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China's Local Government Debt

Implications for U.S.-China Competition

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About This Report

China's subnational government debt—generally referred to as *local government debt*—is a central concern within the country's ongoing fiscal challenges. Local governments manage about 85 percent of government spending, but their main revenue source—land sales—has sharply declined since 2021 because of a downturn in the property sector. Because spending is outstripping revenues, local governments' debt as a share of China's national gross domestic product has risen from 32 percent in 2017 to at least 64 percent in 2024.

This report explores the profile and consequences of China's local government debt. In it, we seek to answer such questions as: How large is China's local government debt problem? What are the implications for China? And what are the implications for U.S.-China competition? This report should be of interest to U.S. and allied government officials devising and executing China policy, analysts of China's internal developments, and analysts of public finance.

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Summary

In response to the global financial crisis that began in 2007–2008, China unleashed a debt-fueled stimulus to maintain growth and employment. Although the global financial crisis has come and gone, debt-fueled growth has not. One measure of credit registered China's debt-to-gross domestic product (GDP) ratio at 315 percent in June 2025—a towering amount. Much of this debt is issued by local governments.

China's local government debt is a central concern among the country's ongoing fiscal challenges. Local governments manage about 85 percent of government spending, but one of their largest locally generated revenue sources—land sales—has sharply declined because of a downturn in the property sector. Besides the size of land sales' revenue relative to other revenue sources, one of the main benefits of land sales was that they constituted an important source of revenue for local governments that these governments could use flexibly. Land sales dropped from renminbi (RMB) 8.7 trillion in 2021 ($1.3 trillion in U.S. dollars) to only RMB 4.15 trillion in 2025 ($580 billion). With spending outstripping revenues, local government debt as a share of China's GDP has risen from 32 percent in 2017 to at least 64 percent in 2024, one of the more conservative estimates. Research for this report concluded at the end of July 2026, and there were selective updates after that.

Issue

In this report, we explore the profile and consequences of China's local government debt. We seek to answer such questions as: How large is China's local government debt problem? What are the implications for China's economy and political stability? And what are the implications for competition between the United States and China?

Approach

We examined publicly available Chinese- and English-language documents. Sources included official documents from China's government, Chinese and international news media, and analyses by experts on China and its economy. We also drew from economic and financial databases, including the Wind Financial Terminal, the leading China-based source of Chinese economic data.

Key Findings

We arrived at the following key findings:

- China's local government debt problem is a central concern among the country's ongoing fiscal challenges. Local governments manage about 85 percent of government spending, but one

sizable revenue source—land sales—has sharply declined because of a downturn in the property sector.

- Using data from the Wind Financial Terminal, we estimate that China's total local government debt was $12 trillion in 2024—64 percent of China's GDP. This total includes off-balance-sheet debts that had been accumulated through local government financing vehicles (LGFVs), which were valued at more than $5 trillion—if not more—as of December 2024.
- Banks have absorbed much of the recent surge in government debt (government bonds accounted for 22 percent of new bank assets over the past five years), leading to modest concerns about financial stability because of slowing asset growth, declining profitability, and capital requirements.
- Local governments have increased their collection of nontax revenue and cut spending on government services. However, these actions have not been enough to close the debt gap.
- The severity of the debt problem and how governments have responded varies significantly across China. Some major cities, such as Shenyang, have long grappled with debt and might prioritize spending on unemployment. Others, such as Guangzhou, have experienced a rapid surge in debt as the property market collapsed.

Despite the many problems that high levels of local government debt are causing, China has largely been able to maintain its model of subsidized growth. This does not mean that China can ignore the problem, and government officials recognize they must address it. To do so, they could centralize public finances and have the central government take on local government debt, although that might weaken central government finances and encourage more debt. Alternatively, China could decentralize and give local governments more autonomy regarding taxing and spending, although that could reduce the power of the central government. Governments could also attempt to sell the LGFVs or send some into bankruptcy, but selling them might not cover the value of the debts, and sending them into bankruptcy would mean that lenders must take losses, limiting the ability of those lenders to further support China's growth or local governments in need of financing. Finally, they could continue to restructure the debt, such as by lengthening the payback term or lowering the interest rate, but that also would mean losses for lenders. Some combination of bailouts, privatization, and changing the terms of debt is most likely, but none of those will solve the underlying problem of local government obligations outstripping revenues.

China's local government debt challenges have several implications. These challenges are likely to slow economic growth but not change the emphasis on growth through support for advanced manufacturing industries. The debt is also likely to make rebalancing away from investment- and export-driven growth toward consumption-driven growth—a long-stated but unfulfilled policy goal—harder to achieve, in part because many of the solutions, in addition to slower growth, could have negative consequences for consumption. Related to this, because of local government fiscal constraints, these debt challenges are also like to hamper China's ability to increase social support to the population, such as education and health care. By leading to a continued emphasis on exports as a source of growth, trade tensions with the rest of the world are likely to increase. However, because the central government has maintained budget discipline, local debt challenges are unlikely to halt China's

military-building, but at the same time, these challenges are unlikely to drive increased military aggression.

Implications

The United States has limited options to influence China's approach to local government debt. This is fundamentally an internal political problem that China has, so far, been able to manage with little disruption, and that China will have to solve on its own. The solution might also be gradual and with little disruption, but it might be painful and highly disruptive if problems are allowed to mount.

As noted previously, in terms of importance for U.S. consideration, China's local government debt challenges are likely to keep China from rebalancing away from investment- and export-driven growth toward consumption-driven growth, however serious China might be regarding this goal. This will mean a continued emphasis on exports as a source of growth and increased trade tensions with the rest of the world. However, it is also unlikely to slow China's military buildup. Accordingly, we recommend the following actions for the U.S. government.

- Continue to focus on technology competition. The United States will need to maintain—if not increase—counter-espionage efforts and reduce dependence on Chinese inputs that are part of U.S. technology supply chains, such as legacy semiconductors and rare earths. This also suggests that the United States should maintain or improve its own innovation potential.
- China's export drive could create opportunities to build international partnerships to constrain China. The United States could lead a coordinated effort among long-standing U.S. partners and other countries that are seeing their industries challenged; this could provide the basis for reforming the world trading system and even creating incentives for China to reform its own economy.
- If incentives for out-migration from China rise, the United States could benefit by absorbing higher-skilled immigrants from China. Despite potential security challenges, Chinese nationals have benefited U.S. technology advances and, with proper safeguards, can continue to do so.
- Even with the stresses to local well-being and national growth in China caused by rising levels of local debt, China will remain a formidable military competitor. Accordingly, continuing to invest in defense to deter China's aggression will remain a priority for the United States.

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Chapter 1

Introduction

China has undergone dramatic economic growth for nearly five decades. From 1978 through 2024, China's real per capita gross domestic product (GDP) growth has averaged almost 8 percent per year. For the world as a whole, including China, this figure for the same period was less than 2 percent.[1] With that growth, China's economy rose from only 1.7 percent of global GDP in 1978 to 16.8 percent in 2024, making it the second-largest national economy.[2]

In response to the global financial crisis that started in 2007–2008, China unleashed a debt-fueled stimulus to maintain growth and employment.[3] Although the global financial crisis has come and gone, debt-fueled growth has not.[4] One overall measure of credit, known as *total social financing*, registered China's debt-to-GDP ratio at 315 percent in June 2025, driven largely by government bond issuance; this is a towering debt ratio. Although it is true that this ratio is below that of Japan on a list of the world's largest economies, Japan is a much wealthier country in terms of per capita GDP.[5]

Much of this debt is issued by *subnational governments*—those below the level of the central government, generally referred to as *local governments* in analysis of Chinese government debt.[6] The most serious debt problems are tied to governments below the province level. Local governments are not only responsible for social services, such as education and health care, they are also responsible for translating the guidance produced by leaders in Beijing into actions that lead to economic growth. When growth appears to be falling short of desired targets, local leaders respond by increasing their infrastructure spending, land sales, and debt.[7]

The result has been an explosion of debt (Figure 1.1). Every province-level jurisdiction in China has seen growth in debt levels relative to its ability to pay. This is especially the case for six of the 12

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[1] World Bank, World Development Indicators, online database, last updated February 24, 2026. The variable used is "GDP per capita (constant 2015 US$)," series code NY.GDP.PCAP.KD.

[2] World Bank, 2026. The variable used is "GDP (current US$)," series code NY.GDP.MKTP.CD.

[3] Keith Bradsher, "China's Addiction to Debt Now Threatens Its Growth," *New York Times*, May 24, 2017.

[4] Dinny McMahon, *China's Great Wall of Debt: Shadow Banks, Ghost Cities, Massive Loans, and the End of the Chinese Miracle*, Houghton Mifflin Harcourt, 2018.

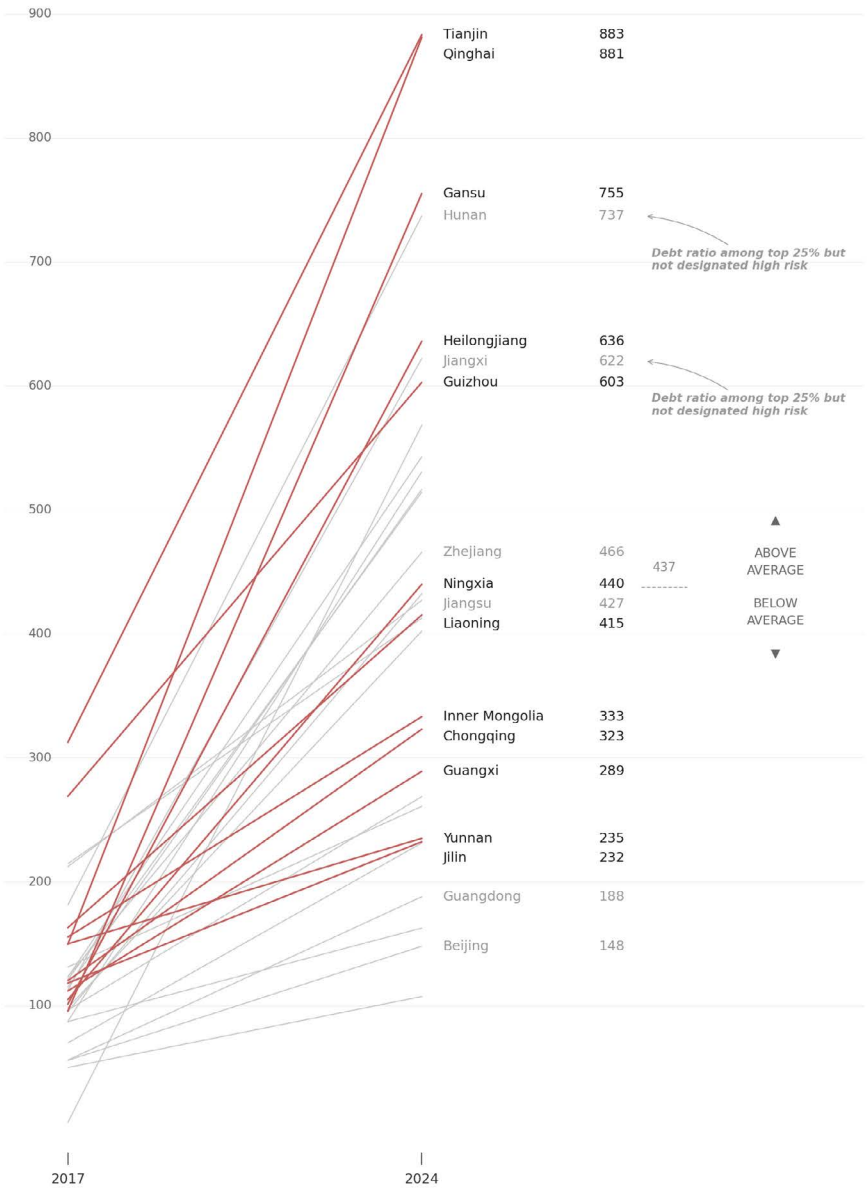
[5] International Monetary Fund, *People's Republic of China: 2025 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*, IMF Country Report No. 26/44, February 2026, pp. 13, 61; Michael Pettis, "Using China's Central Government Balance Sheet to 'Clean Up' Local Government Debt Is a Bad Idea," Carnegie Endowment for International Peace, August 6, 2025a.

[6] Allison Nathan, "Interview with Michael Pettis," *Top of Mind*, No. 134, Goldman Sachs Global Macro Research, December 11, 2024.

[7] Jeffrey (Jinfan) Chang, Yuheng Wang, and Wei Xiong, "Taming Cycles: China's Growth Targets and Macroeconomic Management," National Bureau of Economic Research, Working Paper No. 33718, April 2025.

provinces or province-level municipalities designated *high risk* by the central government in 2023: The debt figure for Tianjin hit 883 percent of its local financial resources in 2024, and in Qinghai, it hit 881 percent, as seen in Figure 1.1.

Figure 1.1. China's Rising Debt: Debt Ratio by Province-Level Jurisdiction, 2017 and 2024



SOURCE: Features data from the Wind Financial Terminal, undated.
NOTE: Lines indicate province-level jurisdictions. The *debt ratio* (wide caliber) is defined as local debt plus interest-bearing debt issued by local government financing vehicles (LGFVs) relative to local financial resources. *Local financial resources* are defined as budget revenue plus income from transfers from the central government plus the revenue of government-managed funds plus state-owned capital operating income. LGFVs are discussed in detail in Chapter 2. China's public finance system, including the general fiscal budget, the government funds budget, and the state capital operations budget, is discussed in detail in Chapter 3.

Using publicly available data—which might not include the totality of local government debt—we estimate that China's local government debt has risen from 32 percent of GDP in 2017 to 64 percent in 2024. Of this local debt, the largest share is in the form of off-balance-sheet borrowing (explained in Chapter 2, which also discusses other, higher estimates of local government debt), which is the most opaque form of debt; therefore, the value of this debt is also the most uncertain.[8] This broad category of off-balance-sheet borrowing is larger than the narrower category of *hidden debt* recognized by Chinese authorities for refinancing and debt-resolution purposes.[9]

Debt is not necessarily a problem if it is used to fuel productive investment. If the return on investments that debt funds is well above the interest rate on debt, then high levels of debt can be sustained and debts can be repaid. Likewise, if borrowers can service their debts, the financial stability of lenders can be maintained and they can continue to lend for further investment. In China, local government debt levels have become a problem in both these domains.

In the realm of investment returns and ability to repay, one estimate held that LGFVs, the entities through which much of the borrowing and investing takes place, had a median return on assets of 1 percent and interest rates on debt were 5.36 percent.[10] Debt service has become a problem in many cases; in 2022, debt service relative to fiscal income was above 50 percent in 27 of 31 provinces.[11] The greater inefficiency of investment and greater debt service relative to income, exemplified by the dramatic rise in debt relative to GDP, has increased speculation that China faces a future of economic stagnation with slow growth and price deflation. Capital formation, largely through public infrastructure, industrial base modernization, and property-sector development has played an important role in China's growth through the four decades since reform and opening up in the late 1970s.[12] This capital formation was supported by labor mobility from agriculture to industry and from rural to urban areas. In the early decades of rapid growth, productivity gains played a leading role and remained important until about 2007, when productivity started declining.[13] Local governments have been the principal agents in supporting this growth: Local government investment accounted for

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[8] Debt values are from Wind Financial Terminal, undated, and include local government general bonds, local government special bonds, local government special refinancing bonds, and LGFVs' interest-bearing debt, which are explained in Chapter 2. GDP data are from World Bank (2026) and include "GDP (current LCU [local currency units])," series code NY.GDP.MKTP.CN, and "GDP (current US$)," series code NY.GDP.MKTP.CD.

[9] To be more specific, *off-balance-sheet debt* refers broadly to local government–related liabilities incurred outside formally approved local government bond channels, often through LGFVs and other quasi-fiscal entities. *Hidden debt* refers more narrowly to the subset of these liabilities that Chinese authorities identify as government obligations for such purposes as official monitoring, debt swaps, restructuring, or refinancing. Beijing has used the narrowly defined *hidden debt* (政府隐性债务) to devise targeted debt-swapping programs.

[10] Rogan Quinn and Logan Wright, "The Myth of China's Fiscal Space," Rhodium Group, August 23, 2023, p. 3.

[11] Gero Kunath, *Debt-Fuelled Growth in China and Local Government Indebtedness: The Consequences of an Unbalanced Economic Growth Model*, IW-Report 35/2025, Institut der Deutschen Wirtschaft, July 16, 2025, p. 45.

[12] Kunath, 2025, p. 8.

[13] Zuliu Hu and Mohsin S. Khan, "Why Is China Growing So Fast?" *Economic Issues*, No. 8, International Monetary Fund, June 1997; Loren Brandt, John Litwack, Elitza Mileva, Luhang Wang, Yifan Zhang, and Luan Zhao, "China's Productivity Slowdown and Future Growth Potential," Policy Research Working Paper No. 9298, World Bank, June 25, 2020.

between 14 and 15 percent of GDP in 2022.[14] Declines in the ability to borrow could then have follow-on effects on employment and growth. Where once it was certain that China's GDP would surpass that of the United States, that now seems unlikely.[15]

In the realm of financial stability, there are growing concerns that mounting local debt and reduced ability to repay lenders could harm those lenders. In 2024, banks held 77 percent of local government bonds; in 2022, bank loans accounted for 60 percent of LGFV debt and banks held a large portion of LGFV bonds, so repayment difficulties might end up impairing banks.[16] As of April 2025, those risks were manifesting, especially in smaller banks.[17] This has led to bank consolidation: For example, 67 rural banks were consolidated in Liaoning Province in 2023 and 2024. Reforms and cleanup of those banks' impaired debts were likely to limit their lending and result in losses to the people and entities that hold shares in these banks or that have lent to them.[18] Bank weakness then feeds back on future growth in China as local governments cut spending or have difficulty getting credit for investment projects.[19]

In fact, debt service, which includes principal and interest payments, has been a challenge for local governments (Table 1.1). To cover debt service on official government bonds, the combined payments from local governments in China account for more than 40 percent of annual general budget revenues in 19 out of 31 province-level jurisdictions. For Tianjin and Qinghai, this debt-service ratio is close to 90 percent, even without considering the LGFV debts that might be accrued at higher interest rates. In addition to general budget revenue, an alternative measure of local governments' financial resources includes government-managed fund revenue and state-owned capital operating income; even under this more expansive measure, debt service is still a straining factor for local government finances. This pressure may entrench the incentive for local governments in China to resort to off-balance-sheet borrowing to more flexibly meet policy or operational goals within jurisdictions.

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[14] Quinn and Wright, 2023, p. 3.

[15] Robin Wigglesworth, "China Is Turning Japanese," *Financial Times*, October 17, 2024; "What Is Japanification and Is It Happening to China?" Bloomberg News, February 27, 2025. In 2024, the United States' GDP was $28.75 trillion and China's GDP was $18.74 trillion. China's *working age population*, defined as people aged 15–64, is projected to start declining in 2028. For China to catch up to the United States in terms of GDP, holding inflation and exchange rates equal, it will need to increase its GDP per working age person. However, that figure has been trending downward. The source for the GDP figures is World Bank, 2026. The GDP variable is "GDP (current US$)," series code NY.GDP.MKTP.CD. The source for the population figures is U.S. Census Bureau, International Database: World Population Estimates and Projections, last revised December 2025.

[16] Kunath, 2025, pp. 40, 42.

[17] International Monetary Fund (IMF), *People's Republic of China: Financial Sector Assessment Program—Financial System Stability Assessment—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*, IMF Country Report No. 25/100, April 2025, p. 8.

[18] Yunbang Xu, Christopher Yip, Kendrew Fung, Ryan Tsang, Chen Guo, and Ricky Tsang, "China's High-Risk Regions Edge Toward Debt Resolution," S&P Global, September 8, 2025.

[19] Shuanglin Lin, *China's Public Finance: Reforms, Challenges, and Options*, Cambridge University Press, 2022, p. 333.

Table 1.1. Local Government Debt Service, 2024, Percentages

Province	Debt Service Relative to General Budget Revenue	Debt Service Relative to Total Financial Resources
Beijing	28.0	17.2
Tianjin	88.4	65.9
Hebei	38.3	26.5
Shanxi	20.9	17.8
Inner Mongolia	38.2	32.3
Liaoning	53.6	44.7
Jilin	67.7	12.9
Heilongjiang	52.2	45.8
Shanghai	16.4	11.7
Jiangsu	24.5	9.4
Zhejiang	23.1	9.8
Anhui	44.8	28.8
Fujian	40.4	15.3
Jiangxi	49.2	29.7
Shandong	40.1	15.0
Henan	44.0	29.6
Hubei	42.9	23.9
Hunan	53.3	33.6
Guangdong	18.0	10.8
Guangxi	58.6	13.5
Hainan	60.6	17.5
Chongqing	60.1	17.2
Sichuan	35.6	10.4
Guizhou	77.1	35.9
Yunnan	74.3	18.9
Tibet	22.7	19.3
Shaanxi	28.8	18.5
Gansu	47.7	33.7
Qinghai	94.0	79.6
Ningxia	56.3	46.6
Xinjiang	31.7	25.7

SOURCES: Features "Annual Statistics" data from China Electronic Local Government Bond Market Access, webpage, undated; and the general budget revenue and total financial resources data from Wind Financial Terminal.
NOTE: Debt service includes principal and interest payments. General budget revenue includes revenue from both tax and nontax sources. Total financial resources captures the total resources available to local governments, including general budget revenue, government-managed fund revenue, and state-owned capital operating income. Notably, this definition of financial resources does not include earmarked revenues for social insurance funds.

In this report, we explore the profile and consequences of China's local government debt. Sources include official Chinese government documents, Chinese and international news media, analyses by

experts on China and its economy, and economic and financial databases, including the Wind Financial Terminal, the leading China-based source of the country's economic data. We rely on data from the Wind Financial Terminal for many of our estimates to avoid making judgment calls about state-owned enterprise (SOE) debts and liabilities to affiliated local governments, something that other estimates do. This approach yields a conservative estimate of the debt problem for China's local governments, but one that is larger than China's official estimates.

The report is meant to be of interest to U.S. and allied government officials who are devising and executing China policy, analysts of China's internal developments, and analysts of public finance. There has been a significant amount of research on China's local government debt, much of which we cite and can be found in the list of references. Despite that, as policymakers change and new people enter the policymaking sphere, there is always a use and an opportunity for a refreshed look at the problem. Furthermore, we attempt to differentiate our work by firmly anchoring it in the most widely used sources with which there can be little dispute either from foreign or China-based analysts; by embedding it within China's overall public finance system, which can be complex even to experienced China analysts; and by clarifying what China's local government debt problem might mean for the United States.

To date, China has been able to manage this problem with little disruption. For example, since at least 2016, China has been using unconventional methods to resolve bad loans at banks through gradual methods without fully acknowledging the depth of the problem.[20] In 2025, China poured $69 billion into four major banks and planned to inject $44 billion into several more in 2026.[21] As described in Chapter 4, China has a variety of tools with which to solve the problem, although all would present both economic and political costs. China might well continue to manage the problem and reach a gradual solution with little disruption, but resolving the local debt challenge might end up being painful and highly disruptive if problems are allowed to mount.

In Chapter 2, we describe the basics of China's local government debt, including its size, the means by which local governments finance themselves, the problem of so-called off-balance sheet debt, and the central government's so far unsuccessful attempt to rectify the problem. Chapter 3 widens the aperture to explain China's public finance system and its unified government budget, constraints on local government actions, and how local governments have responded through adjustments to their revenues and expenditures. Chapter 4 discusses what the local government debt challenge will mean for China, the adjustment pathways open to China, and the implications for the United States and U.S.-China competition. An appendix provides a case study comparison of how two major—but very different—cities in China, Shenyang and Guangzhou, have adjusted to significant debt pressures. Research for this report concluded at the end of July 2026, and there were selective updates after that date.

[20] Dinny McMahon, "Slow, Steady, Cheap, and Painless—Making Sense of China's Bad Loan Strategy," *Macro Polo* blog, April 8, 2019.

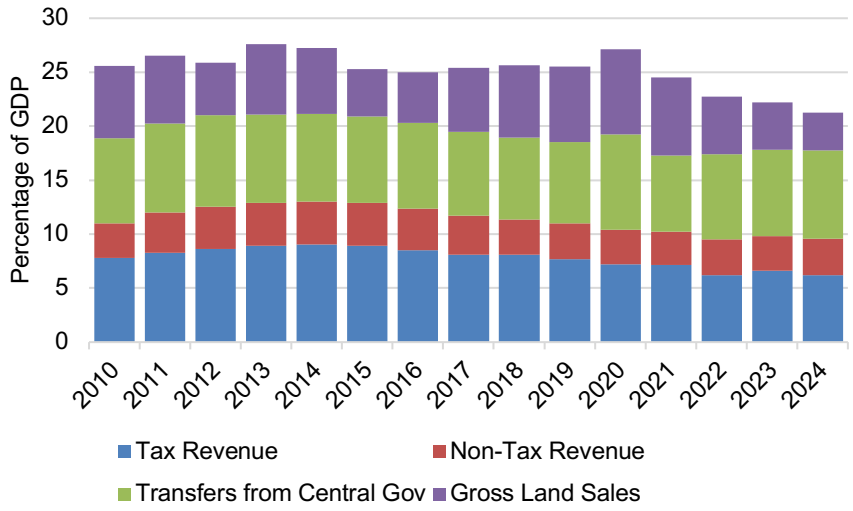
[21] "China Plans $44 Billion Bonds to Boost Capital at Top Banks," Bloomberg, March 4, 2026.

Chapter 2

The Nature of the Problem

China's local government debt problem is a central challenge for local governments concerned about their ability to provide services and support growth; the central government concerned about growth and also about China's financial and broader stability; and international institutions that might need to support adjustment in China or for which China's economic problems could have global repercussions. Local governments manage about 85 percent of government spending, but their direct tax and nontax revenue does not cover their spending. Instead, they gain additional revenue from transfers from the central government and land sales. Because of the downturn in the property sector, their gross land sales revenue as a share of total revenue has declined sharply (Figure 2.1).[22]

Figure 2.1. Local Government Revenues



SOURCE: Features data from the Ministry of Finance of the People's Republic of China (MOF) and National Bureau of Statistics of China via the CEIC global macroeconomic database, January 5, 2026.
NOTE: Revenue includes both the General Fiscal Budget and the Government Funds Budget, which are explained in Chapter 3.

Land sale revenues for local governments in China dropped from 8.7 trillion renminbi (RMB) in 2021 ($1.3 trillion in 2021 U.S. dollars) to only 4.9 trillion RMB in 2024 ($681 billion in 2024 U.S.

[22] Local governments also have expenditures related to land sales, such as compensation to relocated people and land preparation. As a consequence, profit margins from land sales vary; one estimate holds that the margins range from 25 to 60 percent of the gross land transfer revenue (Jean C. Oi, Jason M. Luo, and Yunxiao Xu, "A Perfect Storm: Fiscal Discipline, COVID, and Local Government Debt in China," *China Journal*, No. 23, January 2025, pp. 85–86).

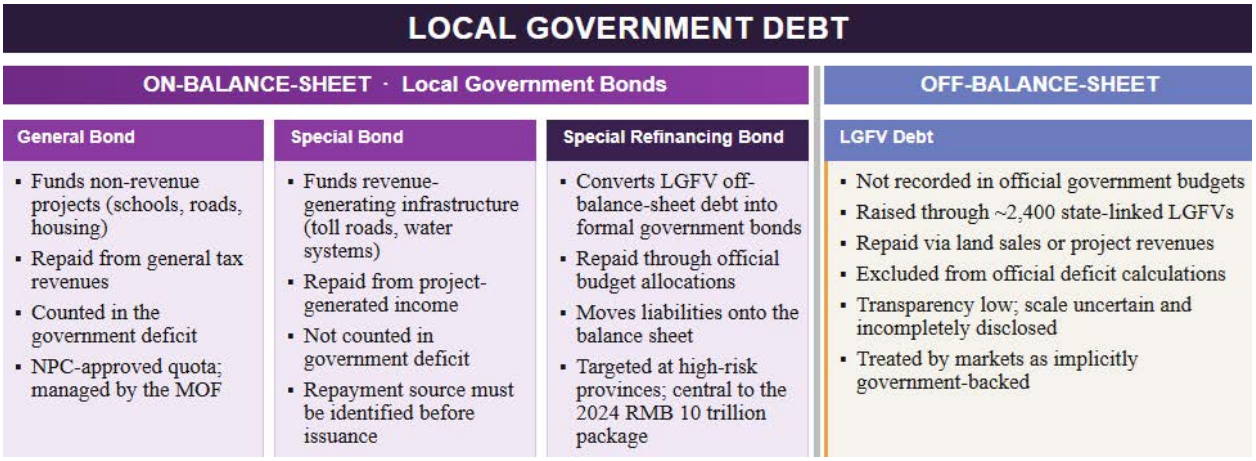
dollars) and were projected to drop further in 2025.[23] As a result, aggregate fiscal revenues from all sources (taxes, nontax revenues, land sales) were expected to decline as a share of GDP, even if economic growth targets were met. The challenge is not only the scale but also the concentration of risk: In 2023, more than half of what are known as *special refinancing bonds* to address local government debt were allocated to five of the most risk-prone provinces, showing uneven fiscal pressure across regions.

In this chapter, we present a primer of sorts on local government debt, clarifying the background, context, and terms. We cover the forms of local government debt, the debt's size, its distribution, reasons for its growth, how debt issuance is organized, how debt is disclosed, and what China has done to solve the problem.

Forms of Local Government Debt

Local government debt refers to the total amount of money that local governments (i.e., province-level governments and their subordinate governments) owe to creditors. This includes all forms of borrowing, both formal and informal, used to finance expenditures that exceed local revenues. Local government debt encompasses both on-budget and off-budget liabilities, which include loans, borrowing, guarantees, nonstandard financings, and other financial obligations (Figure 2.2).

Figure 2.2. China's Local Government Debt and Its Forms



NOTE: NPC = National People's Congress.

Local government bonds are a specific, regulated form of local government debt; specifically, they are debt securities issued directly by local governments, typically with approval from the central government. Bonds are transparent, standardized, and traded in public markets, making them easier to monitor and regulate. These bonds do not include *off-balance-sheet debt*—borrowing or financial obligations not recorded in the official budget or financial statements for local governments, often

[23] Debt values are from Wind Financial Terminal, undated. Dollar conversions throughout the report are in current dollars for the year of the debt using average annual exchange rates, except where noted.

arranged through special-purpose entities, such as LGFVs. In China's policy discourse, only a subset of this broader off-balance-sheet borrowing is treated as *hidden debt*, acknowledged and tackled through official monitoring, debt swaps, or refinancing. Accordingly, in China, the outstanding value of local government bonds is considerably smaller than the total local government debt.

Local government bonds are tracked and reported on by the MOF, and bond issuance quotas are ultimately approved by the NPC each year. By contrast, the off-balance-sheet debts contribute to total local government debt but are less transparent and harder to quantify. They may be allocated for the same project as debt funded by bonds or be used for broader government goals.

Classification of Local Government Bonds

Local government bonds in China are classified into three main types: general bonds, special bonds, and special refinancing bonds (Figure 2.2).

General bonds are issued to finance projects that do not generate revenue, such as schools or village roads, and they are repaid from local government general revenues; these bonds are included in budget liabilities and therefore deficits because they use general public budget revenue (e.g., taxes, fiscal income) as source of repayment.

Special bonds are used for revenue-generating infrastructure, such as toll roads, municipal water systems, industrial parks, and other infrastructure, and they are repaid from project-generated income or other government fund resources; special bonds are not included in government deficits because they are linked to specific revenue-generating public projects that generate their own cash flows. These bonds must identify a clear repayment source—such as project revenues, dedicated funds, or earmarked fees—that can service the debt without drawing on the general budget.

We refer to both the general bonds and special bonds as *on-balance-sheet debt*, in contrast to the less transparent debts accumulated through the LGFVs, which we refer to as *off-balance-sheet debt*. The funds derived from off-balance-sheet local government debts could be used by local governments to supplement the general bonds and special bonds in actual projects.

Special refinancing bonds, a more recent innovation, are issued primarily to replace the less-transparent, off-balance-sheet local government debts; allocations and quotas are managed by the MOF and directed especially toward provinces facing high debt risks.[24] China's latest major debt resolution package, announced in late 2024, used this type of bond.[25]

The Size of Local Government Debt in China

Although an official estimate of local government debt has been given, the total amount, particularly that including off-balance-sheet liabilities, is not fully transparent. Local government debt comprises both on-balance-sheet and off-balance-sheet debt, and off-balance-sheet liabilities—primarily from LGFVs—represent a substantial and often opaque portion of the risk.

[24] Cheng Siwei and Yu Hairong, "How to Activate the Space of Local Special Bond Quotas" ["如何盘活地方专项债限额空间"], *Caixin Weekly*, No. 34, August 29, 2022.

[25] "What You Need to Know About China's $1.4 Trillion Debt Package," Reuters, November 10, 2024.

Using data from the Wind Financial Terminal database, we estimate total local government debt of at least RMB 86 trillion ($12.0 trillion) by the end of December 2024, or 64 percent of China's total GDP. This includes the total outstanding balance of local government bonds of RMB 47 trillion ($6.5 trillion), and off-balance-sheet debts accumulated through LGFVs at RMB 39 trillion ($5.4 trillion) as of December 2024.[26] This size of this off-balance-sheet borrowing was just shy of that of the local government debts accumulated through officially approved government bonds (Table 2.1).

Table 2.1. Chinese Local Government Debt, 2017 and 2024, in Trillions (RMB and U.S. $)

Type of Debt	2017	2024
Valued in RMB		
General bond	9.26	14.93
Special bond	5.48	27.47
Special refinancing bond	0.00	4.94
Interest-bearing LGFV debt	12.16	39.01
Total	26.91	86.35
Valued in U.S. dollars		
General bond	1.37	2.07
Special bond	0.81	3.82
Special refinancing bond	0.00	0.69
Interest-bearing LGFV debt	1.80	5.42
Total	3.98	12.00
Addendum		
Total, percentage of national GDP	31.75	64.01

SOURCE: Features data from Wind Financial Terminal, undated.
NOTE: The RMB and dollar exchange rates used for conversion were 6.7569 in 2017 and 7.1957 in 2024 (Federal Reserve Bank of St. Louis, 2026). All figures are aggregations of province-level data. The central government's late 2024 local debt restructuring program substantially changed the composition and reporting of subnational liabilities. As a result, 2025 figures are not directly comparable with prior years and are excluded from this table. We use 2017 as the baseline year because Wind Financial Terminal coverage of LGFV debt becomes more consistent and comparable across jurisdictions from that point forward, following China's 2015 Budget Law reforms. The increase from 2017 to 2024 reflects both debt accumulation and improved measurement. Numbers may not sum to total because of rounding.

[26] The off-balance-sheet debt data are aggregated at the province level, and the RMB 39 trillion figure is a result of summation across all provinces. The Wind Financial Terminal database issues marginal revisions on these LGFV debt figures occasionally, and our calculation used data accessed as of October 20, 2025. In addition, throughout the report, we convert RMB values to dollar values at the average annual nominal exchange rate for the year of the RMB value (Federal Reserve Bank of St. Louis, "Chinese Yuan Renminbi to U.S. Dollar Spot Exchange Rate (DEXCHUS)," Federal Reserve Economic Data, updated July 27, 2026).

To arrive at this estimate, we compiled province- and city-level government financing data from the Wind Financial Terminal's local government bond and LGFV databases, and we cross-checked the reported outstanding government bond sizes with MOF bond issuance totals. We chose Wind as the primary data source because it provides the most comprehensive and frequently updated repository of China's subnational financial statistics, including detailed LGFV balance-sheet data that are not captured by official government reporting. Alternative datasets tend to rely on China's MOF bond tallies and exclude LGFV liabilities. Wind integrates those instruments and tracks the outstanding principal of both explicit and implicit debts across jurisdictions.

Our estimate differs from some offered by others. One challenge for all estimates is that data on off-budget entities, including LGFVs, are weak.[27] Despite data challenges, the IMF estimated local government debt in 2024 to be between 84.3 percent and 91.3 percent of GDP.[28] Rhodium Group estimated local government debt at 99 percent of GDP in 2022, including explicit local government debt, LGFV interest-bearing debt, and local *implicit debt* (which includes debt incurred by schools, hospitals, and other similar institutions).[29]

Using the LGFV debt module from the Wind database, we are able to extract LGFV debt estimates for local governments in China, and these are aggregated from public information or financial reports about the interest-bearing debts from approximately 2,400 LGFV entities. On top of publicly traded bonds and reported commercial loans, the IMF incorporates a wider range of off-budget liabilities that function as quasi-fiscal spending. This includes government-guided funds and debt from nontraditional vehicles that Wind categorizes as purely corporate but that the IMF identifies as being fundamentally backed by local government balance sheets for infrastructure and public service provision.

The IMF methodology implicitly extrapolates from public data to include non–bond-issuing LGFVs and bank loans that are not fully captured in commercial databases. Implementing this extrapolation calls for classifying debts accumulated by state-owned enterprises linked to local governments. Our analysis refrains from making a definitive qualitative judgment; however, we acknowledge that our methodology might yield a conservative estimate, potentially understating the true extent of broader off-balance-sheet liabilities.[30] Despite adopting a conservative estimation framework, we provide a debt burden that is significantly more substantial than that presented in official reporting.

Our estimate is lower than those of the IMF and Rhodium Group not necessarily because it is more accurate but because it measures a narrower and more observable concept of local government fiscal exposure in a system that is inherently opaque. We use a conservative framework anchored in

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[27] IMF, 2026, pp. 41–42.

[28] IMF, 2026, p. 62, Table 2: China: General Government Fiscal Data. The IMF reports that explicit local government debt is equal to 35.2 percent of GDP and LGFV debt is equal to 49.1 percent of GDP. The IMF also reports the debt of special construction funds and government guidance funds, much but not all of which is attributable to local governments, as 7.0 percent of GDP.

[29] Quinn and Wright, 2023. The exact percentages—based on further communications with the authors—are local government debt at 29 percent, LGFV interest-bearing debt at 45 percent, and implicit local debt at 25 percent.

[30] The true scope of hidden liabilities might cover implicit guarantees that are not captured in loans and other commercial borrowing, or borrowing by state-owned enterprises that is not directly attributable to local governments in China.

official local government bonds and interest-bearing debt reported for identifiable LGFVs in the Wind database, making our estimate relatively transparent and replicable. By contrast, the IMF and Rhodium estimates include a broader set of implicit and quasi-fiscal liabilities that ultimately might migrate onto public balance sheets but require more judgment in classification and extrapolation. Our estimate is therefore best understood as a conservative lower bound, while the higher estimates represent broader views of the same underlying risks.

Chinese official statistics record lower levels of debt. The MOF estimated RMB 47.38 trillion ($6.58 trillion, or 35.1 percent of national GDP) of official government debt accrued at the local government level as of December 2024. However, this was not the overall total because of the widespread use of off-budget financing tools by local governments, for which official estimates do not account.[31] The reported total local government debt more than doubled from RMB 21.3 trillion ($3.08 trillion) in 2019 to RMB 47.38 trillion ($6.58 trillion) at the end of 2024 according to the MOF, reflecting significant growth, particularly during the coronavirus disease 2019 (COVID-19) pandemic.

China's finance minister, Lan Fo'an, alluded to an estimated RMB 14.3 trillion ($2.02 trillion) of outstanding hidden debts by the end of 2023.[32] But on September 10, 2025, he alluded to a much smaller figure when delivering the 2024 government debt management report to the NPC. Specifically, the MOF recognized RMB 10.5 trillion ($1.46 trillion) in the tally of hidden debts for local governments, which is only one-quarter of the outstanding off-balance-sheet LGFV liabilities confirmed in our research.[33]

The discrepancy between China's estimates and those of other sources partly reflects methodological opacity and political considerations. The MOF has not released an official methodology for determining what constitutes *hidden debt*, leaving unclear which liabilities are included in its tally. This lack of transparency affords authorities the flexibility to define and manage fiscal exposure in ways that help contain perceived risks to financial stability. This approach might be adopted to avoid triggering public reaction that might accompany a sharp upward revision of liabilities or manage creditor behavior, slowing risk repricing and buying time for gradual rollovers and debt swaps. Beyond the technical ambiguity, there are clear political incentives to downplaying the magnitude of off-budget debt. Ambiguous definitions preserve central government leverage, allowing authorities to recognize liabilities selectively when provinces seek relief, and could allow authorities to frame debt risks as contained and localized rather than systemic. With strong headwinds already weighing on China's economic growth, China's leadership faced domestic pressure to conclude the 2021–2025 Five-Year Plan period on a note of stability and success.

As a share of GDP, debt issued by both central and local governments has increased significantly in recent years. Among the different budgets in China (explained further in Chapter 3), the

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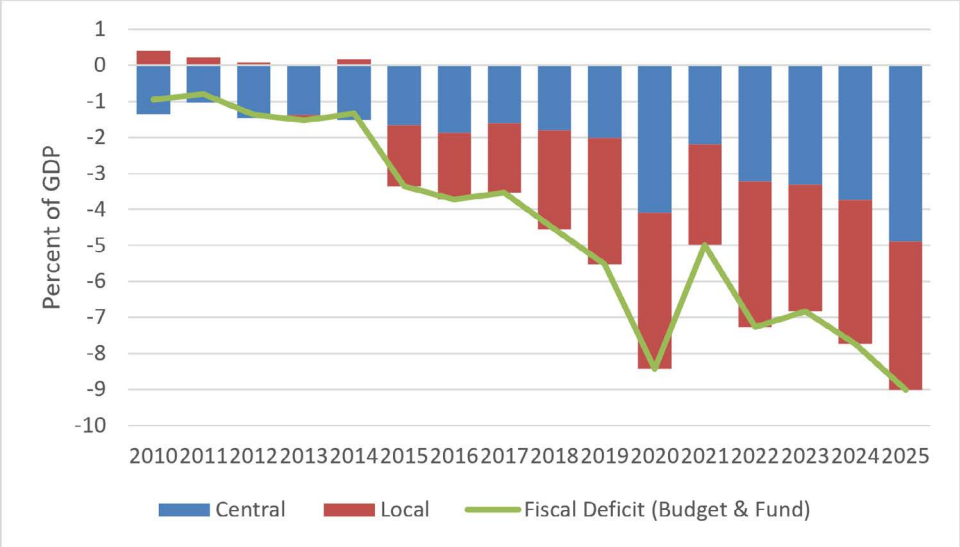
[31] Ministry of Finance of the People's Republic of China, "Local Government Bond Market Report (December 2024)" ["地方政府债券市场报告（2024 年 12 月）"], February 7, 2025.

[32] Kevin Yao and Ellen Zhang, "China Unveils $1.4 Trillion Local Debt Package but No Direct Stimulus," Reuters, November 8, 2024.

[33] Lan Fo'an, "Report of the State Council on Government Debt Management for 2024" ["国务院关于 2024 年度政府债务管理情况的报告"], presented at the 17th Meeting of the Standing Committee of the 14th National People's Congress, September 10, 2025.

government general fiscal budget includes tax and nontax revenues for operating expenses and public services, while the so-called government funds budget is funded mainly by land sales for capital projects by local governments. Combined, their annual shortfalls have soared from 1 to 2 percent of GDP between 2011 and 2014 to 9 percent in 2025 (Figure 2.3).

Figure 2.3. China's Fiscal Deficit, Percentage of GDP



SOURCE: Features data from the MOF and National Bureau of Statistics, accessed October 3, 2026.
NOTE: Local revenues include transfers from the central government. All fiscal revenue and expenditure data points adopt the validated version from China's National Government Final Accounts.

To finance these shortfalls, both central and local governments have increasingly relied on issuing government bonds, the purchasers of which are largely in China rather than abroad. China's state-owned banks have absorbed much of the recent surge in government debt (government bonds accounted for 22 percent of new bank assets over five years through 2024), but the banking system's ability to absorb new debt is reaching its limits because of slowing asset growth, declining profitability, and capital requirements. Extending bank purchases of debt would require reducing lending to the private sector and real economy. In addition, many investments financed by LGFVs generate returns below borrowing costs, making repayment difficult and compounding fiscal pressures. Despite these problems, China's central government has discussed a variety of fiscal reforms, but it has not implemented reforms that would fundamentally resolve the mismatch between local governments' spending responsibilities and their revenue bases. Measures announced in late 2024 by the MOF sought only to extend the off-budget debt through official government bonds and to buy time with lower interest rates for the newly issued bonds.

The Legacy of Off-Budget Debt for Local Governments in China

Local governments have long faced a mismatch between spending requirements and official revenues. The fiscal imbalances for local governments in China can be traced back to the country's tax

reform in 1994. Local governments saw a significant reduction in their tax revenues because a large proportion of local tax income was diverted to the central government. Although there were tax rebates and fiscal transfers from the central government, local governments did not have enough budgetary income to manage their expenditure tasks.

Before further tax reforms went into effect in 2015, local governments were largely prohibited from borrowing directly. To compensate for the shortfalls that followed the 1994 tax reform, local governments established off-balance-sheet borrowing channels, most notably by creating LGFVs. These entities, which have independent legal status, were used to borrow funds for investment and urban development projects, and there was implicit financial and resource backing from the local governments. These additional borrowing or financial obligations were not recorded in the official local government budgets or financial statements.

Land transfers became one of the most important ways of facilitating LGFV borrowing and then to fund infrastructure projects and boost public finance. Land transfer for the purpose of financing LGFVs and, ultimately, local governments, operated in the following manner: Local governments, which own urban land, transferred land-use rights to LGFVs. LGFVs would use the land as collateral to secure loans from banks or issue bonds to investors. The LGFVs would then prepare the land for development—for example, by building roads, installing utilities, and making the area attractive to property-sector developers. Once the land was ready, it would be sold, often through public auctions, to developers who were eager to build new housing or commercial projects. Sometimes, the developers ultimately buying the prepared lands were government-owned entities similar to LGFVs. As a way for local governments to profit from their control of public assets, these land sales often proved extremely lucrative.

The money from these land sales thus became a crucial source of nontax revenue for local governments.[34] It allowed them to repay the debts incurred by LGFVs and finance further development projects. As China's property-sector market boomed, this model created a virtuous cycle: Rising land values led to more sales, which, in turn, fueled more borrowing and more construction. For years, this arrangement seemed to work well under a booming property sector and rising land prices. Local governments could fund ambitious projects and drive urbanization while keeping much of their borrowing off the official books.

Central authorities became concerned about the sustainability and transparency of local development financing. The 2015 Budget Law of the People's Republic of China allowed local governments to issue bonds directly for the first time.[35] The reform aimed to bring local government debt onto official balance sheets and enable more market-based financing of infrastructure and social services.

However, even after the reform, local governments continued to face revenue shortfalls and limitations on borrowing, resulting in their continued reliance on off-budget financing instruments. The continued use of LGFV debts was linked to the role of the property sector and urban

[34] Noa Ronkin, "When the Storm Hit: How COVID Exposed China's Flawed Fiscal System," Freeman Spogli Institute for International Studies, Stanford University, May 6, 2025.

[35] National People's Congress of the People's Republic of China, Budget Law of the People's Republic of China [中华人民共和国预算法], issued January 7, 2019.

development in China's local government financing.[36] Replacement bonds were introduced to swap the implicit local debt accumulated by LGFVs into formal government debt; issuance lasted from 2015 to 2018. However, the bond quota was often insufficient for local governments' infrastructure and development needs, leading them, at times, to continue relying on implicit debt-raising practices—including LGFVs—when necessary.

Since the COVID-19 pandemic, weakening demand for land and the poor health of the real-estate market have added pressures on LGFVs to adequately service their debts. In 2022, land sale proceeds decreased in many provinces.[37] Some LGFVs stepped in to purchase land, which helped inject liquidity into local government coffers but resulted in accumulating debts. Some of the LGFVs that purchased the land to add liquidity to local governments had little experience with urban development. This created further challenges to completing the housing development cycle and generating revenue from property-sector projects.[38] The total sales revenue in China's property sector had been projected to be RMB 9 trillion ($1.25 trillion) or less in 2025, only half of the peak of RMB 18.2 trillion ($2.82 trillion) in 2021.[39] Narrowing this to land sale revenue for China's local governments, this figure hit its peak in 2021, at RMB 8.7 trillion ($1.35 trillion), falling by more than half to RMB 4.15 trillion ($0.58 trillion) in 2025.

Policy Actions to Alleviate China's Local Government Debt Problem

China's central government has recognized the fiscal risks of local government debts and has implemented a variety of measures to contain or alleviate this problem, including a debt package valued at RMB 10 trillion ($1.39 trillion) in November 2024. Most of these measures target the subset of off-balance-sheet liabilities that Beijing identifies as *hidden debt* rather than the full universe of off-balance-sheet obligations. These actions have had only temporary effects, however, because they neither changed the 1994 tax revenue allocation framework that created the local government fiscal imbalances in the first place nor challenged the budgetary process put in place by the 2015 budget law.

Prior to the November 2024 policy package, the MOF implemented smaller-scale pilots to deal with local government debts.[40] Relevant measures included the following:

- Replacement bonds to swap the debt accumulated by LGFVs into formal government debt; issuance lasted from 2015 to 2018. The MOF issued a total of RMB 12.4 trillion ($1.88

[36] Li Zhenfa, Fulong Wu, and Fangzhu Zhang, "The Political Economy of China's Local Debt," *China Quarterly*, Vol. 257, 2024.

[37] Ronkin, 2025.

[38] Wang Jing and Chen Bo, "City Investment Company Land Acquisition Is Unsustainable" ["城投拿地难以为继"], *Caixin Weekly*, No. 33, August 22, 2022.

[39] Evelyn Cheng, "China's Property Slump This Year Is Looking Much Worse Than Expected, S&P Says," CNBC, October 10, 2025.

[40] SooChow Securities, "What Is the Size of the 'Large-Scale' Debt Resolution?" ["较大规模化债, 究竟是多大?"], webpage, Wallstreetcn, October 15, 2024.

trillion in 2018 dollars) of debt-swapping bonds to support all 31 province-level governments in the transition after the Budget Law came into effect.

- In 2019, the MOF selected county governments in six provinces in a pilot issuance of RMB 175.8 billion ($25.45 billion) worth of debt-swapping bonds. This pilot covered Guizhou, Hunan, Inner Mongolia, Yunnan, Liaoning, and Gansu, where local governments faced significant risks from off-budget debt.
- The third debt-swapping attempt lasted from December 2020 to June 2022, during which the central government officially introduced a new category of Special Refinancing Bonds to hold bond quotas sanctioned for swapping officially recognized local government debts. Total issuance of Special Refinancing Bonds in this period reached RMB 1.1 trillion ($163 billion in 2022 dollars) in two phases.
    - Phase I (December 2020–September 2021) involved continuing to support the debt-ridden local governments in the 2019 pilot and starting to convert their off-budget debts through the Special Refinancing Bonds.
    - Phase II (October 2021–June 2022) involved Special Refinancing Bond issuance targeting Shanghai, Guangdong province, and Beijing, to eliminate off-budget government debts in these economically developed regions.
- In July 2023, the local government debt problem received recognition and guidance from the top political office in China, the Political Bureau of the Central Committee of the Chinese Communist Party, which put in place an overall strategy to "effectively prevent and deal with the local debt risks, through a package of measures."[41] As a result, local governments completed the issuance of RMB 1.4 trillion ($198 billion) of Special Refinancing Bonds in the fourth quarter of 2023, followed by another RMB 113.2 billion ($15.73 billion) from January 2024 to September 2024. Allocations for more than 70 percent of this bond quota were issued to 12 designated high-risk provinces by the 35th directive from the General Office of the State Council ("Guidance of the General Office of the State Council on Resolving Debt Risks of Financing Platforms").[42]

The largest measure came in November 2024, when China introduced a 10-trillion RMB debt package ($1.39 trillion) to repair local government balance sheets.[43] The package reflected a strategy to extend the debt obligations at lower interest rates and contain the debt risks, but it did not directly reduce the overall size of local government debts. Specifically, this package raised the local governments' debt quota by 6 trillion RMB ($834 billion) over the following three years (RMB 2 trillion, or $278 billion, each year) and supported local governments to bring officially recognized hidden debts onto balance sheets. In addition, there was an RMB 4 trillion ($556 billion) bond issuance quota that Beijing had already approved for the subsequent five years, and the November

[41] Jiang Fei, "What Is the Impact of the Latest Debt Resolution Plan on China's Domestic Economy?" ["最新化债方案对国内经济影响几何"], Caixin Online, February 22, 2024.

[42] Jiang, 2024.

[43] Yao and Zhang, 2024.

2024 package directed local governments to use these resources for the same debt conversion goal as the RMB 6 trillion of newly issued debt quota. Together, this debt-swapping package is expected to save RMB 600 billion ($83.38 billion) in interest for local governments. The 2 trillion quota for 2024 was fully subscribed by the end of 2024, and issuance of the RMB 2 trillion quota in the 2025 cycle was completed in August 2025.[44]

Since the introduction of local government bonds in 2015, the MOF issued a variety of directives and technical guidance on how local government bonds should be used, managed, reported, or extended.[45] These measures generally aimed to calibrate the mix and risk profile of existing or newly issued bonds. There were also procedural rules that affect the land sales process and the role of LGFVs. For instance, in December 2024, the State Council allowed ten provinces and Xiong'an district to use an expedited pathway to initiate and approve local government bonds without going through the normal procedures set by the MOF.[46]

On top of using budgetary tools to contain the risk of local government debts, China's central government has set a timetable for LGFVs to retire from their roles in local government financing. In 2023, the central government conducted a nationwide survey on the number of active LGFVs as of March 31, 2023, and used this list as basis for several directives that require local governments to transition LGFVs into independent market operators by June 2027.[47] This means that the state-owned enterprises that act as LGFVs will no longer have any part to play in local government financing after the transition.

The LGFV list is not publicly available, and the specific number of LGFVs is unknown. The People's Bank of China—the country's central bank—announced that the number of LGFVs had been reduced by 40 percent by the end of 2024 and by more than 60 percent as of June 2025, relative to the early 2023 baseline.[48] Finance Minister Lan had stated in the annual budgetary report that the number of LGFVs decreased by more than 7,000 by the end of 2024.[49] These data points suggest that an additional 7,000 LGFVs will phase out between July 2025 and June 2027. The political significance of managing risks associated with the LGFV debts has led high-risk provinces, such as

[44] Yin Minygue, "China Starts Bond Issuance for Local Govt Debt Replacement Program in 2025," *China Daily*, March 4, 2025; State Council Information Office, "Press Conference Series on High-Quality Completion of the 14th Five-Year Plan" ["高质量完成'十四五'规划系列主题新闻发布会"], September 12, 2025.

[45] Cheng and Yu, 2022.

[46] General Office of the State Council, "Opinions of the General Office of the State Council on Optimizing and Improving the Management Mechanism of Local Government Special Bonds ["国务院办公厅关于优化完善地方政府专项债券管理机制的意见"], No. 52, December 25, 2024.

[47] Yu Hairong, Zhang Yuzhe, and Ding Feng, "Financing Platforms Accelerate 'Delisting'" ["融资平台加速'退名单'"], *Caixin Weekly*, No. 34, September 1, 2025.

[48] Ding Feng, "Number of Financing Platforms Drops over 60%, Financial Debt Scale Drops over 50%" ["潘功胜：融资平台数量下降超 60% 金融债务规模下降超 50%"], Caixin Online, September 22, 2025.

[49] Yu, Zhang, and Ding, 2025.

Inner Mongolia, Jilin, and Ningxia, to announce steps to seek complete debt resolution and removal from the debt risk designation by the central government.[50]

The implementation of this phase-out plan and its implications on China's local government financing remain uncertain.[51] As of 2025, the progress of LGFV transition appears to be driven by local governments' responses to the political mission of managing debt risks and a flurry of mergers between smaller LGFVs into a smaller number of larger LGFVs. To be fully removed from the LGFV list, the entities are required to (1) clear all hidden government debts, (2) complete transitioning into fully independent companies without any function in government financing, and (3) eliminate all operational loans or financing or secure the consent from at least two-thirds of creditors if they could not be eliminated. These conditions, especially the third condition on nongovernmental debt, might be challenging for LGFVs that need short-term liquidity from financing to service debts and contain risks. Although LGFVs might finalize their transformation, it remains uncertain whether the successor organizations will still be linked to government financing elsewhere, potentially generating further concealed liabilities nationwide.

Developments since November 2024 through at least late 2025 have not fundamentally changed. In October 2025, China's central government released the five-year development plan for 2026–2030 ("Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development"). Provisions that address the problem of local debt appear consistent with the November 2024 package and the existing fiscal framework.[52]

On November 3, 2025, the MOF established a dedicated Debt Management Department to centralize and strengthen the oversight of government debt at both the central and local levels.[53] This reorganization consolidates previously scattered responsibilities into one division, and this new department is tasked with formulating and implementing comprehensive debt management policies, overseeing debt issuance and repayment, and advancing efforts to resolve local governments' hidden debts. Li Dawei has been appointed as the inaugural director of the newly established Debt Management Department, after having served as a first-level inspector in the Budget Department and having headed the Government Debt Research and Evaluation Center.

China's 2026 policy stance on local government debt continues to emphasize risk containment and demonstrates a desire to more proactively pursue the institutionalized clean-up of legacy debt issues. In March 2026, China concluded its annual Two Sessions—the meetings of the NPC and the Chinese People's Political Consultative Conference—and both the Government Work Report and the budget report delivered to these meetings used updated language to prescribe guidance for

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[50] Cheng Siwei, Yu Hairong, Ding Feng, and Huo Kan, "China's 2026 Local Debt Resolution Landscape" ["2026 年地方化债图谱"], *Caixin Weekly*, No. 7, February 23, 2026.

[51] Yu, Zhang, and Ding, 2025.

[52] State Council of the People's Republic of China, "Full Text: Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development," Xinhua, October 28, 2025.

[53] Cheng Siwei, "Ministry of Finance Establishes Debt Management Department Responsible for Central-Local and Domestic-Foreign Government Debt Management" ["财政部成立债务司 负责政府内外、央地债务管理"], *Caixin Weekly*, November 3, 2025b.

accelerating the resolution of existing hidden debt risks.[54] On top of the hidden debts accumulated by LGFVs on behalf of local governments, Beijing has now broadened its policy focus to include the operating debt of LGFVs. The policy language may suggest that China believes the most challenging phase of debt stress has passed, and local governments should pivot from emergency stabilization to a more orderly reduction of legacy government debts.

At the same time, Beijing is pairing debt relief with a tougher and more centralized regulatory framework. A new key theme is the creation of a *unified long-term government debt management mechanism*, which aims to bring explicit local government debt, hidden debt, and debt linked to LGFVs into a more integrated monitoring and supervisory system. This is accompanied by stricter rules against the creation of new hidden debt.

There are many policy discussions about viable options to bring the debt problem under control, but most have not been implemented. For example, there are policy signals about piloting a point-of-sale consumption tax as a possible revenue stream for local governments; however, no implementation details—beyond policy signals—have emerged in high-level ministerial government meetings. Several more policy actions have been proposed or implemented through early 2026. We discuss these further in the section on adjustment scenarios in Chapter 4.

The Distribution of Local Government Debt Across Chinese Provinces

There is significant regional variation in the severity of local government debt. Provinces with robust economic activity typically held larger shares of on-balance-sheet debt, using debt to meet expanding development demands.

According to 2024 data from the China Electronic Local Government Bond Market Access website, outstanding local government bonds are heavily concentrated among a handful of economically developed provinces.[55] Guangdong leads with 6.68 percent of the national total, closely followed by Shandong (5.99 percent), Jiangsu (5.96 percent), Sichuan (5.06 percent), and Zhejiang (4.91 percent). Province-level municipalities, such as Beijing and Shanghai, hold smaller stakes relative to the aforementioned provincial jurisdictions with large economies and large populations. In contrast, the volume of local government bonds is significantly lower in less populated or economically smaller regions, particularly in western China. Such provinces as Qinghai (0.75 percent), Ningxia (0.52 percent), Xinjiang (0.31 percent), and Tibet (0.26 percent) represent the bottom end of the bond distribution.

The off-balance-sheet local government debts held by the LGFVs follow a similar pattern. The economically developed coastal provinces dominate the LGFV debt landscape: Jiangsu, Zhejiang, and

[54] Li Qiang, "Government Work Report" ["政府工作报告"], delivered at the Fourth Session of the 14th National People's Congress, March 5, 2026; Ministry of Finance of the People's Republic of China, "Report on the Execution of the Central and Local Budgets for 2025 and on the Draft Central and Local Budgets for 2026" ["关于 2025 年中央和地方预算执行情况与 2026 年中央和地方预算草案的报告"], presented at the Fourth Session of the 14th National People's Congress, March 5, 2026.

[55] China Electronic Local Government Bond Market Access, undated.

Shandong are at the forefront. Jiangsu leads by a wide margin with an outstanding LGFV debt of RMB 8.50 trillion ($1.18 trillion), accounting for more than one-fifth of the national total. Zhejiang follows with RMB 6.87 trillion ($955 billion) in debt, while Shandong stands at RMB 2.26 trillion ($314 billion). These provinces benefit from strong economies and significant infrastructure investment, which allow them to both issue and service high levels of debt.

By contrast, many western and central provinces carry considerably less LGFV debt, although some exceptions stand out. For instance, Guizhou and Chongqing report RMB 1.056 trillion ($147 billion) and RMB 1.51 trillion ($210 billion) in LGFV debt, respectively, illustrating how infrastructure-led development strategies have contributed to higher local borrowing, even in less economically developed regions. Other provinces, such as Qinghai, Ningxia, and Hainan, maintain extremely low levels of outstanding LGFV debt, varying from RMB 1.85 billion to RMB 27.65 billion ($257 million to $3.84 billion), reflecting more-limited fiscal capacity and lower investment activity.

Although the absolute distribution of debts is concentrated in the richer coastal provinces, the relative debt burden tells a different story. Using data on debt ratios, which measure the sum of on- and off-balance-sheet debt against the total funds available to a provincial government, the heaviest strains appear in a mix of economically weaker and fiscally unbalanced jurisdictions. The total funds capture local government revenues, intergovernmental transfers, and proceeds from land sale and state-asset transactions.

In 2024, some province-level economies—those in Tianjin, Qinghai, Gansu, Hunan, Heilongjiang, Jiangxi, and Guizhou—recorded ratios exceeding 600 to 880 percent of their fiscal resources (recall Figure 1.1). By contrast, large coastal economies, such as Guangdong, Zhejiang, and Jiangsu, reported ratios below or near 450 percent. Although these levels are high by international standards, they are more sustainable because of the size and diversity of the respective economic bases. In these stronger provinces, larger tax revenues, more-developed financial markets, and deeper pools of state-owned assets provide buffers that allow localities to roll over and service debts more easily. The risk profile of China's local debt is shaped less by the nominal size of borrowing than by the uneven capacity to service it. This regional disparity underscores why Beijing's debt-resolution policies have concentrated on the twelve "high-risk" provinces.

How Local Government Bond Issuance Is Coordinated Across China

The coordination of local government, on-balance-sheet bond issuance in China is centered at the province level. While cities, municipalities, and county-level governments might have their own projects and spending needs, they must channel their requests through the province-level bureaus of finance. The provincial governments are responsible for consolidating local-level project proposals, determining eligibility, and prioritizing projects for funding via bond issuance. Provincial finance bureaus serve as the key intermediaries in this process, scrutinizing the details of local capital expenditure plans and submitting bond proposals upward to the MOF.

Once province-level proposals are finalized, they are subject to review and approval by national authorities. The MOF establishes the overarching quotas for bond issuance across provinces, sets annual limits, and maintains guidelines for the kinds of projects that can be financed using general

bonds or special project bonds. The NPC ratifies these quotas, allocating authority for bond issuance, and exercising compliance oversight. The MOF and NPC therefore retain final authority and may approve, adjust, or reject province requests for new bond issuance. This process is designed to ensure stricter financial discipline, greater transparency, and clearer assignment of responsibility for local government debt, as outlined in the 2015 budget law and subsequent policy documents. It is the province-level and national-level scrutiny of on-balance-sheet bond issuance that led local governments to continue to pursue off-balance-sheet debt, at least until the reforms of 2023.

For example, the Hunan Province Bureau of Finance received RMB 182.3 billion ($25.4 billion) in bond quota allocation from MOF for 2025.[56] This confirmed allocation triggered an update of the province's previously proposed budget (RMB 102.9 billion, $14.3 billion). Of the additional bond quota allocation of RMB 79.4 billion ($11.1 billion), RMB 60.2 billion ($8.4 billion) went for special bonds for various approved purposes: RMB 12.5 billion ($1.7 billion) for newly approved projects supported by the Special Bonds vehicle, RMB 27.7 billion ($3.9 billion) for the general budget, and a designated RMB 20 billion ($2.8 billion) for addressing arrears for private contractors working with the government. These allocations largely reflected the province's proposal—which might already have incorporated feedback from the MOF in prior consultations—and were ultimately approved by the central government. This example illustrates how the formal bond-issuance process subjects local governments to central oversight and quota management, limiting their ability to borrow freely. This centrally managed fiscal discipline might motivate the use of alternative, off-balance-sheet channels when official budgets fall short.

In practice, the MOF can recycle the allocated unused quota from some provinces and redistribute to others with more-urgent needs for financing. In some cases, the redistributed quota amounts are earmarked for specific spending categories, such as supporting preapproved infrastructure projects or addressing government arrears owed to enterprises.[57] In 2019 and 2020, the MOF issued notices to collect and reuse the allocated quota for special bonds. For provinces to capture additional bond quota from MOF redistribution, no approval is needed from the NPC, but the budgetary adjustment will trigger the review and approval process from the province-level congress.

Disclosure of Local Government Debt

Information on local government debt in China is disclosed primarily through official channels, such as annual government reports, audits, and statements to the NPC. The 2015 budget law and subsequent reforms introduced tighter controls and improved transparency, requiring local governments to report their on-balance-sheet debt under standardized categories and quotas set by the NPC and MOF.

[56] Cheng Siwei, "Local Governments Further Expand Uses of New Special Bonds to Repay Arrears to Enterprises and Support Existing PPP Projects" ["地方政府新增专项债用途再扩大 用于清偿拖欠企业账款、存量 PPP 项目建设"], Caixin Online, June 17, 2025a.

[57] Cheng Siwei, 2025a.

Since 2019, the China Government Debt Center (in the MOF) has been issuing monthly reports on local government debts.[58] Details on local government bonds are also released and aggregated on the China Electronic Local Government Bond Market Access webpage, which is also managed by the Ministry of Finance.[59] The published tally of local government debt covers only official debt issued through local government bonds, which also appear on the balance sheet of local governments.

However, information on off-balance-sheet debt, such as that held by LGFVs, remains incomplete because it often escapes full official disclosure despite repeated efforts to catalogue and monitor these liabilities through periodic audits and special reporting exercises at the province level. The securities, loans, and nonstandard financing vehicles used by LGFVs need to be aggregated to estimate the size of hidden debt.

Conclusion

China's local government debt problem reflects long-standing structural imbalances in public finance that have evolved over three decades of decentralization. Local authorities are responsible for the vast majority of government spending but capture only a modest share of revenue. Successive reforms have expanded formal borrowing channels but have not resolved this core fiscal mismatch. As a result, the boundary between legitimate public borrowing and quasi-commercial liabilities taken on by LGFVs remains blurred. The data show that off-balance-sheet liabilities are roughly comparable in scale to officially recognized debt, and there are wide differences across provinces. Although repeated debt-swapping programs and quota management have slowed the immediate buildup of risk, they have largely shifted exposure across time rather than eliminated it.

At the subnational level, China's system of constrained borrowing authority, heavy expenditure obligations, and opaque accounting continues to generate fiscal stress. Without fundamental reform to the revenue-sharing regime or greater transparency in debt reporting, the same dynamics that encouraged excessive reliance on LGFVs are likely to persist. Chapter 3 examines how these financial pressures are shaping local governments' behavior.

[58] MOF, "Government Debt Research and Evaluation Center" ["政府债务研究和评估中心"], webpage, undated.

[59] China Electronic Local Government Bond Market Access, undated.

Chapter 3

Local Government Responses

Given the severity of the debt problem, subnational governments in China face difficult choices. These choices are made more difficult by the country's system of public finance and the related constraints on local government fiscal action.

In this chapter, we first discuss public finance in China, including China's unified government budget and the revenue-raising powers held by different levels of government. We then examine some of the ways that local governments have tried to reduce their debt obligations by either raising revenue or cutting costs. We also consider some of the economic, political, and social implications of China's worsening financial situation. We conclude with observations about implications for China's economic growth, as well as potential political and social consequences.

China's Public Finance System

China's local government fiscal challenges stem in part from China's system of budgeting and public finance and in part from rules governing the fiscal and budgetary freedom of lower levels of government. In this section, we first discuss the public finance system and then describe rules regarding local government revenue.

China's Government Budgets

China's government budget is made up of four parts: the general fiscal budget, the government funds budget, the state capital operations budget, and the social insurance fund budget (Table 3.1).[60] Including all four of these budgets, local governments accounted for about 90 percent of all government expenditures in 2019.[61] Outside these budgets, local governments also have resources raised by LGFVs, a so-called off-balance-sheet budget.[62]

[60] Brian Hart, Bonny Lin, Matthew P. Funaiole, Samantha Lu, Hannah Price, and Matthew Slade, "Making Sense of China's Government Budget," China Power Project, Center for Strategic and International Studies, updated March 26, 2026.

[61] Lin, 2022, p. 364. The 85-percent figure we have focused on in this report is for the 2025 general fiscal budget.

[62] Lin, 2022, p. 354.

Table 3.1. China's Projected 2026 Budget, in Trillions of RMB

Budget	Revenue	Expenditure
General fiscal budget	24.1	30.0
Government funds budget	5.8	11.9
State capital operations budget	0.8	0.3
Social insurance fund budget	13.1	11.8

SOURCE: Features data from Hart et al., 2026.
NOTE: Funds are transferred across the general fiscal budget, the government funds budget, and the state capital operations budget to offset deficits. When these transfers are accounted for, the consolidated deficit across the three budgets is planned to be 13.4 trillion RMB, or about $2 trillion, about 9.1 percent of projected GDP.

The general fiscal budget is the largest and is one budget for all levels of government—the central government, provinces (including autonomous regions, province-level municipalities, and special administrative regions), prefectures, counties, and townships. Although it is unitary, it is split into central and local budgets.[63] Local governments account for about 80 percent of spending in this budget.[64]

The government funds budget is mostly local, funded by land sales and special purpose bonds, and used mostly for local infrastructure projects and programs or projects related to local well-being, as well as some national infrastructure projects.[65] The state capital operations budget encompasses revenue from and spending on state-owned enterprises and is split about evenly between central and local governments.[66] Finally, the social insurance fund budget is run by the National Council for Social Security Fund and is mostly spent on pensions and medical insurance, and nearly all of that spending takes place at the local level.[67]

Notably, under a 1995 budget law, local government fiscal budgets must be balanced.[68] However, because of the way tax revenues are apportioned, local governments' assigned spending outstrips their assigned revenues. For example, in 2019, local government expenditures in the general fiscal budget amounted to 85.30 percent of all spending, but local government general fiscal revenues amounted to 53.09 percent.[69] So, in addition to listing central and local government revenues and spending, the general fiscal budget also contains transfers from the central government to local governments for the

[63] Lin, 2022, p. 353.

[64] Betty Huang and Le Xia, "China | Decoding China's Multi-Layered Fiscal Budget," BBVA Research, October 2, 2025.

[65] Hart et al., 2026; Huang and Xia, 2025.

[66] Lin, 2022, pp. 353–354; Huang and Xia, 2025.

[67] Hart et al., 2026; Lin, 2022, pp. 353–354. According to the "Report on the Execution of the Central and Local Budgets for 2025 and on the Draft Central and Local Budgets for 2026," the MOF estimated a total of RMB 11.814 trillion in budgetary expenditure of social insurance funds nationwide in 2026, of which expenditures from local government social insurance funds accounted for RMB 11.775 trillion (MOF, 2026).

[68] Lin, 2022, p. 324.

[69] Lin, 2022, p. 361.

purposes of budget balance. These transfers include grants, either for general use or specific purposes, and tax rebates, in which the central government transfers a portion of taxes that it collects.[70] Throughout the 2010s, these transfers accounted for more than two-thirds of all central government spending.[71]

The fact that China has a unitary government budget with revenue and expenditure targets set or approved by the central government suggests that in some ways, local government debt is a fiction. Instead, there is government debt. China's local governments are subordinate parts of the central government and officials are appointed by the central government, which thus bears some responsibility and has the capacity to pay.[72]

The LGFVs operate somewhat outside this system in that they are not formally part of the four parts of the government budget, and China has maintained that "provincial governments bear the overall responsibility of resolving the operational debt of LGFVs."[73] Investors are acting as though this debt has implicit government backing.[74]

Nonetheless, analysts appear to view the debt as unitary, just as the budget is unitary, and this overall debt has been climbing dramatically (Figure 3.1). In its discussion of recommended structural policies for China, the IMF described actions to address general government debt, including local government debt.[75] Although a large share of the debt increase is attributable to local government debt, because local governments have deficits by design before transfers and because local governments are responsible in large part for carrying out central government growth objectives, viewing the local debt problem as part of nationwide general government debt is appropriate and suggests central government involvement in a solution.

[70] Lin, 2022, p. 367.

[71] Lin, 2022, p. 370.

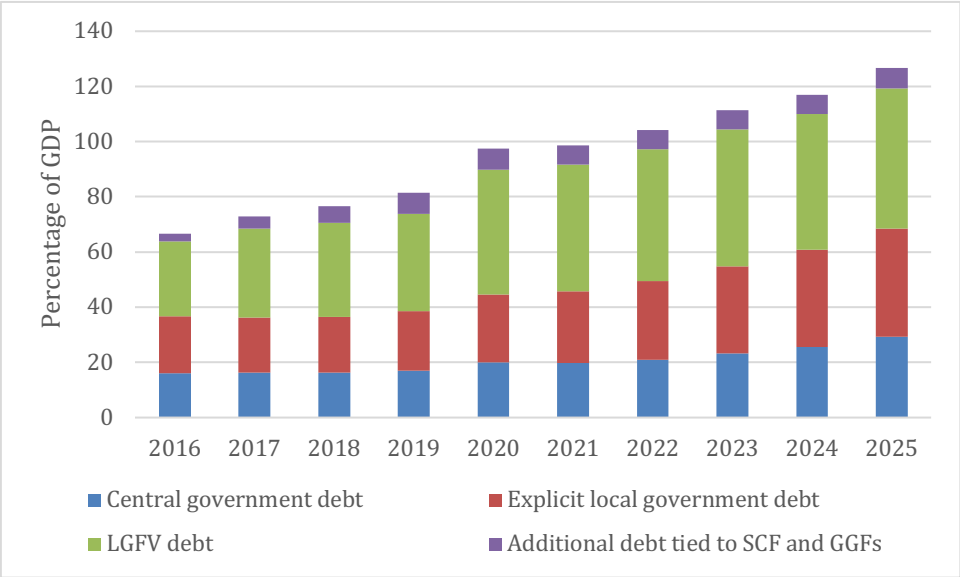
[72] Lin, 2022, pp. 334–335.

[73] IMF, 2025, p. 2.

[74] Xu et al., 2025.

[75] IMF, *People's Republic of China: 2024 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*, IMF Country Report No. 24/258, August 2024, p. 2.

Figure 3.1. Chinese Government Debt Relative to GDP



SOURCES: Features data for 2016 through 2019 from IMF, *People's Republic of China: 2021 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*, IMF Country Report No. 22/21, January 2021, p. 53; and data for 2020 through 2025 from IMF, 2026, p. 62.
NOTE: GGF = government-guided funds; SCF = special construction funds; IMF debt totals are *augmented debt* and include a definition of government debt with which China does not fully agree. Data for 2025 are estimated. Because the data for 2016–2019 and 2020–2025 came from different publications, there is a small break in the series. The 2021 IMF publication records total 2020 debt as 93.1 percent of GDP, whereas the 2026 publication records total 2020 debt as 97.5 percent of GDP. Central government debt is MOF debt only and excludes bond issues for bank recapitalization and asset management companies. Explicit local government debt includes local government bonds and explicit debt. LGFV debt for 2020–2025 includes total interest-bearing debt of LGFVs with listed bonds; for LGFV debt from 2016–2019, two-thirds of new contingent debt is assumed likely to be recognized as general government debt. Additional debt tied to Special Construction Funds and Government Guided Funds is total social capital contributions to those funds. As mentioned in Chapter 2, the IMF estimates went beyond the LGFV entities with publicly reported interest-bearing debts from the Wind database and also covered bank loans and nonstandard financing for local state-owned enterprises, which are often omitted from commercial databases that prioritize public financial market disclosures.

Constraints on Local Governments

Although local governments face significant fiscal challenges, they have limited freedom of action for reaching a solution.[76] Reforms in 1994 created three categories of taxes: national taxes, local taxes, and shared taxes. However, all tax laws and regulations are made at the national level, and most are based on regulations rather than directly on laws. This means that local governments could not independently establish such taxes as local income taxes or property taxes. Local governments did gain some leeway: They were permitted to raise extrabudgetary revenue, such as by running a business or collecting fees. Further reforms in 2011 eliminated the ability to collect such extrabudgetary revenue.[77]

[76] This section draws largely from Lin, 2022.

[77] Lin, 2022, p. 11.

The 1994 reforms also shifted the bulk of revenues to the central government but designated the local governments as responsible for the bulk of spending, giving rise to structural local deficits.[78] A 1995 budget law further said that while the central government should try to balance its budget, local governments must balance their budgets, giving rise to the transfers noted previously.[79] Accordingly, local government debt is outside the general fiscal budget, which is why it is denoted as off-budget or hidden debt.[80] Even with transfers, however, local governments are strained. The transfers come in different forms, and a large portion are matching grants and therefore not only cannot be used for general expenditures but require specific spending by local governments.[81] In addition, sometimes these transfers are simply not enough to balance out required expenditures, especially at lower levels of government, and these lower levels then must cut expenditures.[82]

China's fiscal revenue is based largely on a small set of taxes. The largest revenue generator is the value-added tax (VAT), which, since 2016, has been split 50-50 between the central government and local governments. Some corporate income taxes go wholly to the central government, while others are split 60–40 between the central government and local governments. Revenue for the stamp tax for security exchanges goes wholly to the central government. Some resource taxes—another category—go to the central government, but the larger share goes to local governments. Finally, depending on the entity paying, some taxes that are classified as urban maintenance and construction taxes go to the central government while others go to local governments. The provinces are the recipients of the local government share, and then provinces distribute that share to lower levels of government.[83]

Within this multiplicity of taxes, local governments have little leeway to make changes. Local governments cannot establish tax laws or regulations. In some cases, there is a limited ability to change some tax rates, but that ability is within rules set by the central government. Local governments can also set some contribution and benefit rules for rural social security, charge for the use of state-owned resources, and collect administrative fees and penalties. Local governments can issue bonds for capital spending, but this is based on a quantity rule set by the central government.[84] Local governments have more freedom through land sales and bank loans, largely effected by LGFVs.[85] Local governments have significant freedom in spending the funds from land sales and bank loan revenue, but raising money this way is one of the roots of their fiscal challenges.

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[78] Lin, 2022, p. 15.

[79] Lin, 2022, pp. 6, 324.

[80] Lin, 2022, p. 324.

[81] Lin, 2022, p. 327.

[82] Lin, 2022, p. 380.

[83] Lin, 2022, p. 356.

[84] Lin, 2022, p. 354.

[85] Lin, 2022, p. 380.

The Local Government Response to Budget Stress Wrought by High Debt Levels

Faced with rising debt burdens and limited room to change the underlying fiscal system, local governments have relied on short-term measures to manage budget stress. Broadly, these responses fall into two categories: attempts to raise revenue and efforts to reduce spending. Although such measures can ease immediate financing pressure, they do not resolve the deeper structural mismatch between local government responsibilities and revenues.

Raising Revenue

One way that local governments could reduce their debt obligations would be to increase revenue. Sources include taxes, nontax revenue, and other forms of revenue. However, as discussed previously, the ability to increase some forms of revenue is highly constrained.

Tax Revenue

Raising taxes is the most obvious option for reducing debt obligations. China has no nationwide property tax, and local governments do not have the leeway to set such a tax. While the country has been piloting such taxes, these taxes not yet provide a solution to shortfalls in local government revenue.[86] Notably, authorities have been concerned that increased property taxes could damage an already weak property market. Likewise, local governments do not have the authority to increase income tax, VAT, or corporate taxes, and increasing some taxes could weaken consumption, which the central government has stated it would like to increase.[87] Because the housing market is in a slump, businesses have hesitated to invest, and anxious consumers have opted to save rather than spend. China's tax revenues accordingly declined 3.4 percent in 2024.[88]

Nontax Revenue

Increasing nontax revenue is another option. In the 1990s and 2000s, local governments relied heavily on land sales to developers for as much as one-third of their revenue. Developers built housing, which they sold to investors and consumers. However, new government restrictions on borrowing and overcapacity led to a collapse in home prices in 2021. Combined with the effects of the policies to keep the number of cases of COVID-19 as close to zero as possible between 2020 through 2022, these

[86] Sebastian Beer and Daniel Garcia-Macia, "A Revenue Mobilization Strategy for China," in Sonali Jain-Chandra, Henry Hoyle, Sebastian Beer, Daniel Garcia-Macia, and Yingyuan Chen, *People's Republic of China: Selected Issues*, Country Report No. 24/50, International Monetary Fund, February 2024.

[87] Jennifer Pak, "China Pledges Tax Reform. That Is a Big Deal for This Socialist Country," Marketplace, July 24, 2024.

[88] Ethan Wang and Kevin Yao, "China 2024 Fiscal Revenue Growth Shrinks, Non-Tax Income Jumps," Reuters, January 24, 2025.

restrictions have led to low consumer confidence.[89] Official tallies for 2024 show that land sale revenues for local governments nearly halved from the peak in 2021 (see Chapter 2). In 2025, land sales reached their lowest level since 2011 in most smaller cities.[90]

In their search for revenue, officials have in part turned to administrative fees, fines, and confiscations. Reliance on courts and law enforcement for revenue is not unique to China. In the United States, poorer, mostly southern states have relied on law enforcement to help raise income for government budgets. In a handful of cases, municipal governments in the United States have relied on law enforcement for 50 percent or more of general revenues.[91]

However, the problem is far more severe in China. After significant drops in revenue in 2020 and 2021, local governments reported increases in nontax revenue in 2022, in part through increases in administrative fees and confiscations. By 2025, nontax revenue for all local governments increased by 25 percent, in large part spurred by a nearly 15-percent rise in income from fines and confiscations.[92] The reliance on administrative measures and law enforcement tended to grow as the local government's debt problem worsened. A 2025 study by Western scholars found that local debt burdens correlated positively with higher forfeiture revenues.[93]

Anecdotes of heavy fines on individuals have appeared in Chinese media. A Hong Kong paper reported in 2025 that an elderly woman in Shaanxi faced an RMB 60,000 fine (almost $8,500) for selling 5 kilograms of celery in an unauthorized area. The same paper also cited an example in which the police fined a potato seller in Beijing RMB 300,000 for breaching price regulations.[94] But such instances appear to be less common than fines imposed on companies. After all, fining individuals is less lucrative and potentially more of a political problem. Not only are average citizens unlikely to have the resources to pay such fees, but such incidents can generate outrage among citizens who might criticize local officials online. These anecdotes are supported by data from case studies of Shenyang and Guangzhou (Appendix A). Both Shenyang and Guangzhou reported increases in revenue from administrative fees and confiscations around the time of the property-sector crash in 2022, and Guangzhou pulled back on collecting fines and confiscations the following year, possibly in response to the backlash.

Local governments have instead tended to extract revenue from firms. According to a 2025 report, most administrative fines tend to involve matters of traffic policing and market regulation. Authorities

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[89] The effort to minimize COVID-19 cases was known as the *zero-COVID policy* and, in part, was effected by extreme lockdowns, invasive contact tracing, mass testing, and quarantines ("What Is China's 'Zero-COVID' Policy?" VOA News, November 28, 2022).

[90] Thomas Hale and Haohsiang Ko, "China Land Sales in Smaller Cities Hit Lowest Level in Decades," *Financial Times*, July 21, 2025.

[91] Shannon R. Graham and Michael D. Makowsky, "Local Government Dependence on Criminal Justice Revenue and Emerging Constraints," *Annual Review of Criminology*, Vol. 4, 2021.

[92] "China's Local Governments Resort to Heavy Fines Amid Financial Strain," *Hong Kong Post*, March 2, 2025.

[93] Li Yu, Zhuoyang Lyu, and Hao Duan, "Plugging the Gap: Debt Pressure and the Rise of Forfeiture Revenues in Local Governments," *Finance Research Letters*, Vol. 61, 2024.

[94] "China's Local Governments Resort to Heavy Fines Amid Financial Strain," 2025.

favor action on such transgressions because they mainly involve monetary fines.[95] To minimize political headaches for party bosses, the police tend to penalize companies located in other provinces. As an example, in April 2023, police officers from a city in southern Guangdong province coerced a company located in Wuhan into handing over $41 million to settle a fine.[96]

The practice has become so widespread that in 2024, the Politburo, the central government, and the Ministry of Public Security all issued orders to stop such practices. Yet the problem has persisted. At a December 2024 Politburo study session, Premier Li Qiang admitted that the practice of "unfair" administrative revenue raising "still exists in some sectors and regions."[97]

Other Ways of Raising Revenue

Although land sales and administrative fees are among the most widely reported methods of raising revenue, local governments have attempted other methods as well. Local governments have begun to sell off state assets and lease state functions. In other cases, local governments have borrowed from nongovernmental organizations (NGOs).

Local governments have avoided falling into financial crises in part by relying on short term measures, such as the selling off of state assets and leasing state functions. Official sources classify the sale or lease of state assets as "Use of State Resources and Assets." The sources note that this category accounted for 41 percent of nontax income in 2023, up 11 percent from 2019. Examples in this category include leasing gas and oil wells, the sale of rights to operate parking lots, and the sale of unoccupied government-owned housing.[98] Shenyang and Guangzhou both reported higher revenue amounts from operating income of state-owned assets before and after the COVID-19 pandemic.

Desperate local governments have, in some cases, turned to borrowing from NGOs. In 2025, the head of China's Audit Bureau reported that local governments in nine provinces had violated regulations in their efforts to raise revenues. These governments borrowed from individuals and NGOs, pressured SOEs to provide advanced financing, and diverted money from pension funds to cover social security payments.[99]

However, these short-term solutions only buy time. Deeper reforms will be needed to fix the dire revenue situation, and options to raise revenue are limited. Tax receipts have shrunk as the economy has decelerated, unemployment has grown, and consumers have opted to save rather than spend. Land sales have declined and show no sign of rebounding any time soon. Revenue raised through administratively imposed penalties and seizures is politically destabilizing and could harm economic

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[95] Gary Ziwen Zu and Shengqiao Lin, "Fiscal Origin of Selective Enforcement: Evidence from China's Administrative Penalties," last revised February 13, 2026.

[96] "China's Local Governments Resort to Heavy Fines Amid Financial Strain," 2025.

[97] Chen Yikan, "China to Monitor Unusual Surge in Local Gov't Income from Fines, Confiscations, Premier Says," Yicai, December 18, 2024.

[98] Minxin Pei, "Broke but Not (Yet) Bankrupt: Local Government Finance in the Age of Economic Stagnation," *China Leadership Monitor*, No. 84, June 2025, p. 14.

[99] National Audit Office of the People's Republic of China, "Report on the Audit Work of the Central Budget Execution and Other Financial Revenues and Expenditures for the Year 2024 by the State Council" ["国务院关于 2024 年度中央预算执行和其他财政收支的审计工作报告"], June 24, 2025.

growth. Sales of state assets and the leasing of state functions bring in short-term revenue at the expense of longer-term income for the state. In any case, official sources show that locally raised revenues cover only about half the cost of expenses. Unless the central government transfers more money or local governments find ways to drastically cut spending, the funding gap will persist.

Spending Cuts

The difficulty of raising revenue leaves spending cuts as another option to narrow the budget gap. But just as local governments are constrained on how they raise revenue, they also have a set of spending obligations under China's public budgeting system. In addition, cuts to government services and spending—which local governments appear to make, despite obligations to funding those services—carry their own dangers.

A sense of how subnational governments prioritized and cut services can be seen in central government data. Major categories of spending include education, health care, government services, and public security. According to the data provided by the National Bureau of Statistics of China, the top five spending categories for all subnational governments in 2024 were: (1) social security (16.8 percent); (2) education (16.6 percent); (3) agriculture, forestry, and water affairs (11.0 percent); (4) community services (8.99 percent); and (5) health care (8.2 percent).[100] We also consider two other categories, specifically public security (5.1 percent, ranked seventh) and science and technology (3.2 percent, ranked tenth). Changes to public security spending reflect one way that local governments have adjusted to debt challenges, and we include this in our discussion of such adjustments. We reserve further discussion of localized spending in these categories, including science and technology, for the case studies of Shenyang and Guangzhou in the appendix.

The categories are defined as follows. *Social security* covers government spending for social security, employment, financial subsidies to the social insurance fund, employment subsidies, pensions, retirement and resettlement, disability, and minimum *social insurance payments* (低保).[101] *Education* includes government spending on primary, junior, and high school education, vocational training, continuing education for cadres, and special education.[102] *Agriculture, forestry, and water affairs* include spending for agriculture, water conservation, rural poverty alleviation, and agriculture development. *Community services* include urban and rural community management affairs, urban and rural planning, community facilities, housing expenditures, sanitation and environmental

[100] National Bureau of Statistics of China [国家统计局], "National Data" ["国家数据"], undated. Specifically, we drew the data from the "Major Expenditure Items of Local Governments" table, which is found via the following table path: "Financial/Major Expenditure Items of Central and Local Governments/Major Expenditure Items of Local Governments" ["财政/中央和地方财政主要支出项目/地方财政主要支出项目"].

[101] National Bureau of Statistics of China, undated. Specifically, we drew the data from the "Major Expenditure Items of Local Governments" table, which is found via the following table path: "Financial/Major Expenditure Items of Central and Local Governments/Major Expenditure Items of Local Governments" ["财政/中央和地方财政主要支出项目/地方财政主要支出项目"].

[102] In Chinese Communist Party parlance, *cadre*, a translation of the Chinese *ganbu*, "refers to a party member who occupies a position of authority or responsibility within the party-state apparatus" (Zhijiang Zhao, "The Challenges Facing China's Next Generation of Cadres," *Modern Diplomacy*, July 31, 2025).

management, sanitation, and construction management expenditures. *Health care* covers expenses for medical care and health management, health insurance, disease prevention and control, maternal and child health, and rural health services.[103] *Public security* expenditure refers to government spending to maintain social public safety, mainly referring to judicial administrative affairs, and includes spending on armed police forces, public security, national security, procuratorates, courts, justice, prisons, compulsory isolation and drug rehabilitation, state secrecy, and the antismuggling police.[104] *Science and technology* expenditure reflects spending on science and technology activities.[105]

Spending in the top five categories plus public security slowed after 2020.[106] Social security spending increased on average 13.0 percent annually from 2014 to 2019 but averaged 6.9 percent growth from 2020 to 2024. Education spending increased on average 8.6 percent from 2014 to 2019 but averaged 3.9 percent growth from 2020 to 2024. Agriculture, forestry, and water affairs spending increased on average 10.4 percent from 2014 to 2019 but averaged 3.5 percent growth from 2020 to 2024. Community services spending increased an average 13.9 percent from 2014 to 2019 but increased only 2.3 percent on average from 2020 to 2024. Health care spending grew, on average, 10.2 percent from 2014 to 2019, but only 1.5 percent from 2020 to 2024, despite increases in expenditures related to the COVID-19 pandemic. Public security spending increased an average 11.9 percent per year from 2014 to 2019 but slowed to an annual 1.0 percent increase from 2020 to 2024.

Education. Since the 1980s, China's education system has shifted from dependence on central government finances to a decentralized system with a diverse revenue base. The state largely funds compulsory education through 9th grade, but not afterwards. Without adequate financial support, many students drop out, especially in rural areas. China already spends less of its GDP on education than developed countries, and this spending is now being cut.[107]

The worsening fiscal picture has resulted in cuts to education expenditures, especially for high school. From 2019 through 2024, spending on education slowed.[108] Studies suggest that this compounds an already worsening funding situation for education, which aggravates regional disparities. One study found "strong evidence" that municipal indebtedness correlated with low

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[103] National Bureau of Statistics of China, undated. See the "Major Expenditure Items of Local Governments" table, which is found via the following table path: "Financial/Major Expenditure Items of Central and Local Governments/Major Expenditure Items of Local Governments" ["财政/中央和地方财政主要支出项目/地方财政主要支出项目"].

[104] State Council of the People's Republic of China [中华人民共和国国务院], "Regulations of the People's Republic of China on the Disclosure of Government Information" ["中华人民共和国政府信息公开条例"], State Council Decree No. 711 of the People's Republic of China [中华人民共和国国务院令，第 711 号], April 3, 2019.

[105] National Bureau of Statistics of China, undated. See the "Major Expenditure Items of Local Governments" table, which is found via the following table path: "Financial/Major Expenditure Items of Central and Local Governments/Major Expenditure Items of Local Governments" ["财政/中央和地方财政主要支出项目/地方财政主要支出项目"].

[106] National Bureau of Statistics of China, undated. See the "Major Expenditure Items of Local Governments" table, which is found via the following table path: "Financial/Major Expenditure Items of Central and Local Governments/Major Expenditure Items of Local Governments" ["财政/中央和地方财政主要支出项目/地方财政主要支出项目"].

[107] Mengqin Li, "Tax Structure, Government Debt, and the Relative Power of Local Education Supply," *PLoS One*, Vol. 19, No. 6, June 11, 2024.

[108] National Bureau of Statistics of China, undated.

household education expenditures.[109] The effect is strongest in households with low education levels, in rural areas, and those with daughters. Where the costs of education exceed what families can afford, the families tend to divert money instead to other expenses, such as housing.[110]

Social security. Chinese subnational governments are responsible for social security and unemployment assistance. The most important program is the guaranteed minimum income (*dibao*), which provides a basic income to the needy. The *dibao* program became a national policy in 1999. In the early 2000s, the program was expanded to rural areas.[111] About 30 million people participate in the *dibao* program, at a cost of about 0.15 percent of GDP in 2022.[112] The central government helps subsidize the program only for the poorest provinces.[113] Although hailed by the government, the program has been criticized for its low targeting accuracy, large inclusion and exclusion errors, and a negative social rate of return.[114]

Health care. Subnational government funding for health has experienced greater pressure as well. Part of the reason is due to broader systemic factors, but the funding shortfall has exacerbated the problem. Because of China's aging population, rapid increases in health care costs have depleted government-supported insurance funds. The government has responded to the gap by reducing the funds available to hospitals and by pressuring medical personnel to reduce spending. This has left many medical facilities in debt because the government does not reimburse them for certain procedures or medications.

Over the two decades to 2024, the number of hospitals in China has more than doubled. Private health care facilities, in particular, grew eightfold. Many hospitals took on loans to expand, serve more patients, and offer more services. But as the money coming in slowed, some institutions struggled to repay debts.[115] Hospitals borrowed heavily in the 2010s. Public hospital debt nearly quadrupled from 2011 to 2021, according to the China Health Statistics Yearbook.[116] A 2020 report by the National

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[109] Chao Wang and Wei Gang, "Local Government Debt and Household Human Capital Investment," *Finance Research Letters*, Vol. 79, June 2025.

[110] Wang and Gang, 2025.

[111] Shaohua Chen, Martin Ravallion, and Youjuan Wang, "Di Bao: A Guaranteed Minimum Income in China's Cities?" Working Paper No. 3805, World Bank, January 2006.

[112] In 2022, China's basic living assistance expenditure was approximately RMB 250 billion, or 0.20 percent of annual GDP. Approximately three-quarters of the basic living assistance expenditure went through the *dibao* program. See UNICEF China, "Budget Brief: Social Assistance in China," No. 1, August 2024.

[113] Dorothy J. Solinger and Yiyang Hu, "Welfare, Wealth and Poverty in Urban China: The 'Dibao' and Its Differential Disbursement," *China Quarterly*, Vol. 211, September 2012.

[114] Nanak Kakwani, Shi Li, Xiaobing Wang, and Mengbing Zhu, "Evaluating the Effectiveness of the Rural Minimum Living Standard Guarantee (Dibao) Program in China," *China Economic Review*, Vol. 53, February 2019.

[115] Claire Fu, Daisuke Wakabayashi, and Keith Bradsher, "In China, Financial Stress Stalks Hospitals and Bankruptcies Soar," *New York Times*, February 20, 2025.

[116] Fu, Wakabayashi, and Bradsher, 2025.

Health Commission showed that about 40 percent of public hospitals reported a loss; public hospitals get most of their revenue from medical services and fiscal appropriation.[117]

Agriculture, forestry, and water. Chinese-language sources we consulted do not provide a formal definition of these services. The spending category of agriculture, forestry, and water includes government expenditures for services to support agriculture development, forestry management, and water conservation.

Community services. Spending on community services, which includes the maintenance of public infrastructure, sanitation, and neighborhood administration for both urban and rural areas, fell dramatically. Some of the cuts in spending in sanitation in 2023 and 2024 reflect a return to a baseline of spending before the COVID-19 pandemic. However, governments have, in some cases, carried out cuts by withholding pay for relevant government workers. Protests have broken out among sanitation, education, and other government workers around the country over unpaid salaries.[118] Municipal governments have ceased rail, bus, and other transportation services because of fiscal shortfalls. In 2023, 20 municipalities halted bus services. Other local governments halted subsidies for heating homes in winter or slashed wages for government employees.[119]

Public security. Amid budgetary pressures, local governments have slowed or even cut spending on public security. This has occurred despite an increase in violence. So-called revenge against society attacks have increased over the past two decades. In these incidents, individuals in despair over financial, personal, or other problems lash out with indiscriminate mass attacks. Authorities have responded by pushing local law enforcement to do more to surveil and control potential offenders but without providing additional resources to do so. As a result, local officials have relied heavily on grassroots volunteers and hired agents to monitor and control suspects. Such methods fail to address the root causes of alienation and only intensify feelings of resentment by many people and might aggravate problems of instability and mass violence over the long term.[120]

Conclusion

Local government debt has increased efforts to raise revenue through nontax means and resulted in cuts to government services. Despite these steps, local governments are still faced with high levels of debt and significant budget stress.

The central government recognizes this as well. As noted in Chapter 2, the central government has taken reform steps to make local government debt more transparent and ease the ability of local

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[117] Wu Shimin and Liao Shumin, "China's Public Hospitals Face Financial Trouble, Loss of Staff Amid Pandemic," *Yicai Global*, September 9, 2022.

[118] "China Sees Surge in Worker Protests over Unpaid Wages Amid Deepening Local Government Debt Crisis," Asian News International, May 22, 2025.

[119] Li Yuan, "China's Cities Are Buried in Debt, but They Keep Shoveling It On," *New York Times*, March 28, 2023.

[120] Patricia M. Thornton, "'Going Xianzhong Mode': Can Local Governments Stop 'Revenge Against Society' Attacks?" *China Leadership Monitor*, No. 84, Summer 2025.

governments to pay their debts. Despite this, the smart money—as reflected by holders of local debt in the form of LGFV bonds—has doubts such measures will succeed.[121]

In the next chapter, we discuss implications for China and the United States.

[121] Xiaoxi Zhang, "Breaking the LGVF Bonds," Gavekal Dragonomics, April 6, 2026.

Chapter 4

Implications of China's Local Government Debt for China and for the United States

China's economy has experienced astonishingly high growth rates for years. But its impressive growth obscures the reality of its serious imbalances. One of the most consequential of these imbalances concerns the problem of growing deficits between government revenues and expenditures and the concomitant increase in debt. In this chapter, we first review the key issues related to local government debt, then we discuss the implications of this debt for China. After that, we describe potential solutions to the debt challenge. Finally, we discuss the implications of this debt for the United States and competition between the United States and China.

Governments in virtually all developed economies operate at a deficit.[122] China stands apart because it not only has an enormous level of debt, but it is still officially a developing country, and developing countries ordinarily have much less debt-carrying capacity than developed countries. China's rapid rate of debt increase is in large part due to the country's reliance on debt to fuel growth. And because about 85 percent of general government spending in China is done at the subnational level, the problem of indebtedness is principally a problem of local government finances.

The degree of decentralization of spending is a distinctive feature of China's fiscal picture. Under Xi Jinping, local governments raise about 54 percent of total government revenue but are responsible for 86 percent of all government spending. To cover the enormous gap, the central government provides transfer payments to local governments, which in 2024 equaled roughly $1.4 trillion.[123] Moreover, the central government restricts what the transfers can be used for. The largest categories have been for health care and pensions. In 2024, local governments could use only 40 percent of centrally transferred funds at their own discretion.[124]

As we noted in Chapter 2, China's subnational governments have long experienced gaps in revenue and spending, in part because of the mismatch in responsibilities assigned by the 1994 tax reforms. Limits on borrowing methods, such as the issuance of bonds, have left governments little choice but to rely on off-balance-sheet methods to raise money. In the 1990s and 2000s, local governments overcame this gap through a heavy reliance on land sales, which also fueled development. However,

[122] Organisation for Economic Co-operation and Development, "OECD Dashboard on Subnational Government Structure and Finance," webpage, undated.

[123] Pei, 2025, Table 3.

[124] Pei, 2025, Table 5.

the deflation of the property market in the 2020s has rendered the use of land sales to finance government operations unviable.

Local governments have grappled with the problem of increasing debt in several ways. To raise revenue, local officials have resorted to administrative fundraising through asset seizure, forfeitures, and the imposition of various fines and fees. They have also borrowed from NGOs and sold off or leased state assets. Yet such stopgap measures alone are unlikely to close the gap. Officials have also cut costs, mainly by slowing or curtailing expenditures for local government services, including community services, education, health care, and domestic security. These cuts have not been enough to close the spending gap. Moreover, cuts to local government services risk aggravating problems of weak consumer demand and deflation, because consumers could opt to save money rather than spend.

Although debt affects all of China's local governments, the severity of the challenge and its consequences vary by region. This is illustrated by our case study comparison of Guangzhou and Shenyang, the provincial capitals of Guangdong province and Liaoning province, respectively, in the appendix. Both provinces have experienced substantial industrialization, but their rates of debt accumulation have varied considerably. Guangzhou, one of the wealthiest and fastest-growing local economies, relied heavily on development related to land sales to power its rise. The deceleration of the property market thus removed an important source of revenue, resulting in a surge in debt since 2022. Paradoxically, Shenyang's debt accumulated at a slower pace. This is explained by the fact that the province experienced the deindustrialization of its heavy-industry sector long ago and benefited less from land sales. Thus, the decline in the property sector affected Shenyang's finances less profoundly. Both provincial governments have tried to curb the problem of debt, in part by cutting spending on services. The value placed on education in Guangzhou resulted in smaller cuts to those services compared with Shenyang, which prioritized spending on social welfare given its larger problem of unemployment and underemployment.

Consequences for China

Mounting and unsolved local government debt has several consequences for China.

Long-term growth. The accumulation of local government debt for which debt service is in question raises questions about China's ability to maintain high growth rates. As noted in Chapter 1, debt by itself can spur growth if its returns are higher than the cost of debt. But that is not China's situation anymore. The outcome could be what is known as a *balance-sheet recession* in which borrowers reduce spending and investment so that they may pay back debt, slowing economic growth and reducing tax revenue, which then further hampers government's ability to support growth.[125]

In the 1990s and early 2000s, China relied on a surging property market to drive as much as one-quarter of its growth.[126] However, with the deflation of the property market, local governments can no longer rely on land sales and development related to land transfers as a source of growth, reducing these governments' ability to pay their debts. LGFVs, an important engine of growth, have relied on

[125] Nicholas Borst, "China's Balance Sheet Challenge," *China Leadership Monitor*, No. 75, March 1, 2023, p. 20.

[126] Anne Scott Tyson, "Real Estate Once Drove China's Economic Growth. Now It's Holding It Back," *Christian Science Monitor*, October 15, 2024.

new debt to cover up to 90 percent of their spending because they have low operating income, and so if new debt becomes less available, their operations become impaired.[127]

Because property-sector development and consumption are looking less likely to drive growth, China's leaders might have little choice but to continue to rely on investment in production and infrastructure and on exports to drive growth. But as long as the investment in production has poor economic returns, it will lead to rising debt levels. In addition, because consumption in China is suppressed, there will be more exports.[128] But exports not only aggravate trade tensions with other countries, they require subsidies to maintain competitiveness.[129] For these reasons and others, experts estimate that China's growth rate could slow to between 2 and 3 percent annually over the next few years.[130]

The local government debt problem has weighed on growth through the accumulation of arrears; widespread reports have pointed to delayed or unpaid obligations to contractors, suppliers, and other firms working with local governments, LGFVs, and local SOEs.[131] Even where reported budget expenditures continue to rise in nominal terms, local governments can preserve cash for debt service and priority spending by delaying payment on completed projects or services. The economic effects of this practice can extend well beyond the face value of the arrears themselves. Despite the debt-swapping program in China aiming to alleviate the arrears in local economies, fiscal distress might continue to spread through local supply chains and labor markets, weakening domestic demand and business confidence.

Fiscal pressure might also reduce local governments' discretionary capacity to support emerging industries. Even if spending in the general public budget does not fall outright, debt service, arrears, and other fiscal obligations might crowd out subsidies, tax incentives, land concessions, and other forms of local support that have helped incubate startups and attract technology investment. This might leave support for major national champions intact while weakening the broader pipeline of new firms.

Related problems are unemployment and underemployment. Local governments could cut spending to ease debt, but this could result in higher levels of unemployment. Unemployment among young people has already exceeded 20 percent in urban areas. Many people have turned to the gig economy, which employs about 200 million people in China.[132] However, these jobs provide little in terms of job security or benefits.

Headwinds for rebalancing to a more consumption-driven economy. Regardless of how serious China is about pursuing this goal, the growing debt problem also hampers China's ability to transition into a consumption-based economy. Such an economy is widely regarded as a more sustainable form

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[127] Borst, 2023, p. 8.

[128] Michael Pettis, "What's New About Involution," Carnegie Endowment for International Peace, August 26, 2025b.

[129] Joe Leahy, James Kynge, and Sun Yu, "The Looming Trade Tensions over China's Subsidies," *Financial Times*, January 29, 2024.

[130] Roland Rajah and Alyssa Leng, "Revising Down the Rise of China," Lowy Institute, March 14, 2022.

[131] Yu Hairong, Ding Feng, Cheng Siwei, and Qing Na, "In Depth: Clearing Arrears to Businesses Tests Chinese Localities' Resolve," *Caixin Global*, October 15, 2025.

[132] "China's 200m Gig Workers Are a Warning for the World," *The Economist*, September 18, 2025.

of long-term economic growth at this stage of its growth than the high levels of investments and exports that have driven much of its growth since reform and opening up in the late 1970s. Local governments have slowed or cut spending on a variety of social welfare services to help reduce the gap in spending, but such measures increase the incentives for citizens to save money and consume less because they cannot rely on the government to help with expenses related to health care, education, and retirement. A growing sense of insecurity is one reason that consumption remains weak and why the country continues to face threats of price deflation.[133] In addition, possible solutions that could raise more revenue, such as an income tax, a property tax, or a higher VAT, could reduce disposable income and with it consumption.

Challenges for employment. Because local government support for economic growth has become more challenging and because consumption is unlikely to rise rapidly, ensuring employment opportunities in existing types of jobs could become more difficult. This is exacerbated by decreasing opportunities for employment in manufacturing as a result of a national push to increase automation and the use of robots, although such jobs are also becoming increasingly unpopular among new labor-market entrants.[134] China's job creation since the creation of the People's Republic in 1949 has involved a steady shift out of agriculture into industry and services. Much of this shift was a more rapid transition to industry, and the share of employment in secondary industries (largely manufacturing) was higher than that in tertiary industries (largely services) from at least 1970 through 1993.[135] Since then, growth in services employment has outstripped growth in manufacturing employment, so that at the end of 2024, 22.2 percent of employment was in primary industries, such as agriculture; 29.0 percent was in secondary industries; and 48.8 percent, or 359 million people, was in tertiary industries. Notably, however, an estimated 200 million workers—or 40 percent of the urban labor force and largely in services—are so-called gig workers, who face precarious employment and have challenges with building skills for rewarding careers.[136] One additional consequence that China might face if employment growth lags labor-force growth is increasing out-migration, including of high-skilled workers.

Growing trade tensions. In 2024 and 2025, the contribution of gross capital formation to economic growth fell, but in its place has come a dramatic rise in the net export contribution to growth. In 2024, net exports contributed 30.3 percent of China's economic growth, and in 2025, this rose to 32.7 percent.[137] If consumption continues to grow slowly and exports serve as a leading source of growth, the result is likely to be prolonged trade tensions with partners that find their own manufacturing sectors are being impaired by Chinese goods. Trade tensions might be further exacerbated if China strives to keep interest rates low, suppressing the exchange rate. Increased trade

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[133] Zhang Yukin, Qiaoyi Li, and Ryan Woo, "Deflationary Pressures Persist in China on Weak Demand, Overcapacity," Reuters, October 15, 2025.

[134] Brian Spegele, "Robots and AI Are Already Remaking the Chinese Economy," *Wall Street Journal*, November 24, 2025.

[135] National Bureau of Statistics of China, "Table 4-2: Number of Employed Persons at Year-End by Three Strata of Industry," *China Statistical Yearbook 2025*, 2025.

[136] "China's 200m Gig Workers Are a Warning for the World," 2025.

[137] "Chinese Exports Give Biggest Growth Boost to Economy Since 1997," Bloomberg News, January 19, 2026.

tensions could create challenges to Beijing's diplomatic efforts to warm its ties with countries that have been disappointed by U.S. trade policy changes.

Social welfare. The debt problem threatens the ability of local governments to provide governance goods, such as education, health care, and public safety. Budget cuts could result in lower educational attainment, worsening health outcomes, and greater risks to public safety.

In sum, China's worsening debt problem for its subnational governments has negative implications for China's social stability, economic growth, and even international relations. Officials face few easy options for either raising revenue or cutting expenses. Yet a failure to do either or both risks worsening China's situation.

Adjustment Scenarios

Despite the many problems that high levels of local government debt are causing, China has largely been able to maintain its model of subsidized growth. Sectors that leaders deem most vital to the country's economic competitiveness—specifically the advanced manufacturing and technology sectors—have continued to receive strong government financial and political support. China's economy could grow even more imbalanced: small, prosperous tech-related and advanced manufacturing sectors might outpace the larger, low-productivity, low-return basic manufacturing and services sectors.

However, the maintenance of its growth model does not mean that China can ignore its local government debt problem. Officials recognize that they must address it; for example, China's executive director to the IMF stated in February 2026 that "the government has taken multiple measures to address the debt risks of local government financing vehicles (LGFVs) and made important progress."[138]

One option is fiscal centralization, especially because China's government budget is a unified, national budget.[139] *Fiscal centralization* involves using the central government's balance sheet more explicitly through higher central borrowing, expanded transfers, the assumption of social spending mandates, and potentially absorbing or guaranteeing local liabilities.

Notably, however, China has emphasized that provinces bear overall responsibility for local government debts.[140] In addition, the central government's balance sheet is clean for now and China likely will need the financing power enabled by a clean balance sheet to continue meeting national priorities and manage future crises.[141] Fiscal centralization and, in effect, a central government bailout could create greater expectations of future bailouts should new local government debt challenges arise. Centralization would also imply changes in intergovernmental authority, staffing, and administrative capacity.

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[138] Zhengxin Zhang, "Statement by Zhengxin Zhang, Executive Director for the People's Republic of China," International Monetary Fund, February 13, 2026, p. 4.

[139] We thank Gerard DiPippo for his suggested outline and language for this section.

[140] Zhengxin Zhang, 2026, p. 4.

[141] Pettis, 2025a.

Second, fiscal decentralization through the readjustment of the central government–local government balance is an option. This could involve allocating more revenue from shared taxes, such as the VAT, to local governments; establishing new taxes, such as a personal property tax; or giving local governments more freedom to set and collect taxes.[142] These measures could also be paired with stronger restrictions on local debt and the use of LGFVs and a harder budget constraint on local governments.[143]

In fact, China is putting tax reform on the agenda for 2026; leaders are considering a consumption tax as part of a broader effort to strengthen local public finances. According to the MOF, Beijing will actively support consumption tax legislation in 2026, alongside work on a new local surtax law. The reform is expected to adjust the tax base and rates, shift collection of some items from the wholesale or import stage to the retail stage, and gradually transfer part of the incremental revenue to local governments.[144] As noted earlier in this report, debt management, and, specifically, being removed from the designation as a high-risk jurisdiction have created strong political incentives for local governments to adopt aggressive measures, such as exploring securitization of state-owned resources or assets and cashing out on these state-owned assets through financial leverages.[145] However, this option of local tax revenue would also involve political changes, giving local governments more power and reducing the power of the central government.[146] Collecting this tax could also involve negative political consequences because it would involve visible tax increases. And by reducing the role of central government transfers, such a tax could lead to higher regional inequality.

Third, China could privatize LGFVs, sell some of their assets, or support bankruptcy for some. China is already trying to transform them into market-oriented organizations and merging some LGFVs into others.[147] These changes to LGFVs could also include the privatization of local-government SOEs; at least as of 2018, the assets of such enterprises were larger than local government debt.[148] And as of 2023, China noted that the value of LGFV assets was well above the value of LGFV debt.[149] The challenge with this option is that it is not at all clear whether the market value of LGFV or SOE assets is anywhere near the book value, so privatizations might not cover debts. Under the mandate to transform LGFV entities, local governments in China are already taking actions to close or merge LGFVs with debts that are easier to manage, and the remaining LGFVs would potentially hold

[142] Lin, 2022, pp. 382–387.

[143] Lin, 2022, pp. 345–346.

[144] Cheng Siwei, "Ministry of Finance: In 2026, It Will Advance the Formulation of the Local Surtax Law and Actively Support Consumption Tax Legislation ["财政部：2026 年做好地方附加税法制定工作 积极配合消费税立法"], Caixin Online, March 30, 2026.

[145] Cheng et al., 2026.

[146] Kunath, 2025, p. 52.

[147] Zhengxin Zhang, 2026, p. 4.

[148] Lin, 2022, p. 340.

[149] Zhengxin Zhang, "Statement by Mr. Zhang, Executive Director for the People's Republic of China," International Monetary Fund, April 4, 2025, p. 7.

on to the financial risks.[150] And bankruptcies or liquidations could breed financial panic or impair banks and debt holders. Finally, local governments would lose future revenue streams generated by LGFVs.[151]

A fourth solution is to reshape financial obligations so they have a lower current burden but a similar (or lower) net present value. This is also being done, and involves interest rate reductions, lengthening repayment periods, or capital injections.[152] China could even pursue a quantitative easing strategy and cut rates to zero, thereby lowering funding costs, giving the stock market a boost (a separate policy goal of the government) and potentially even reviving housing and supporting inflation, thereby supporting industrial profits, which have been hurt by a multiyear deflationary trend.[153] The biggest problem with any option changing the investor returns to debt is that it could impair the balance sheets of China's banks, leading to financial sector instability. Banks hold an estimated 75 percent of LGFV debt.[154] Therefore, any measures to reduce the money owed to banks could lower the capital of those banks and with it, those banks' ability to lend for future growth. Any other entities that hold local government debt, including people, would also face negative wealth effects.

Even if such measures help China avoid a systemic financial crisis, preserving banking-sector stability could still come at substantial cost. Banks are already central to absorbing local government and LGFV debt, and maintaining stability might require continued rollovers, lower yields, the consolidation of weaker institutions, and possibly recapitalization or other state support. These steps could limit acute disruption, but they would also shift losses within the public sector and potentially constrain future lending to more-productive parts of the economy.

In the end, we speculate that China is unlikely to change its governing model or alter the power balance between the central government and local governments. This means that some combination of bailouts, marketization of LGFVs, changing debt terms, and other measures that forestall large-scale financial crises or that otherwise do not change China's governance model is the likeliest course of action, at least until the problem becomes a more serious drag on growth and social stability. How long that might take is difficult, if not impossible, to predict accurately. China has so far managed the problem with limited disruption. It might be the case that China can continue to do so. In fact, China's implied public position is that reform measures have mitigated the problem and that the situation is well under control, although central government officials have fallen short of saying that major reforms will not be necessary.[155] Indeed, there could be a potential outcome in which a combination of low interest rates; local government balance-sheet repair; a revival of corporate profits;

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[150] Cheng et al., 2026.

[151] Increasing SOE dividends to local governments could help repair local finances (this is dependent on how large the available pool of SOE profits is), but that might also reduce the ability of SOEs to invest and increase employment or pay back bank loans; again, this depends on whether these SOEs even have nontrivial profits of which to make use.

[152] IMF, 2025, p. 28.

[153] We also note that lowering rates to zero could lead to further RMB depreciation and greater export competitiveness, exacerbating the trade tensions described in the text. We are indebted to one of our reviewers, Dinny McMahon, for raising the issue of quantitative easing. The passage here is the responsibility of the authors and might not reflect his views.

[154] IMF, 2025, p. 30.

[155] Zhengxin Zhang, 2026, pp. 4–5; MOF, 2026, pp. 12–13, 16–17, 19–20.

and sustained, low-level bank recapitalizations allows China to deliver rising prosperity and higher consumption, all without paying down its debt. However, this is likely a narrow pathway and is as much hope-based as analytical, given China's many economic and demographic challenges. Despite the limited disruption of the local government debt burden to date, resolving the local debt challenge might be painful and highly disruptive if problems are allowed to mount.

Implications for the United States

The challenges confronting local government finances have implications for the United States. Economically, faced with growth challenges, China is likely to deepen its technological and economic competition with the United States. China's financial woes could aggravate problems of migration to the United States and other countries. At the same time, the challenge of local government debt is unlikely to constrain China's military modernization and expansion, but it is also unlikely to cause China to increase its belligerency toward Taiwan and the Indo-Pacific region. However, the United States has limited options to influence China's approach to local government debt. Furthermore, there is little reason for the United States to exacerbate the problems caused by local government debt (beyond the fact that levers for doing so are weak). The debt is likely to lead to instability, and instability in China could lead to unanticipated and unwelcome problems. This is fundamentally an internal political problem that China will have to solve on its own, likely painfully. Nonetheless, the United States should actively monitor China's progress in resolving debt, signs of instability created by the debt, and any signs that the debt is reducing China's policy space or pushing it toward unwelcome actions in areas of U.S. concern.

China is likely to maintain technology competition. Challenges in local government finances are unlikely to affect China's stance regarding technology competition with the United States. In fact, technology industries could become relatively more important. The deceleration of the property market has sharply curtailed the role of real estate in driving growth, while reductions in social welfare spending and potential increases in taxes because of strained government finances make it unlikely that China will be able to transition to a consumption-based economy without major disruptive reforms and increased unemployment. China will thus probably maintain its focus on dominating frontier technologies.

For the United States, this means the competition for technological leadership will not let up. China's subsidies for key exporters and manufacturers will also likely continue, which means that disputes with the United States over issues of fair competition and the use of tariffs by the United States—and possibly additional countries facing rising imports from China—will likely continue.

For U.S. policymakers, China's focus on dominating technology sectors suggests that the United States will need to maintain—if not increase—counter-espionage efforts and reduce dependence on inputs from China that are part of technology supply chains, such as legacy semiconductors and rare earths. Furthermore, export controls on frontier technologies that aid China's development of dual-use goods and military capabilities will also retain, if not increase, their importance as China focuses on dominating technology sectors. This focus also serves as a reminder that U.S. efforts to advance its own technology development should remain a priority.

As with technology industries, exports will remain as a source of growth. Because growth pathways beyond the development of technologically advanced industries and exports are narrowed, China will continue to rely on exports to drive growth. China's subsidies for key exporters and manufacturers will also likely continue, which means that disputes with the United States over issues of fair competition—and likely with additional countries facing rising imports from China—are almost certain to continue.

China's continuing export drive might open opportunities for the United States to build international partnerships to constrain China. Comparing values for 2019, the year before COVID-19 upended both China's economy and world economies, and 2024, the year with the latest available nominal-value data, illustrates these potential opportunities. In 2019, China's GDP was 16.5 percent of world GDP, its manufacturing value added was 27.0 percent of world manufacturing value added, and its manufacturing exports by value were 17.6 percent of world manufacturing exports. By 2024, these figures were 16.9 percent, 28.0 percent, and 19.1 percent, respectively.[156] And the share of world manufacturing value added and exports in constant values were probably higher because China has been experiencing deflation.

Combined with new U.S. tariffs redirecting China's trade away from the United States, this increase in production has led to more exports to other countries, and those countries have started to raise barriers to protect their own industries.[157] Accordingly, this opens the opportunity for collective action to shift trade away from China, strengthen supply chains, restore manufacturing outside China, and potentially create better incentives for China to reform its own economy.

Migrants might seek better opportunities abroad. Although migration is indirectly connected to local debt challenges, migration to the United States and other countries could intensify. To the extent that local debt challenges contribute to slower growth and lower quality of life, such as through less spending on social welfare, people who seek opportunity might exit China. If incentives for Chinese out-migration rise, the United States can benefit by absorbing higher-skilled immigrants from China. Despite the security challenges posed by migration, Chinese nationals have benefited U.S. technology advances and, with proper safeguards, can continue to do so.[158]

No letup in military competition. The debt problem among local governments is unlikely to constrain the central government's spending on the military and its efforts at military modernization. Although the exact level is disputed, China's military spending is low enough relative to the size of the economy that the central government faces little pressure to slow its rate of growth, let alone reduce it.

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[156] Note that the GDP share and manufacturing value added share were even higher in 2021, 2022, and 2023, and the manufacturing export share was higher in 2021 and 2022. We chose 2019 as the base year for comparison to avoid COVID-19–related distortions. Data are from World Bank, 2026. The GDP variable is "GDP (current US$)," series code NY.GDP.MKTP.CD. The manufacturing value added variable is "Manufacturing, value added (current US$)," series code NV.IND.MANF.CD. The manufacturing export variable is a derived variable, based on multiplying "Manufactures exports (% of merchandise exports)," series code TX.VAL.MANF.ZS.UN, by "Merchandise exports (current US$)," series code TX.VAL.MRCH.CD.WT.

[157] Takeshi Kawanami, "Trump Tariffs Spur Copycat Policies as Countries Try to Limit China Imports," Nikkei Asia, December 28, 2025.

[158] Nadia Almasalkhi, "U.S.-China High-Skilled Return Migration: Implications for Strategic Economic Competition," in Howard J. Shatz and Daniel Egel, eds., *U.S.-China Economic Competition: Gains and Risks in a Complex Economic and Geopolitical Relationship*, RAND Corporation, RR-A1947-1, 2025.

Furthermore, by leaving the responsibility for local government debt to local governments—despite the fact of a unified budget—the central government has additional financing capacity for military expansion. Certainly, a severe domestic crisis could slow spending on defense if the central government either needed to engage in a major stimulus or if it needed to aid local governments. Economic pressures from the COVID-19 crisis, for example, resulted in the slowest rates of growth in defense spending in decades in 2021 and 2022.[159] But such effects are likely to be temporary. Instead, budget adjustments are likely to take place at the local level with muted support for local government services and some economic development activities.

Even with continued military buildup, local government debt problems are unlikely to drive military aggression. Broader changes in the national system and international system are more likely to drive military action by China.[160] Nonetheless, even with the stresses to local well-being and national growth in China caused by local debt, China will remain a formidable military competitor for which the United States will need to be prepared.

[159] Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, undated.

[160] Howard J. Shatz, Marco Hafner, Naoko Aoki, Peter Dortmans, Timothy R. Heath, and Fiona Quimbre, *Economic Deterrence in a China Contingency*, RAND Corporation, RR-A4022-1, 2025.

Appendix

Comparative Case Study: Shenyang and Guangzhou

A comparative analysis of two very different cities from 2018 to 2024 can provide greater detail on the problem of local government debt. We study Shenyang and Guangzhou, the capitals of Liaoning province and Guangdong province, respectively, which have different economies and industries. Both cities share a common problem: worsening debt. They also have sought to ease that debt, in part by raising revenue from nontax sources and by cutting expenses. However, the structure of their economies and historical growth rates also have led to important differences. Shenyang's experience in deindustrialization has led to longer, slower-growing debt problems and higher expenses for addressing unemployment, while Guangzhou, which had much more rapid growth, experienced a sharper rise in debt after the property sector collapsed. We also note that the population of China, as a whole, has started declining, peaking at 1.412 billion in 2021 and hitting 1.407 billion in 2025, and that this should lead to spending changes. However, the populations of Shenyang and Guangzhou have actually risen a small amount, suggesting that spending adjustments are more directly related to debt challenges than to demographic changes. The data for these local case studies primarily come from the local statistical yearbooks for the two cities and from the Wind Financial Terminal.

Shenyang

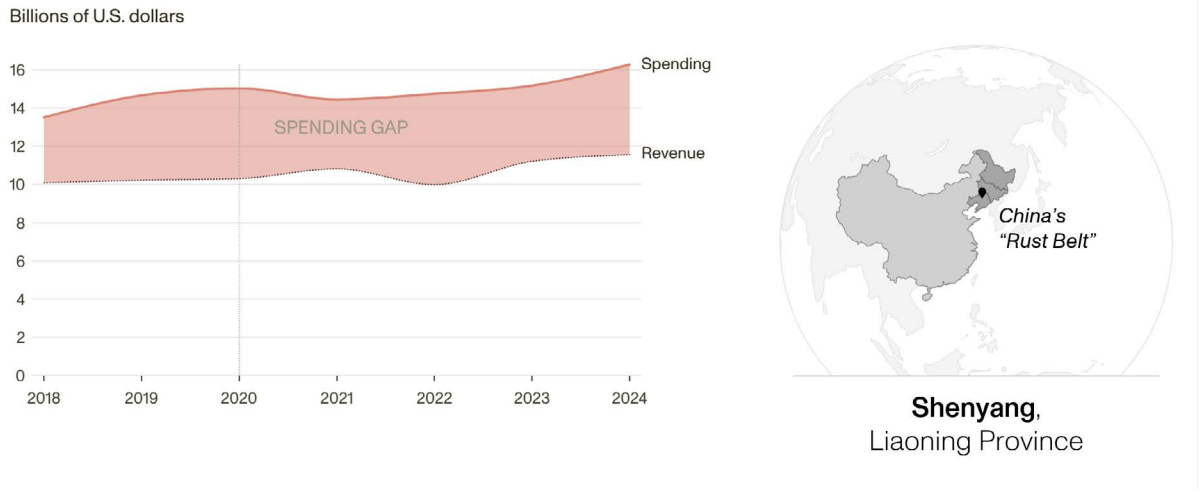
Shenyang is the provincial capital of Liaoning Province in China's northeast and is a part of what is known as China's Rust Belt: regions with a heavy state-owned manufacturing economy that have been struggling because of debt, deindustrialization, and competition from China's coastal provinces.[161] The population of Shenyang was 9.2 million people as of 2024, and the city had a working age population of about 4.2 million.[162] Although the population of Liaoning province has declined in recent years, Shenyang's population has grown, according to the city's statistical yearbook; its 2019 population was recorded as 8.9 million people, perhaps because of its status as a provincial capital and its growing service, technology, and education sectors.

Shenyang's spending exceeded its revenue for all years from 2018 to 2024 by amounts ranging from RMB 24.5 billion in 2018 ($3.7 billion) to RMB 34 billion in 2022 ($5.1 billion); it also hit close to RMB 34 billion in 2020 and 2024 (Figure A.1).

[161] Carol Yang, "Rust-Belt Regions at Risk of Being Left Behind as Coastal Economies Surge," *South China Morning Post*, February 12, 2025.

[162] Shenyang Bureau of Statistics [沈阳市统计局], "Shenyang Statistical Yearbooks" ["沈阳统计年鉴"], webpage, undated. The *working age population* is the population between the ages of 18 and 59.

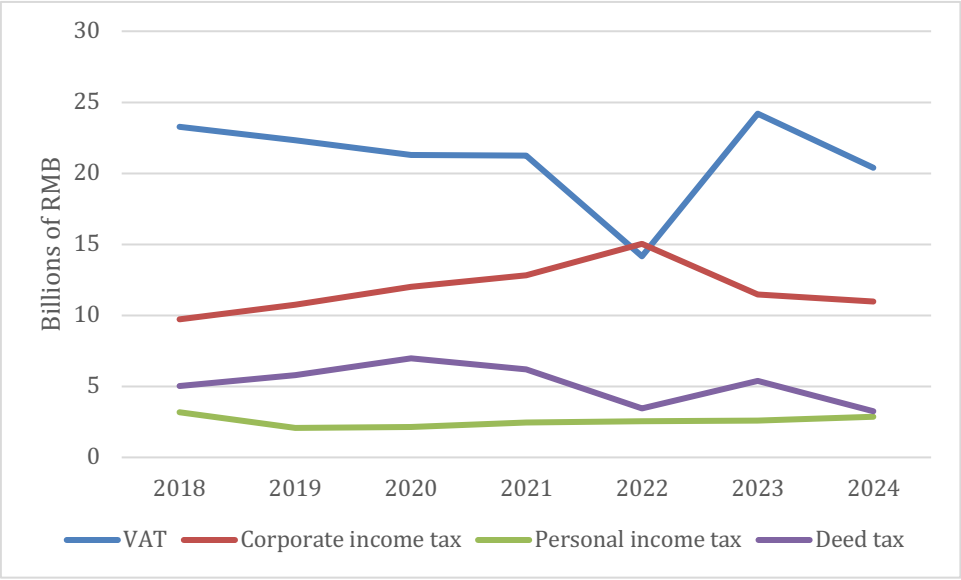
Figure A.1. Shenyang General Public Budget Revenue and Spending, 2018–2024, in Billions of U.S. Dollars



SOURCE: Features data from Shenyang Bureau of Statistics, undated.

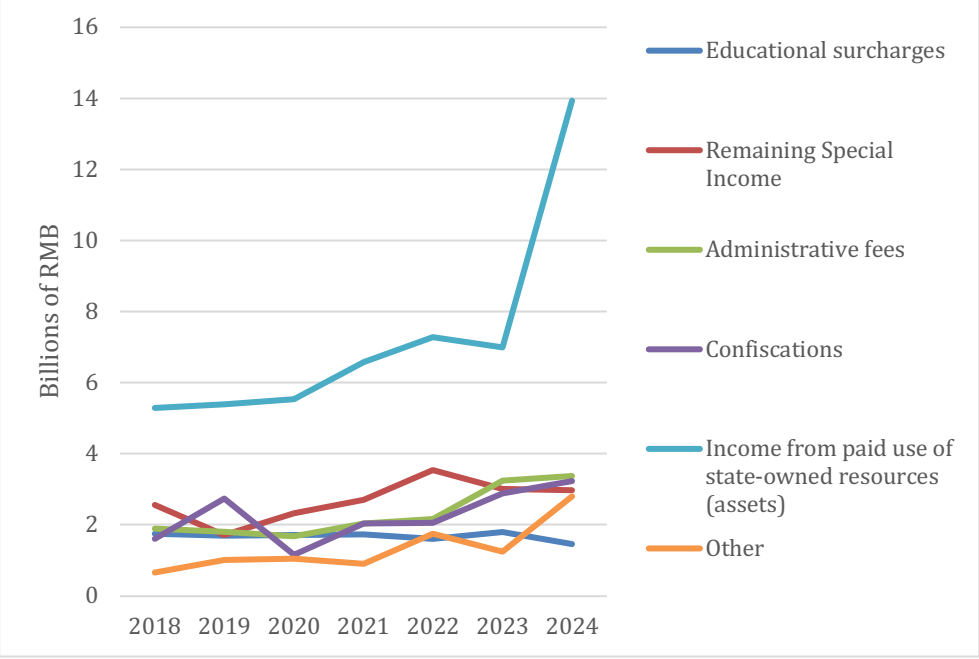
Shenyang's public budget revenue is derived primarily from VAT, corporate income tax, deed tax, and personal income tax (Figure A.2). Nontax income, which is much lower, is derived primarily from income from the paid use of state-owned resources, followed by special income, such as educational surcharges, administrative fees, and the confiscation of income (Figure A.3).

Figure A.2. Shenyang General Public Budget Revenue from Taxes, 2018–2024



SOURCE: Features data from Shenyang Bureau of Statistics, undated.

Figure A.3. Shenyang General Public Budget Revenue from Nontax Sources, 2018–2024

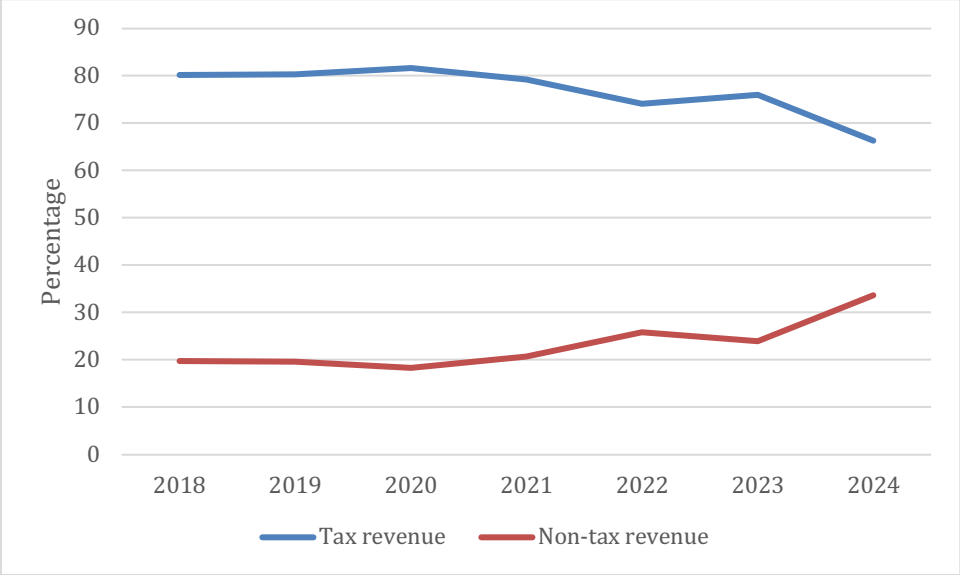


SOURCE: Features data from Shenyang Bureau of Statistics, undated.

Although Shenyang's general revenue has remained relatively consistent, the sources of revenue have changed as China's economy has slowed. Prior to the COVID-19 pandemic, tax revenue made up at least 80 percent of total revenue for Shenyang, but since 2022, tax revenue has declined to

around 75 percent of total revenue (Figure A.4). This decline was due to reduced consumer spending following the COVID-19 pandemic and the property-sector crash, which affected revenue from VAT and the corporate income tax. Shenyang's attempt to make up for the decline in tax revenue has proved insufficient. China collects relatively little personal income tax or deed tax, and increases in corporate taxes in 2022 have failed to make up for the property VAT shortfalls (Figure A.2).

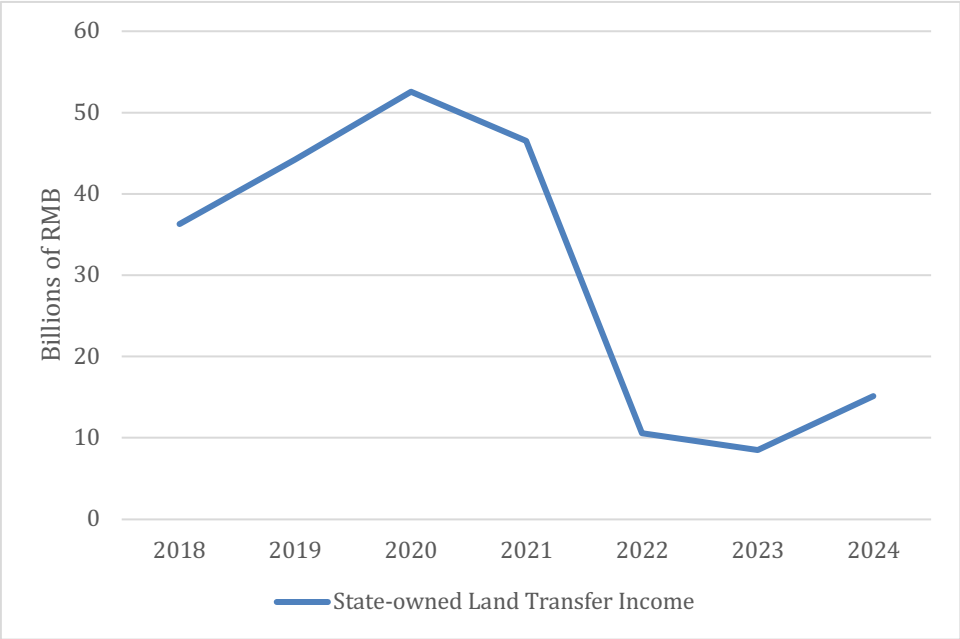
Figure A.4. Tax and Nontax Sources in Shenyang's General Public Budget Revenue, 2018–2024



SOURCE: Features data from Shenyang Bureau of Statistics, undated.

A major source of nontax revenue during the early 2000s was the sale of state-owned land. However, this source of revenue has plummeted in recent years. State-owned land transfer income peaked at RMB 52.5 billion ($7.6 billion) in 2020 before falling to RMB 8.5 billion ($1.2 billion) in 2023 (Figure A.5). Authorities have accordingly turned to other nontax revenue sources. Income from the leasing or contracting out of state-owned resources has proved the most lucrative. But Shenyang also experienced major increases in revenue from administrative fees and confiscations. As noted in Chapter 4, these are all revenue sources that are difficult to sustain and, in many cases, politically sensitive.

Figure A.5. Shenyang State-Owned Land Transfer Income, 2018–2024

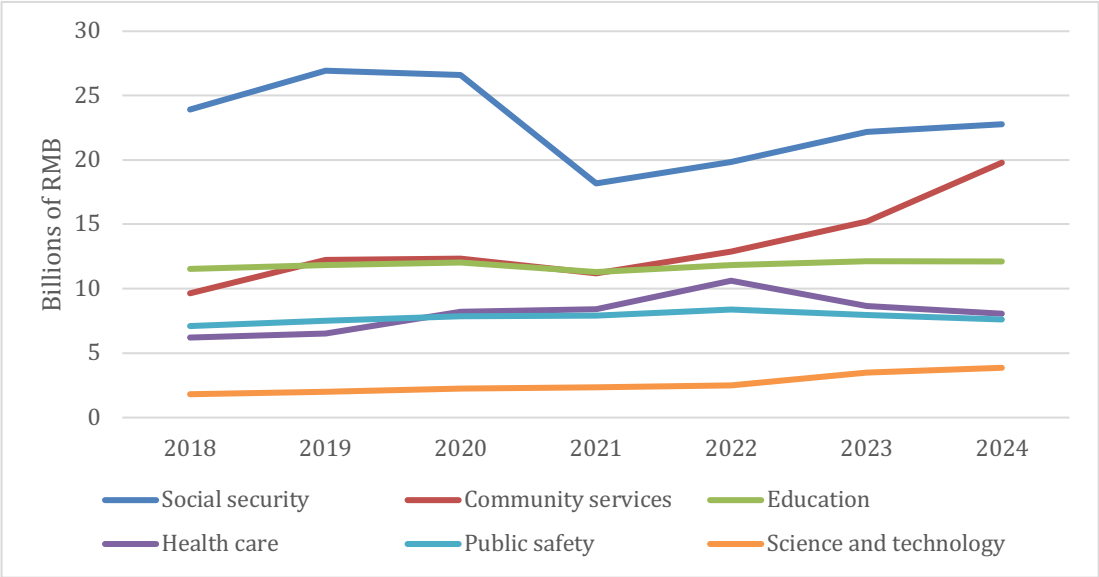


SOURCE: Features data from the LGFV debt database in the Wind Financial Terminal, undated.

Despite its budget challenges, Shenyang's spending has remained steady, although its composition has changed. Although we discussed agriculture spending in Chapter 3, we excluded it in this appendix because it holds lower importance to the two cities featured in this case study. As in Chapter 2, the case studies include public security spending because of its importance in maintaining the authority of the Chinese Communist Party, and we add science and technology spending, reflecting the recent national prioritization of technological self-reliance.

Shenyang's legacy as a city in the rust belt can be seen in the high levels of spending on social security and unemployment; in 2024, Shenyang spent RMB 22.8 billion ($3.2 billion) in these categories (Figure A.6). Other major categories of spending include community services (RMB 19.8 billion, $2.8 billion) and education (RMB 12.1 billion, $1.7 billion). During the COVID-19 pandemic, the government slashed spending on social security but then gradually restored some of the spending in subsequent years. Notably, public safety spending declined in 2023 and 2024 and was at its lowest since 2019 in 2024. In contrast, science and technology spending more than doubled between 2018 and 2024.

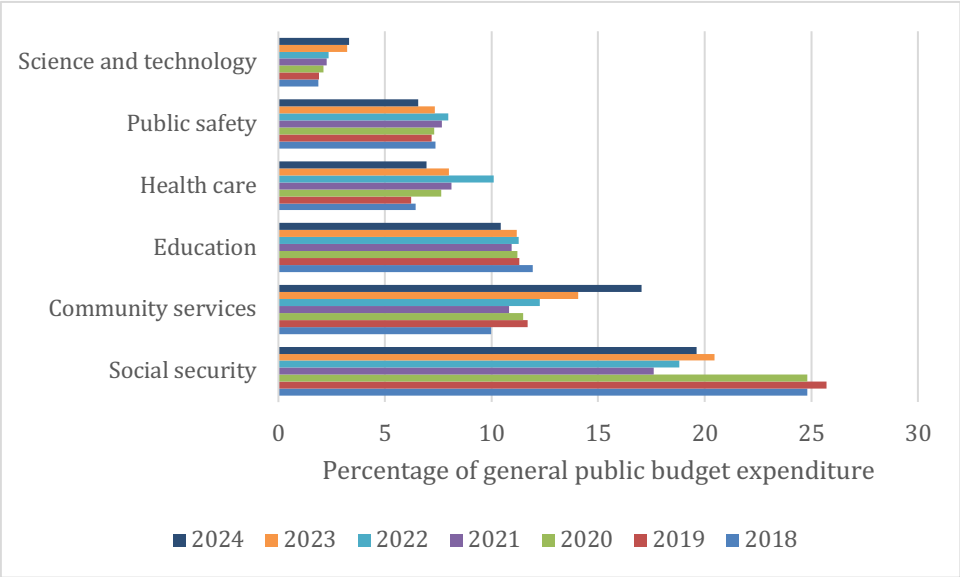
Figure A.6. Shenyang Public Budget Expenditures, 2018–2024



SOURCE: Features data from Shenyang Bureau of Statistics, undated.

In terms of percentages, in 2024, social security and unemployment spending accounted for 19.6 percent of Shenyang's general public budget expenditure, on par with 2022 and 2023 but well below the percentage of such spending from 2018 to 2020, which averaged 25 percent (Figure A.7). Spending on community services rose dramatically in 2023 and 2024, education expenditures and local public safety expenditures have experienced a slight decline as a percentage of total expenditures, and science and technology expenditures—although a small share of spending—have increased. Elevated spending levels on health care in response to the COVID-19 pandemic have subsequently eased close to prepandemic levels.

Figure A.7. Shenyang Public Budget Expenditures Relative to Total Expenditures, 2018–2024



SOURCE: Features data from Shenyang Bureau of Statistics, undated.

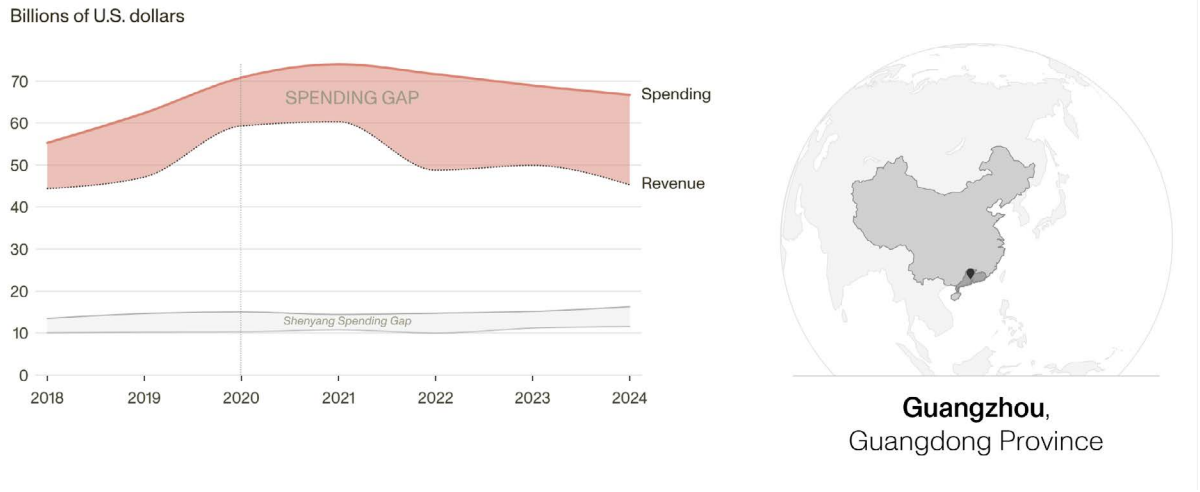
Finally, Shenyang's alternative financing options are declining. Since Liaoning Province was identified by the central government as one of the 12 heavily indebted regions in late 2023, LGFV funding in Shenyang has dropped from a high of nearly 20 percent of total debt in 2017 to just over 5 percent in 2024.[163]

Guangzhou

Guangzhou is the provincial capital of Guangdong province, a vibrant, economically affluent province on China's southeastern coast. Situated by Hong Kong, Guangdong province includes Shenzhen, China's tech powerhouse, and the province is a key export hub for China. Guangzhou has a population twice the size of Shenyang's, and the population has grown slightly in recent years: 18.3 million in 2019 and 19.0 million in 2024. Unlike Shenyang and the northeast region, which experienced slow growth for years before the COVID-19 pandemic, the economy of Guangzhou experienced rapid growth through the 1990s and 2000s. However, its economy slowed dramatically in response to the COVID-19 lockdown and the collapse of the property sector. The slowdown resulted in a significant decrease in tax revenue, which has led to a surge in debt since 2021 (Figure A.8).

[163] "Exclusive: China's Cabinet Curbs Debt Growth in 12 'High Risk' Regions—Sources," Reuters, October 25, 2023.

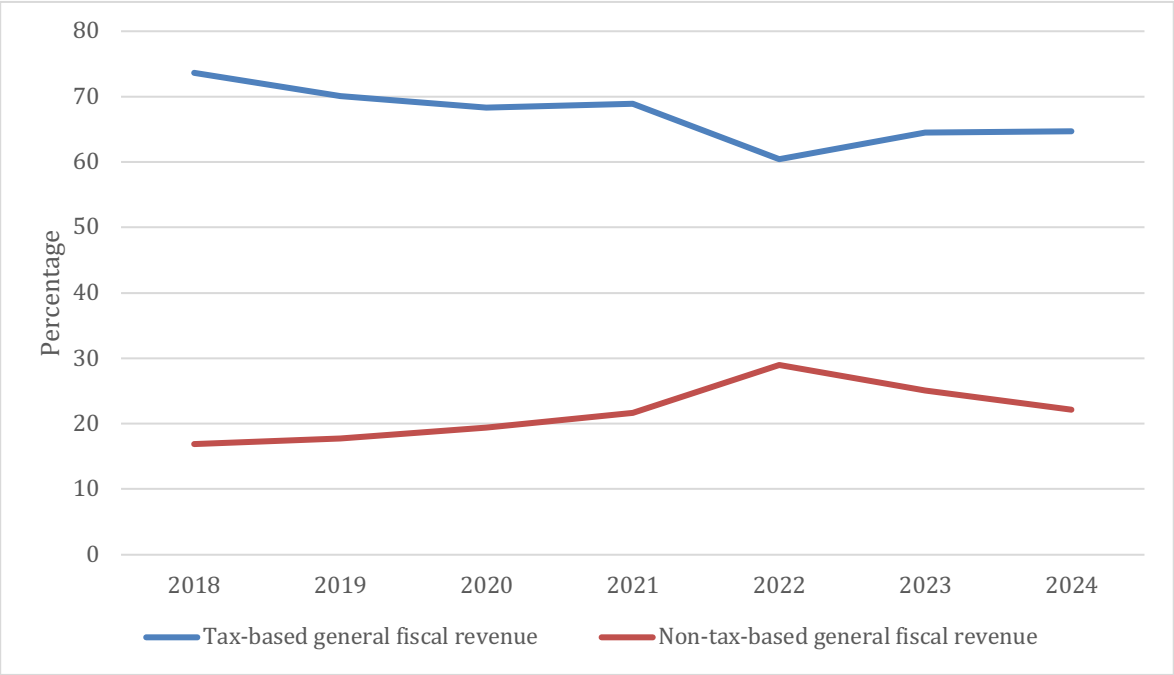
Figure A.8. Guangzhou Public Budget Revenue and Spending, 2018–2024, in Billions of U.S. Dollars



SOURCE: Features data from Guangzhou Bureau of Statistics [广州市统计局], "Guangzhou Statistical Yearbooks" ["广州统计年鉴"], webpage, undated.

Similar to Shenyang, the percentage of tax-based revenue in Guangzhou also declined during the COVID-19 pandemic and subsequent property-sector crash. Tax revenue declined from 70 percent of all revenue in 2017 to 65 percent in 2024, while nontax revenue increased from 18.5 percent in 2017 to more than 25 percent in 2023 (before declining slightly in 2024) (see Figure A.9).

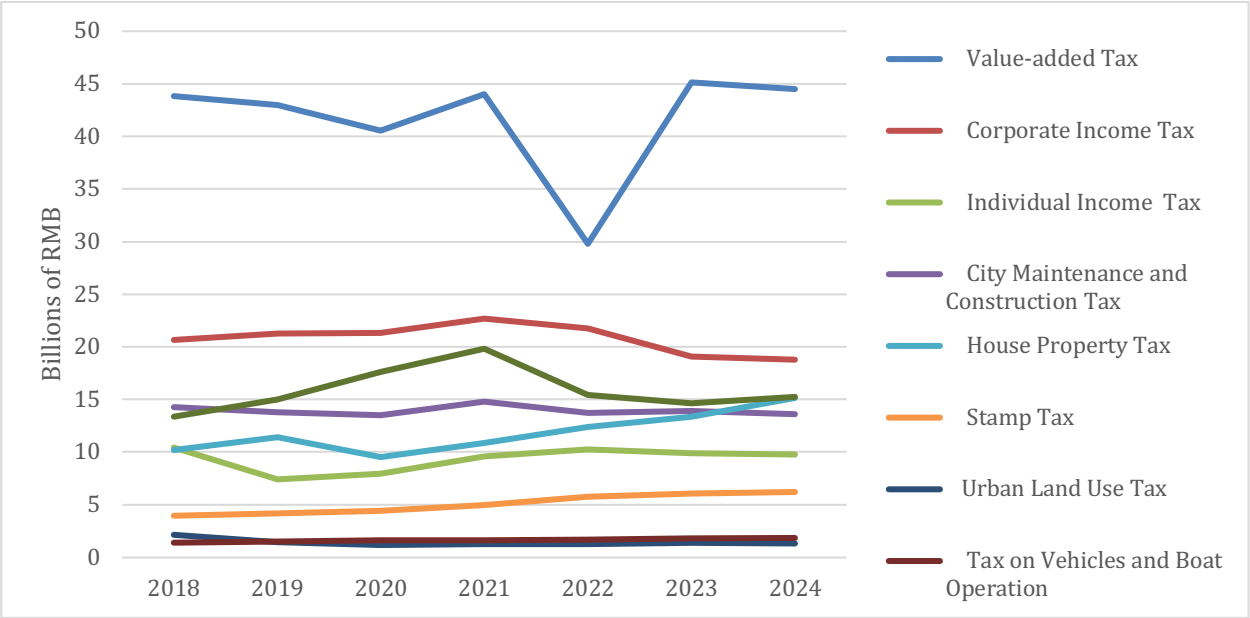
Figure A.9. Guangzhou Tax-Based Versus Nontax-Based Revenue, 2018–2024



SOURCE: Features data from Guangzhou Bureau of Statistics, undated.
NOTE: Guangzhou and Shenyang's Statistical Yearbooks use different subcategories of tax-based and nontax-based revenue. We used our best judgment, using available data, to compare the two types of revenue sources. Nontax-based revenue excludes government funds budget revenue.

A further look at the breakdown in revenue sources shows that the city suffered a decline in VAT collection around the property-sector crash in 2022 (Figure A.10).

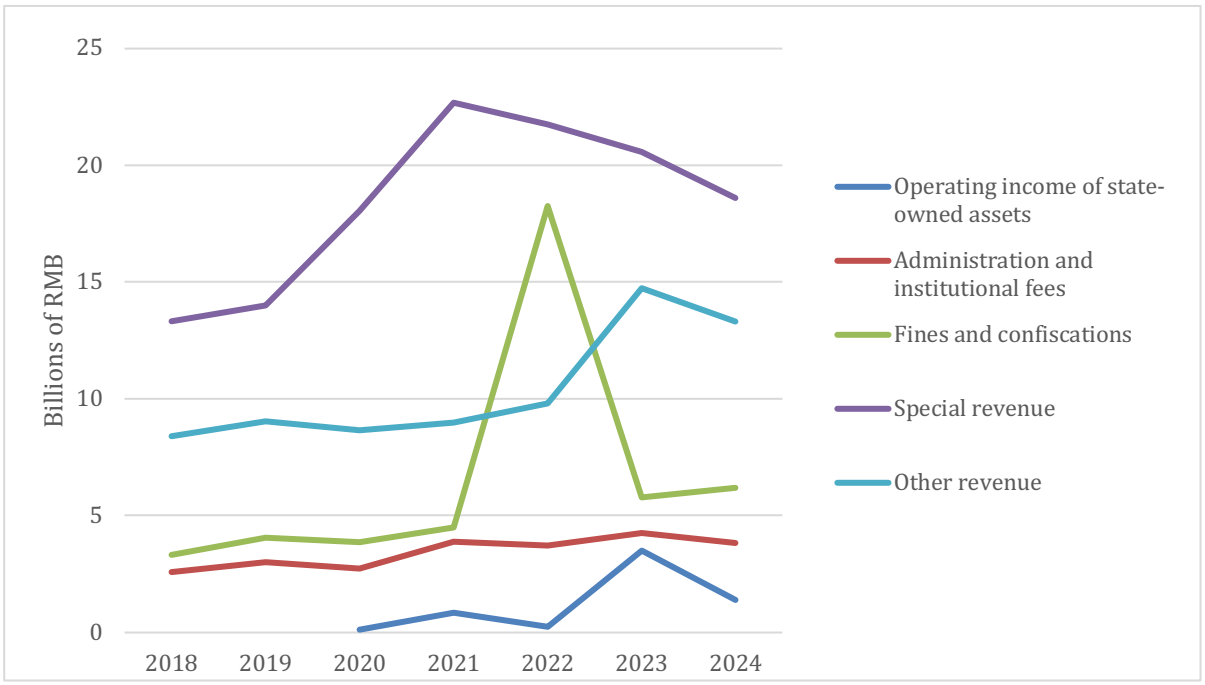
Figure A.10. Guangzhou Tax-Based Revenue, 2018–2024



SOURCE: Features data from Guangzhou Bureau of Statistics, undated.

This created a gap in the budget that the city attempted to fill via nontax revenue sources, such as increased penalty collection and increased "special revenue" collection (Figure A.11).

Figure A.11. Guangzhou Nontax-Based Revenue, 2018–2024



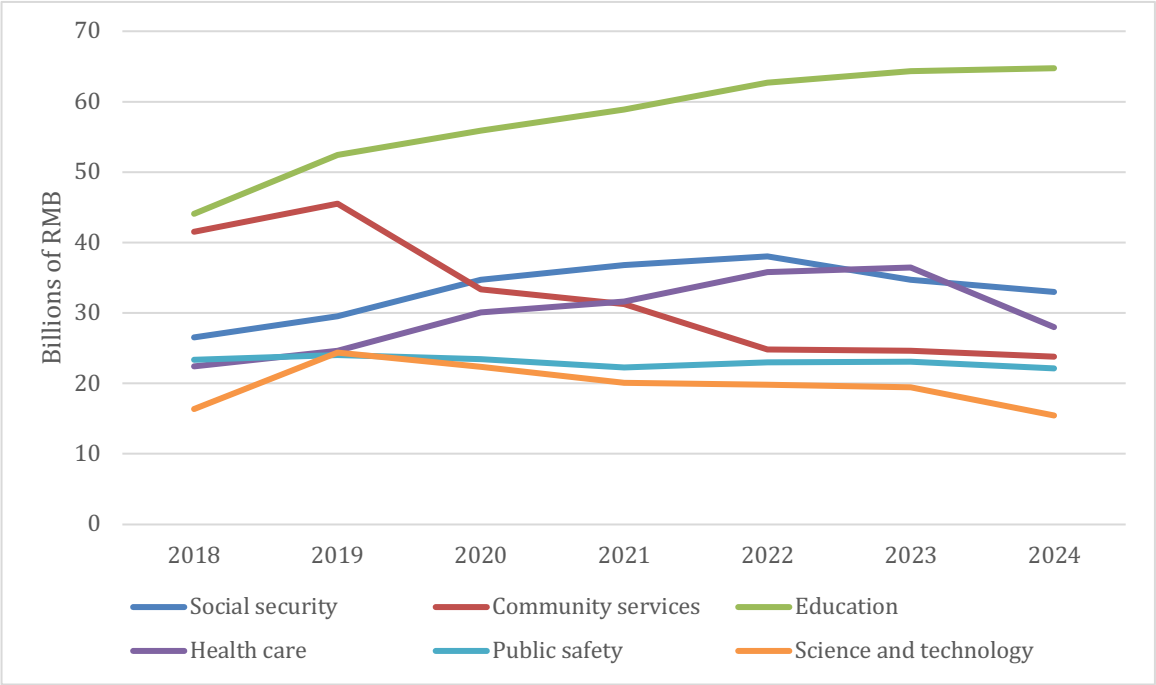
SOURCE: Features data from Guangzhou Bureau of Statistics, undated.
NOTE: Guangzhou did not report operating income for state-owned assets for 2018 and 2019.

Unlike Liaoning, the central government did not identify Guangdong Province as one of the high-risk indebted regions. This is reflected in Guangzhou's continued use of LGFVs as a revenue source during a fiscal decline. Guangzhou's interest-bearing debt from local government financing vehicles increased from RMB 2 billion ($296 million) in 2017 to more than RMB 45 billion ($6.3 billion) in 2024.

In terms of its expenditures, Guangzhou has prioritized education spending, which increased from RMB 44.1 billion ($6.7 billion) in 2018 to RMB 64.8 billion ($9.0 billion) in 2024 (Figure A.12). Both social security and health care spending rose dramatically throughout the COVID-19 pandemic, and even though spending in both categories has declined somewhat, spending remains well above prepandemic levels.

Guangzhou cut other spending categories. Community services spending declined the most, from a high of RMB 46 billion ($6.7 billion) in 2019 to RMB 23.8 billion ($3.3 billion) in 2024. Science and technology expenditures have decreased, despite Guangzhou being a part of China's Pearl River Delta technology hub and the central government's emphasis on science and technological development. Even social security spending decreased, in absolute terms, from 2022 to 2024.

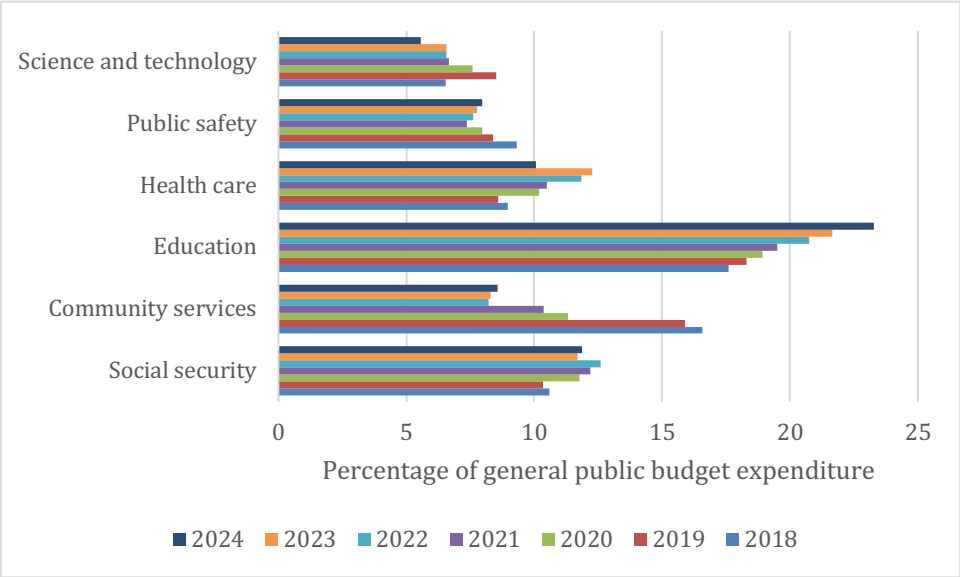
Figure A.12. Guangzhou Public Budget Expenditure, 2018–2024



SOURCE: Features data from Guangzhou Bureau of Statistics, undated.

Considering percentages of spending, the absolute rise of education spending is also reflected in education's share of general public budget expenditure, rising from 17.6 percent in 2018 to 23.3 percent in 2024 (Figure A.13). Social security and health care spending have stayed largely steady, whereas community services spending fell from 16.6 percent to 8.6 percent. Public safety spending declined to below 8 percent in 2020 and has not risen back to the share it had in the late 2010s. And science and technology spending was at its lowest share in 2024 since at least 2018, if not before.

Figure A.13. Guangzhou Public Budget Expenditure Categories Relative to Total Expenditures, 2018–2024



SOURCE: Features data from Guangzhou Bureau of Statistics, undated.

Comparison

The case studies show that both Shenyang and Guangzhou have experienced problems of worsening debt. Although both cities have managed to avert worst-case scenarios by carefully cutting local expenditures and increasing nontax revenue, they do not appear to be making progress in improving their fiscal outlooks.

In both cities, this debt comes from a decline in once-reliable revenue sources amid an increasing demand for local governments to provide services. The VAT decline in 2022 hit both cities at the onset of the property-sector crash and at a time of declining consumer confidence around the COVID-19 pandemic and the government lockdowns. China's central government has since been careful and deliberate in incentivizing consumer spending.

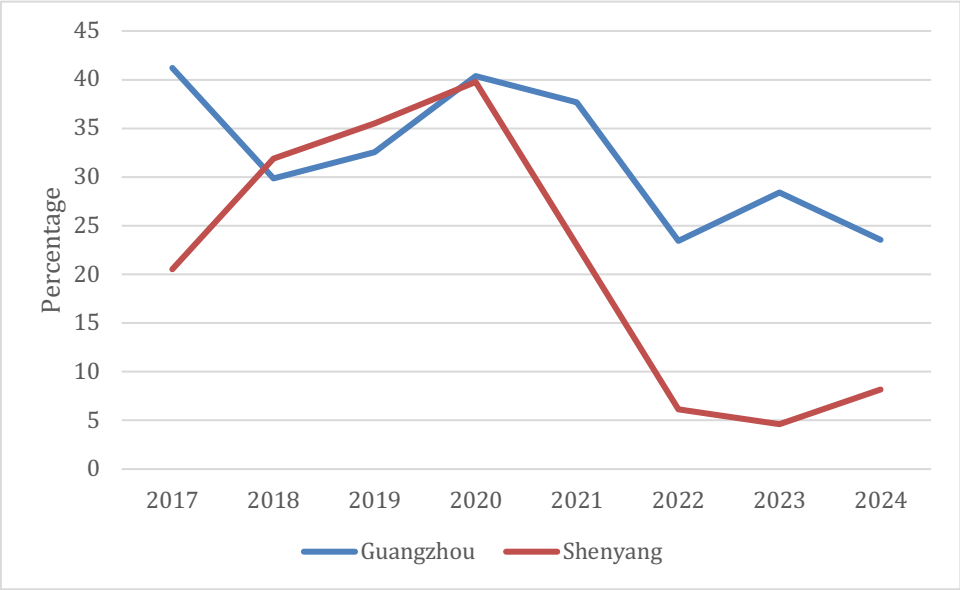
The decline of the property sector was also detrimental to both cities, though to different degrees. Shenyang's debt has increased at a steady rate since its slow-growing economy experienced less disruption from the shocks of the COVID-19 pandemic and property market crash. By contrast, Guangzhou's debt soared in response to those shocks. The lost revenue from these projects has affected other categories of local spending. For example, new infrastructure projects in Guangzhou, such as the construction of Guangzhou Metro Line 28, were announced and approved in 2020 but had yet to break ground as of late 2025.[164]

Both cities experienced sharp drops in revenue from land sales, highlighting the importance of this source of income for all local governments. However, the effects were more acutely felt in Guangzhou

[164] JRUrbaneNetwork, "Guangzhou Metro 2024 Openings Part 2: Line 11 to the Rescue?" Substack, May 5, 2025.

because of its greater reliance on this source of revenue. The uneven recovery of the property sector shows that local governments cannot rely on state-owned land sales to make up budget deficits in the future (Figure A.14).

Figure A.14. Shenyang and Guangzhou Land Sale Revenue Relative to Comprehensive Local Financial Resources, 2017–2024



SOURCE: Features data from the debt data module in the Wind Financial Terminal, undated.
NOTE: Comprehensive local financial resources include (1) budget revenue + (2) income from transfers from the central government + (3) the revenue of government-managed funds + (4) state-owned capital operating income.

Shenyang has managed to keep its revenue constant (aside from a brief dip in 2022) in the period between 2018 and 2024 by increasing nontax revenue to offset declines in tax-based revenue. The city experienced its fiscal pain point between 2013 and 2014 and adjusted its spending during that period. This is despite Liaoning Province being heavily indebted; as a capital city, Shenyang has an economic and talent advantage compared with the rest of the province, and Liaoning's budget crisis might not be fully visible when looking at Shenyang's finances on its own. In comparison, Guangzhou experienced declining revenue even after the COVID-19 pandemic, leading to a larger revenue versus expenditure gap in the city's finances. Both Shenyang and Guangzhou prioritized the two largest buckets of spending—education and social security—despite a precarious budget situation, although Guangzhou has made more efforts to bolster education spending despite its hardship while Shenyang has prioritized social security and community services spending. The two cases show how local governments are unlikely to easily overcome their debts through spending cuts.

More options for increasing revenue might be available for Shenyang and Guangzhou, but options to narrow their budget deficit are also limited. Both governments are increasing their collection of nontax revenue, including the collection of penalty payments and administrative fees, and Shenyang has drastically increased its income from paid use of SOE assets. Costs for public services are also increasing. In Guangzhou's transportation sector, for example, buses in Guangzhou "optimized" their

fares.[165] However, local governments are limited in their power to increase tax revenue, which makes up the larger share of revenue collected. Tax increases are also a difficult policy choice as governments seek to increase consumer spending and consumer confidence.

[165] "Guangzhou Optimizes Public Bus Fares," *Guangzhou Daily*, September 5, 2024.

Abbreviations

COVID-19	coronavirus disease 2019
GDP	gross domestic product
IMF	International Monetary Fund
LGFV	local government financing vehicle
MOF	Ministry of Finance of the People's Republic of China
NGO	nongovernmental organization
NPC	National People's Congress
RMB	renminbi
SOE	state-owned enterprise
VAT	value-added tax

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