

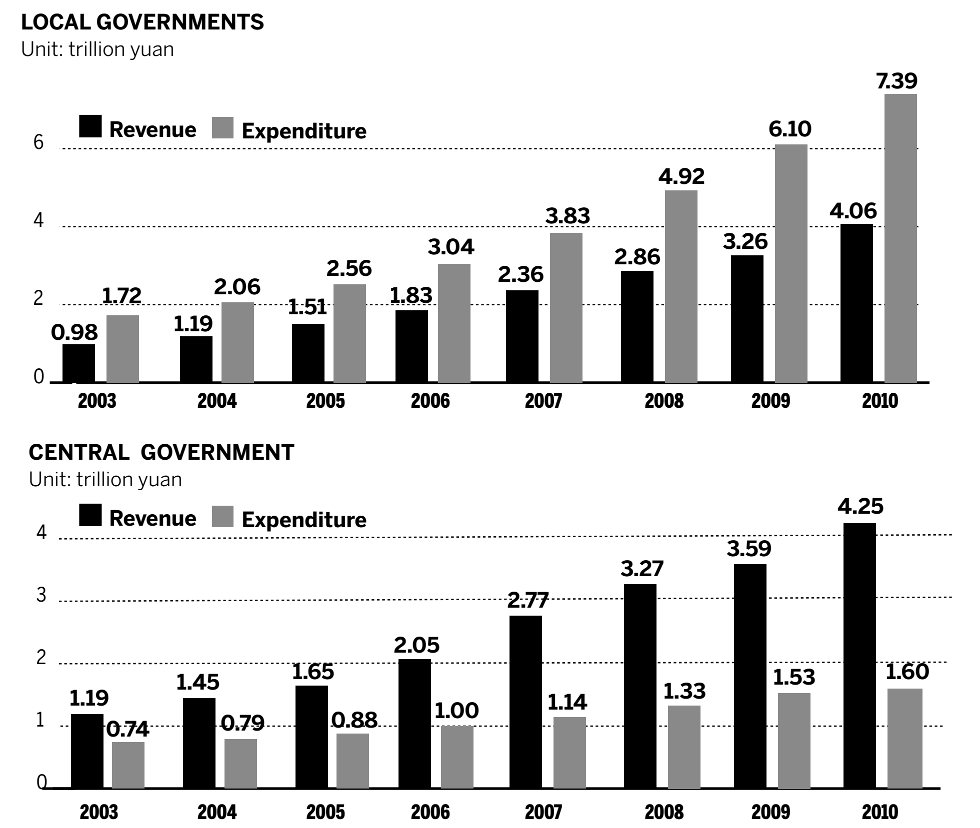
Some analysts expressed concern about an even higher tax burden for companies, especially smaller ones, amid declining fiscal revenue.

The growth in tax revenue, which was the main source of the fiscal revenue, was less than 10 percent in the first six months of this year, down from nearly 30 percent in the same period last year.

"The taxation authorities will not impose very strict levies on taxes, which are relatively hard to collect when the economy is good and tax sources are abundant," said Zhang Bin, a researcher of taxation with Chinese Academy of Social Sciences.

"But they may tighten the collection rules when tax revenue sees a decline during economic hardships, which means companies may face an even larger tax burden when the economy is bad," Zhang said.

LOCAL AND CENTRAL GOVERNMENT FISCAL DATA



Source: Wind Information Co Ltd

GUILLERMO MUNRO / CHINA DAILY

Emergency funds established to aid capital-deprived SMEs

By **YU RAN** in Shanghai
and **LI WENFANG** in Guangzhou

Local governments in Zhejiang province are setting up emergency funds for small and medium-sized enterprises that have failed to obtain loans from banks or other agencies underwritten by guarantee companies.

LOANS

It is not the first time that regional governments have launched emergency funds to help SMEs.

The Xiaoshan district of Hangzhou raised an emergency fund of 500 million yuan ($78.5 million) in 2008, when the global recession hit.

"We relaunched the emergency fund of 500 million yuan in October by supplying loans with a total amount of 1.5 billion yuan to local SMEs," said Hong Quanliang, director of the operations department, economic development bureau of Xiaoshan district in Hangzhou.

Hong added that the fund will continue until there is a clear sign that the majority of SMEs have no trouble getting loans.

Wenzhou recently suffered a severe credit crisis after many businessmen fled the city to escape repaying their high-interest debts to private lenders.

A pilot financial reform was launched in March after the crisis with an emergency fund of 1 billion yuan for SMEs to borrow from.

"A temporary emergency fund of 1 billion yuan was launched at the end of October to prevent the massive shutdown of companies that were having financial problems," said Huang Shoujun, director of the SME department at the Wenzhou economic and information commission.

The launch of Wenzhou's private lending center and Wenzhou's SME financing service center, aimed to channel private funds into the financial system, are two major steps of the pilot financial reform.

Until July 31, the private lending center had offered more than 737 million yuan to local individual borrowers, the majority of who are owners of local struggling SMEs.

"It's impossible to borrow if the individual fails to pledge either assets or shares to prove that he has the ability to repay the debts," said Xu Zhiqian, the spokesman for Wenzhou's private lending center.

Xu added that it's no longer easy to find underwriters to assist borrowers with loan applications.

To solve the crisis of credit companies in Wenzhou, the local commerce set up certain funds gathered from bigger enterprises to help out the SMEs.

"Our commerce had offered over 10 million yuan in short-term loans to hundreds of enterprises in the city since October," said Zheng Chen'ai, the chairman of the Wenzhou Chamber of Clothing Commerce.

Zheng added that the major concern for the moment is not the money, but the low credibility of loan borrowers, especially after the credit crisis.

Guangdong province faces a similar situation.

Nearly half of the financing guarantee companies in the Pearl River Delta area are having problems with less business, said Li Sicong, executive chairman of the Guangdong Credit Guarantee Association and president of Guangdong Yinda Guarantee Investment Group Co.

The guarantee businesses in the area declined by up to 30 percent year-on-year, he said, citing a recent survey of more than 40 medium-sized member companies of the association.

More than 80 percent of the credit guarantee companies in Guangdong saw their business and profits decline year-on-year in the four months to July, said Li Youhuan, a researcher at the Guangdong Academy of Social Sciences.

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