

教育部哲学社会科学发展系列报告



Report on China's Public Finance

(English Version)

2012中国财政发展报告（英文版）

上海财经大学公共政策研究中心 编



中国出版集团



世界图书出版公司

图书在版编目(CIP)数据

2012 中国财政发展报告：英文 / 上海财经大学公共政策研究中心编. —广州：世界图书出版广东有限公司，2013.4

ISBN 978-7-5100-5957-5

I. ①2… II. ①上… III. ①财政政策—研究报告—中国—2012—英文 IV. ①F812.0

中国版本图书馆 CIP 数据核字(2013)第 077323 号

Report on China's Public Finance 2012(English Version)

2012 中国财政发展报告(英文版)

策划编辑 吴小丹

责任编辑 汪再祥

编辑邮箱 uyling@163.com

出版发行 世界图书出版广东有限公司

地 址 广州市新港西路大江冲 25 号

http://www.gdst.com.cn

印 刷 武汉三新大洋数字出版技术有限公司

规 格 787mm × 1092mm 1/16

印 张 10.25

字 数 135 千字

版 次 2013 年 4 月第 1 版 2013 年 4 月第 1 次印刷

ISBN 978-7-5100-5957-5/F · 0104

定 价 33.00 元

版权所有，翻印必究

《2012 中国财政发展报告》编委会

Editorial Committee of Report on China's Public Finance 2012

主 编: 曾军平 刘小兵
副 主 编: 朱为群 宋健敏 邓淑莲
编委会成员: 邓淑莲 高 军 孔 晏
刘 伟 凌 云 刘小兵
宋健敏 阳 维 杨海燕
曾军平 朱为群

Chief Editor: Zeng Junping Liu Xiaobing

Deputy Editor: Zhu Weiqun Song Jianmin Deng Shulian

Committee Members: Deng Shulian Gao Jun Kong Yan

Liu Wei Ling Yun Liu Xiaobing

Song Jianmin Yang Wei Yang Haiyan

Zeng Junping Zhu Weiqun

Contents

1 China's Macroeconomy in 2011	1
1.1 China's Economic Aggregate in 2011	3
1.1.1 Product Market	3
1.1.2 Financial Market	7
1.1.3 Factor Market	15
1.2 China's Macroeconomic Structure in 2011	16
1.2.1 Industrial Structure	16
1.2.2 Regional Structure	21
1.2.3 Demand Structure	22
1.2.4 Distribution Structure	27
1.3 Hot Issues and Major Macroeconomic Policies	30
1.3.1 Inflation	30
1.3.2 Real Estate Regulation and Control	32
1.3.3 Private Entrepreneurs' "Running Away"	37
1.3.4 International Mergers and Acquisitions by Chinese Enterprises	39
2 China's Fiscal Revenue in 2011	42
2.1 Review of Fiscal Revenue during the "Eleventh Five-year Plan" Period	42
2.2 Analysis of Total Fiscal Revenue in 2011	45
2.2.1 Fiscal Revenue Budget for 2011	45
2.2.2 Fiscal Revenue Implementation in 2011	46
2.2.3 Major Reasons for National Revenue Accomplishment in 2011	47
2.3 Analysis on the Structure of China's Fiscal Revenue in 2011	48
2.3.1 Breakdown of Fiscal Revenue by Month	48
2.3.2 Breakdown of Fiscal Revenue by Province	50
2.3.3 Breakdown of Fiscal Revenue by Category	52

2.4 Analysis of Treasury Bonds Issuance in 2011	55
2.4.1 The Volume of Central Government Debt and Its Risks in 2011	57
2.4.2 Structure of Treasury Bonds Outstanding in 2011	58
2.4.3 Types of Treasury Bonds Issued in 2011	59
2.4.4 Local Government Bonds Issued in 2011	61
2.5 Analysis of Hot Tax Policies in 2011	63
2.5.1 Pilot house property tax	63
2.5.2 Adjustment of individual income tax	65
2.5.3 The new policy on vehicle and vessel tax	68
2.5.4 The pilot program for replacing business tax with VAT launched in some industries in Shanghai	70
2.5.5 Reform of Resource Tax	73
3 China's Fiscal Expenditure in 2011	76
3.1 Review of Fiscal Expenditure during the "Eleventh Five-year Plan" Period	76
3.2 Analysis of Total Fiscal Expenditure in 2011	78
3.2.1 Implementation of Fiscal Expenditure Budget	78
3.2.2 Annual Growth of Fiscal Expenditure	79
3.2.3 Comparison with Fiscal Revenue Growth	80
3.2.4 Comparison with GDP Growth Rate	81
3.3 Analysis on the Structure of Fiscal Expenditure in 2011	83
3.3.1 Breakdown of Fiscal Expenditure by Month	83
3.3.2 Breakdown of Fiscal Expenditure by Item	84
3.3.3 Breakdown of Fiscal Expenditures by Central and Local Government Spending	88
3.4 Major Items of Fiscal Expenditure in 2011	89
3.4.1 Education Spending	90
3.4.2 Spending on social security and employment	93
3.4.3 Spending on Water Conservancy	95
3.4.4 Spending on the "Three Public Consumptions"	98
4 Analysis of China's Fiscal System	114
4.1 Fiscal System before the Tax-sharing System	114
4.1.1 Highly centralized fiscal system before the reform and opening-up	

.....	114
4.1.2 “Substitution of Tax Payment for Profit Delivery” and Fiscal Responsibility System after China’s Reform and Opening-up	116
4.2 Tax-sharing System Reform in 1994	118
4.2.1 Division of Administrative Power and Expenditures between Cen- tral and Local Governments	120
4.2.2 Division of Fiscal Revenue between Central and Local Govern- ments	120
4.2.3 Transfer Payment System of the Central Finance	122
4.3 Further Improvements of the Tax-sharing System	124
4.3.1 Strengthening the balancing function of the central finance and clarifying the service function of grass-roots and local govern- ments	125
4.3.2 Attaching great importance to scientific and precise fiscal manage- ment in accordance with the law	132
4.3.3 Gradually moving toward democratic and transparent fiscal super- vision.	133
Appendix The Ways in which the Reform of “Placing County Finances under Direct Provincial Administration” Promotes County-level Economic Growth	134
References	152

1 China's Macroeconomy in 2011

2011 has been a year full of challenges for both China and the world. Despite internal and external pressures, China's economic performance has achieved some satisfactory results. First of all, the economy operated steadily on the whole: the gross domestic product (GDP) achieved stable growth, prices returned to normal in the fourth quarter, resident's income maintained the momentum of rapid growth and China's urban registered unemployment rate stood at a relatively low level. In 2011, China's GDP rose 9.2% year-on-year and GDP per capita exceeded \$ 5000; affected by a series of macro-control policies, the price level eventually returned to a reasonable interval in the fourth quarter after experiencing high-speed growth in the first half of the year; China's urban employment situation maintained generally stable and the urban unemployment rate stayed at about 4.1%; the income of urban and rural residents continued rapid growth and their cash income increased by about 20% and 14% respectively. Secondly, in terms of economic structure, regional structure improved to some extent, while industrial structure and demand structure remained unchanged. When sorted in descending order by growth rate of the industrial added value and its proportion in GDP in 2011, the secondary industry ranked first, followed by the tertiary industry and the primary industry, the same as last year. The value added of the three industries increased by 10.6%, 8.9% and 4.5%, accounting for 46.8%, 43.1% and 10.1% of GDP respectively, basically on par with previous year. In terms of regional structure, although the eastern region maintained its leading and dominant position in economic development, the central and western regions contributed to an increasing proportion of GDP; although the eastern region registered the largest volume of investment in fixed assets, successively

followed by the central and western regions, the western region achieved the highest year-on-year growth rate of investment in fixed assets, successively followed by the central and eastern regions. In terms of demand structure, investment and consumption continued to be the main drivers of China's GDP growth, but net export registered a negative growth for the third consecutive year and made a negative contribution to GDP growth.

However, while progress was made in economic development, there were some problems and changes concerning either economic aggregate or structure that we should pay attention to. First, issues such as the diversity of inflationary pressures, the deviation of the financial market from real economy and income gap stood out in the overall economy. Inflation in 2011 was driven by a number of factors. It was not only pulled by demand but also pushed by cost; it was affected by domestic factors as well as external imported factors; it was not only a result of changes in the economic aggregate but also related to the structural imbalance in China's economy. In this context, despite strict price controls, the ratio of M2 to GDP in 2011 remained at around 1.8, a relatively high level. Consequently, China still faces tremendous inflationary pressures in 2012. In 2011, financial market performance evidently deviated from real economic growth. Stock market indexes continued to decline, the fund industry widely suffered huge losses, and trading volume and the earnings multiple in Chinese stock market remained low, all of which to some extent made investors worry about the future prospect. Regarding income distribution, the income gap between urban and rural residents maintained at a high level. Second, pressures for economic restructuring kept intensifying due to following reasons. Although the Chinese economy had been under the pressures of industrial upgrading and transformation, there was no significant change in the supply structure during 2011, which remained the pattern of "secondary, tertiary and primary industries"; difficulty of private enterprise finance led to risky game of high-interest private lending, and the crisis exploded at the end of 2011 in the form of massive and continuous "running-away" of private entrepreneurs, becoming the key pressure and motivation for China's interest rate liberalization reform. At the same time, the Chinese economic growth has been still led by government investment mainly. The expansion of domestic demand, particularly residential consumption, remains an

important issue of China's economic transformation.

To sum up, China's macroeconomy had mixed performance in 2011. When rejoicing in the achievements made in China's economic development, we also see a range of challenges facing China's economy. In 2012 when the global economy starts to rebound, on the one hand, the Chinese economy maintains a momentum of rapid growth, on the other hand, China must address a number of issues in its current economic reform, such as economic structural adjustment, inflationary pressure, macro-control of real estate, private enterprise development, income distribution and the expansion of domestic demand. The following chapters will present the analysis of China's economic development in 2011 and the outlook for 2012 from the perspective of economic aggregate, economic structure and hot issues.

1.1 China's Economic Aggregate in 2011

To reflect China's economic aggregate in a systematic way, our analysis is based on three markets, namely, product market, financial market and factor market. The analysis of product market mainly covers these aggregate indicators, such as product output, price levels, confidence index, etc; the factor market refers to markets where capital, labor, land and other production factors are traded, and its aggregate indicators include aggregate demand and supply of production factors, their prices based on demand and supply, and income distribution; issues about demand and supply of capital and its prices as well as economic indicators of major financial instruments are mainly included in the part of the financial market.

1.1.1 Product Market

Under the impact of complex domestic and international economic environment, China's GDP in 2011 still maintained a rapid growth of 9.2%, though the growth rate moderately slowed down, and China's GDP per capita exceeded 5000 US dollars. GDP is not only a key comprehensive indicator reflecting a country's production activities and value added, but also provides fundamental data for calculating economic growth rate. In 2011, China's nominal GDP reached 47.15637 trillion RMB and China's GDP per capital was close to 5400 US dollars. However, the actual growth rate of GDP slightly

slowed down to 9.2% . Looking at quarterly data, China’ s GDP growth rate was flat to down in 2011. The cumulative GDP growth rates in the four quarters of 2011 were 9.7% , 9.6% , 9.4% and 9.2% respectively (See Figure 1.1) .

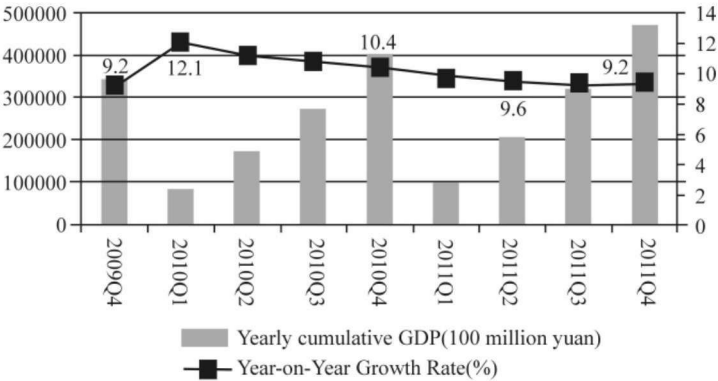


Figure 1.1 Cumulative Quarterly GDP and Year-on-year Growth Rates in 2010-2011

Notes: Quarterly GDP values are calculated at current prices, while the annual cumulative GDP growth rate is calculated at comparable prices.

Source: Sorted and calculated based on data from the database provided by the China Economic Information Network at <http://db.cei.gov.cn/>. Unless otherwise indicated, data below are all taken from this source.

Although China’ s GDP growth slowed down compared with that in 2010, under multiple pressures of domestic and international economic operations, a growth rate of 9.2% was still a hard-won result. The IMF estimated that in 2011, the global economic growth rate in purchasing power parity terms was 4.0% , or 1.1 percentage points lower than that of 2010. Overall economic growth rate of developed countries decreased by about 1.5% , while emerging markets and developing economies represented by China achieved an average growth rate of 6.4% . It is noteworthy that in Government Work Report 2012, the Chinese government reduced its GDP growth target in 2012 to 7.5% , a dramatic drop from the previous year. As regards this adjustment, Premier Wen Jiabao pointed out that it was a proactive adjustment in order to adapt to the economic structural adjustment and improve the quality of economic growth. Accordingly, we can expect that China’ s GDP growth will further slow down in 2012.

In terms of general price index, China's CPI and PPI maintained at high levels in the first three quarters, but reduced evidently in the fourth quarter due to the effect of macroeconomic control policies. Specifically, in the first half of 2011, CPI and PPI continued the upward trend of 2010 and maintained at high levels. For example, the national CPI kept rising in the first seven months, up from 4.9% in January to 6.5% in July (See details in Figure 1.2) . In particular, among CPI components, food prices registered the largest growth in the first three quarters, up by 6.1% ; prices for housing service (mainly rent) rose by 4.1% ; health care and personal articles, up by 2.9% ; but prices for clothing dropped by 1.1% . Therefore, as for the direct factors, food price, particularly pork price, was the primary trigger in this round of CPI increase. As for root cause, China's inflation in 2011 was the result of a combination of complex and volatile factors: it was not only pulled by demand but also pushed by cost; it was affected by domestic factors as well as external imported factors; it was not only a result of changes in the economic aggregate but also had something to do with the structural imbalance in China's economy.

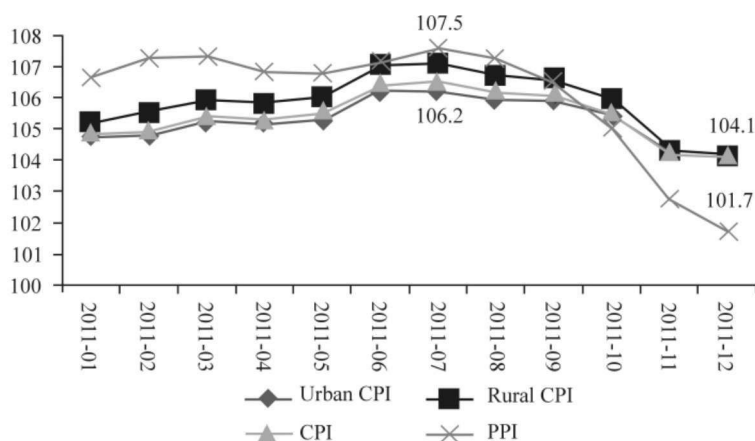


Figure 1.2 China's CPI and PPI in 2011

In the face of inflationary pressures, the decision-makers had taken a combination of macro-control policies including raising the deposit reserve requirement ratio, increasing interest rates and constantly implementing open market operations since the first half of the year, which resulted in a significant decline in inflation. Since August, the upward trend of China's CPI had

been curbed. CPI dropped to 4.1% in December and the annual average was 5.4% (Figure 1.2). The successful inflation control achieved in 2011 showed the Chinese government's capability and proficiency in macroeconomic control. However, the root causes of inflation in 2011 have not been completely eliminated, international raw material and energy prices kept rising, labor cost continued to increase and the world economy recovery has been slow. Therefore, the Chinese economy will continue to face inflationary pressures in 2012.

Lastly, in terms of indicators of economic conditions, the economic climate index and confidence index in 2011 showed a volatile downward trend, reflecting market concerns about the macroeconomic outlook. As shown in Figure 1.3, China manufacturing PMI declined with fluctuations in 2011. The index was generally lower than that of 2010. From January to October, China's PMI remained above the threshold of 50%; but declined to 49.0% in November, dropping below the threshold for the first time since February 2009 (China's average manufacturing PMI stood at 51.4% in 2011). In addition, the average production sub-index was 53.5% and the average new orders sub-index stood at 51.9%. Compared with other countries, both sub-indexes were at good levels, indicating that the Chinese economy still maintained steady growth, although slowing down the pace. At the same time, as the external environment was further complicated, the average export orders sub-index reduced to below 50%; domestic demand was relatively weak, and the new orders sub-index that reflects demand was significantly lower than the production sub-index.

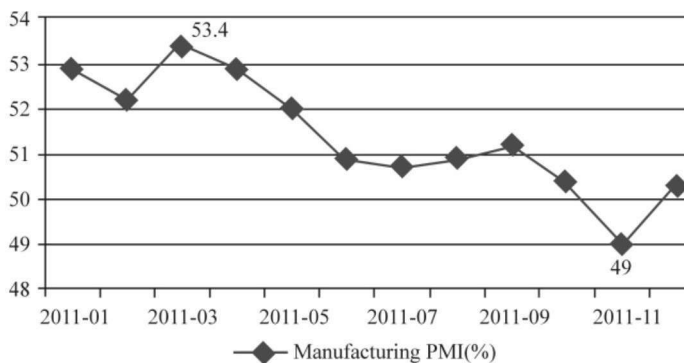


Figure 1.3 China's Manufacturing PMI in 2011

Source: Wind Database, <http://www.wind.com.cn/>.

In terms of confidence index, Figure 1.4 shows that in 2011, entrepreneur confidence index, consumer confidence index and economist confidence index all moved downward amid fluctuations. The economist confidence index ranges between 1 and 9, with 5 as the threshold; both entrepreneur confidence index and consumer confidence index range between 0 and 200, with 100 as the threshold. The threshold indicates little change in expectations for economic outlook. In China, in the fourth quarter of 2011, economist confidence index and entrepreneur confidence index slumped to the lowest level of the last two years, being 4 and 120.9% respectively; the consumer confidence index reduced to 100.5%, the lowest in the year. These indicate that affected by a variety of factors, such as domestic and international economic situations, all kinds of people showed varying degrees of concern about the economic outlook.

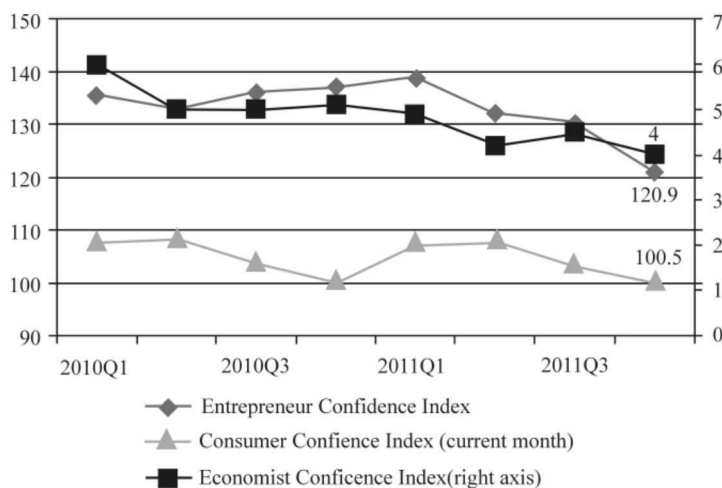


Figure 1.4 Entrepreneur, Consumer and Economist Confidence Indexes

Source: Wind Database, <http://www.wind.com.cn/>.

1.1.2 Financial Market

We'll start by examining the money market. First, let's look at the reserve requirement ratio and interest rates. In 2011, although China's regulatory agencies set the basic tone of prudent monetary policy at the beginning of the year, the actual monetary policy appeared moderately tight due to the impact of continuously rising inflation rate. Throughout the year, the central

bank adjusted the reserve requirement ratio a total of seven times. Specifically, the ratio was raised once per month in the first half of the year, a total of six times, up by 0.5% each time. By December 2011, considering the influence of various factors including the reduction in foreign exchange reserves and the decline in inflation rate, the central bank reduced the reserve requirement ratio by 0.5%. At the same time, to rein in rising inflation, the central bank also raised the benchmark deposit interest rate by 0.25% respectively three times, namely on February 9, April 6 and July 7 (See Figure 1.5).

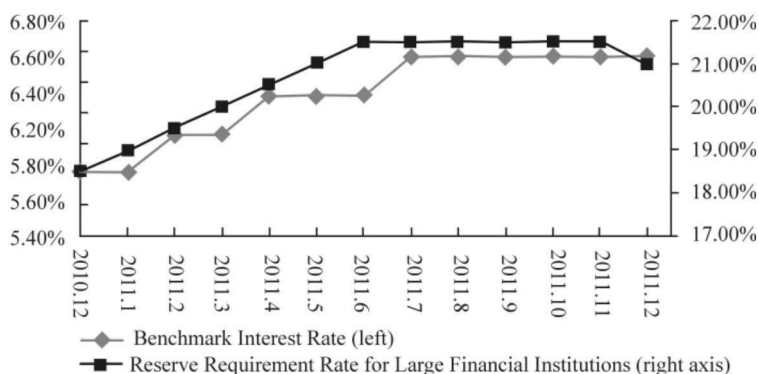


Figure 1.5 China's Benchmark Interest Rate and Reserve Requirement Ratio in 2011

Affected by monetary policy, transactions of short-term bills, interbank lending, bond repo, interest-rate derivatives and other products all increased in the money market. It can be seen in Figure 1.6 that with continuous increase in the reserve requirement ratio and tightening of money supply in 2011, the turnover of interbank lending and lending interest rate kept rising and the latter reached its peak of 5.59% in June.

Second, let's look at the money supply. The central bank also adjusted the amount of base money supply through open market operations besides adjusting reserve requirement ratio and interest rates. Overall, China's money supply was stable with a slight decline, but the ratio of M2 to GDP remained at a high level in 2011. To be specific, in terms of the amount of money supply, the year-on-year growth rates of M0, M1 and M2 were generally lower than those in the previous year, but they remained relatively steady for the

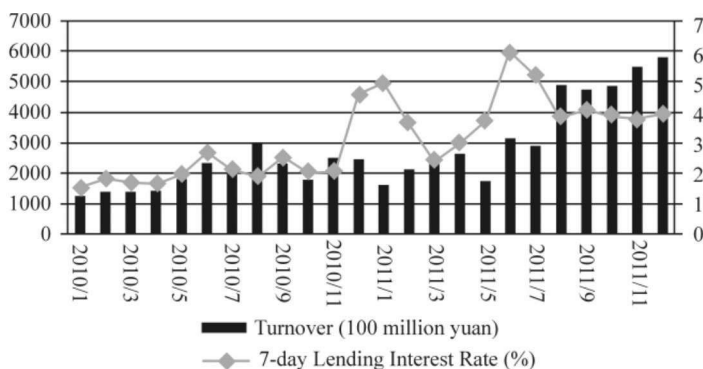


Figure 1.6 Turnover and Interest Rate of Interbank 7-day Lending Market

Source: Wind Database, <http://www.wind.com.cn/>.

whole year (See Figure 1.7) .^① Among them, M0 and M2 basically maintained synchronized growth, staying above 15% in the first half of the year, dropping by 1.2% respectively in June and July, then basically remaining at around 13% in the rest months. However, the growth rates of M1 were lower than those of M0 and M2. Particularly, the gap between the growth rates of M1 and M2 widened from 4% to 5.7% from September through December. The relationship between M1 and M2 indicates that in the circulation domain, China's fixed deposit grew faster than demand deposit, leading to reduced liquidity.

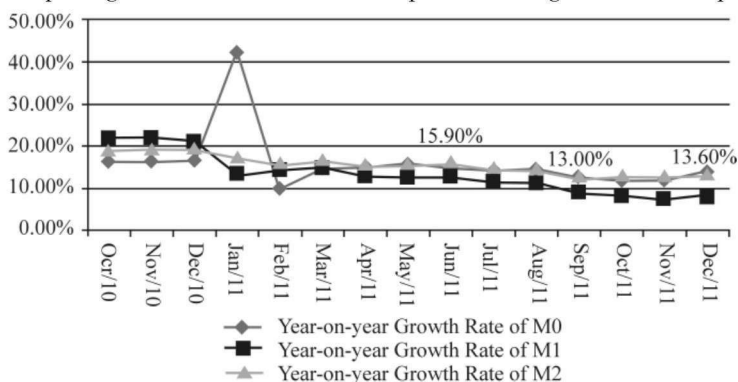


Figure 1.7 Year-on-year Growth Rates of M0, M1 and M2

^① In terms of total amount, narrow money (M1) was 26.176501 trillion yuan at the beginning of 2011 and registered 28.98477 trillion yuan at end-2011, up by 10.72%; broad money (M2) was 73.388483 trillion yuan at the beginning of 2011 and stood at 85.15909 trillion yuan at the end, up by 16.03%.

As for the relative change of M2 to GDP, M2/GDP reflects the financial depth of an economy and measures the proportion of transactions conducted through the currency in all economic transactions. In general, the ratio functions as a primary indicator for measuring the degree of financialization of a country's economy. Usually, the greater the ratio is, the higher the degree of monetization of the economy. However, this indicator, if too high, manifests excessive increase in money supply in the economy and higher inflationary pressure. In China, the year-on-year growth rate of M2 had been always higher than that of GDP since 2001, and the fluctuation of the former had been greater than the latter. As a result, the ratio of M2 to GDP substantially increased from 1.513 to 1.790 in 2009, up by 18.3%. In 2010 and 2011, the indicator continued to remain high. This indicates that China has been making progress towards deeper financialization, but at the same time, there also exist inflationary pressures.

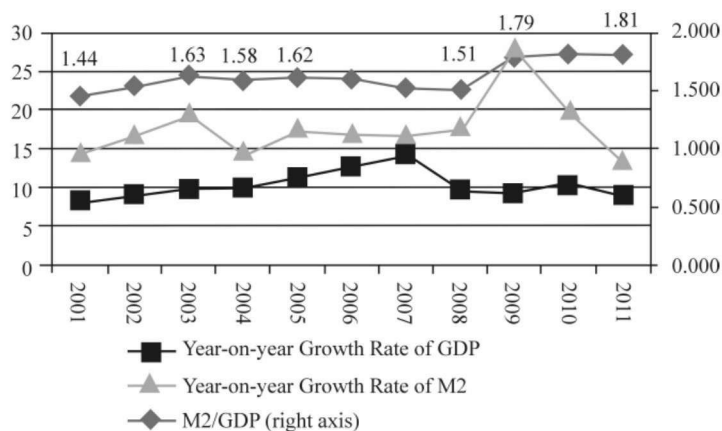


Figure 1.8 Year-on-year Growth Rates of GDP and M2, the Ratio of M2 to GDP

Then, let's have a look at the foreign exchange market. In 2011, the Renminbi continued to appreciate against major foreign currencies, and China's foreign exchange reserve kept rising in the first three quarters but continuously declined in the fourth quarter. Affected by a number of factors, such as the global subprime mortgage crisis and the European debt crisis, the monthly weighted average exchange rate of the Renminbi against the U. S. dollar reduced from 6.6 in January to 6.33 in December, or an appreciation

rate of 4%; that of the Renminbi against the pound decreased from 10.41 to 9.86, or an appreciation rate of 5% (Figure 1.9) . On the other hand, due to the effect of factors such as global funds' need to avoid risks and the Japanese yen' s long-term zero-interest-rate-policy, there was a growing demand for the Japanese yen. By obtaining the Japanese yen at a low interest rate and then converting into other currencies, these funds can achieve arbitrage. As a result, the Japanese yen maintained a large appreciation in 2011, causing the exchange rate of the Japanese yen against the Remminbi to move up and the Renminbi to depreciate against the Japanese yen.

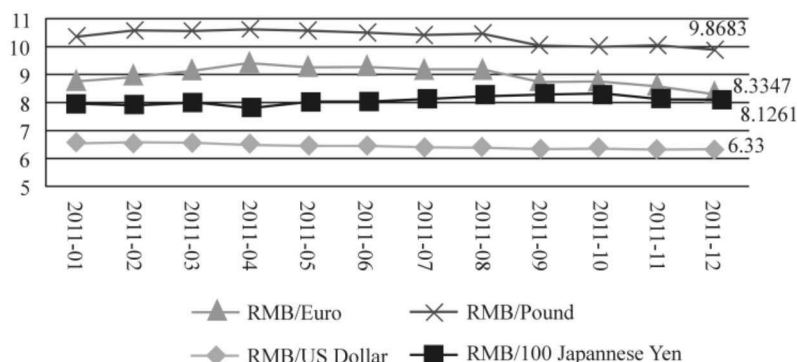


Figure 1.9 Exchange Rates of the Renminbi against Major World Currencies

Notes: This exchange rate refers to the weighted average exchange rate (of the current month) .

Affected by a number of factors, such as the Renminbi appreciation expectations, the global financial crisis and the European debt crisis, China' s foreign exchange reserve kept rising in the first three quarters of 2011 from 2847.338 billion USD at the beginning of the year to the peak of 3273.796 billion USD in October, a growth of 15%. In November and December, the reserve reduced for the first time since 2008, and registered 3181.148 billion USD at the end of December (Figure 1.10) . The decline was caused by a number of factors: the exchange rate of the Euro against the U. S. dollar fell sharply, causing the value of euro-denominated assets in China' s foreign exchange reserve to reduce and reserves held in dollar-denominated assets to depreciate; at the same time, due to the slowdown of European economies, China' s trade surplus with Europe showed a declining trend; in addition, due to risk-averse consideration, some investors withdrew their investment from China.