

Chinese Local Government Update: The Qingdao Municipal Government

Ongoing Economic Structural Transformation Although GDP Growth Slowed Down

Qingdao is a municipality with an independent planning status enjoying provincial-level status in the economic planning and independent budgetary status directly linked to the central government. Ongoing economic and industrial structural transformation and modernisation have supported Qingdao's high GDP growth rate which was 6.5% in 2019, compared with Shandong province's 5.5% and China's 6.1%. The proportion of tertiary industry (the service sector) in GDP further increased to 60.9%, while the secondary industry's (comprising manufacturing and construction) share of GDP dropped to 35.6% in 2019.

The total GDP of Qingdao was still the highest among all cities in Shandong province in 2019, although the Qingdao GDP growth shows a downward trend from 2016 to 2019. The total GDP of Qingdao was surpassed by Ningbo in 2019 and was ranked the third among all the five cities with an independent planning status in China in 2019.

EXHIBIT 1: Qingdao's GDP and Fixed Asset Investment

(RMB billion)	2016	2017	2018	2019
GDP	1,001.1	1,103.7	1,200.2	1,174.1
-Primary industry (%)	3.7	3.4	3.2	3.5
-Secondary industry (%)	41.6	41.2	40.4	35.6
-Tertiary industry (%)	54.7	55.4	56.4	60.9
GDP growth rate (%)	7.9	7.5	7.4	6.5
Fixed asset investment	745.5	777.7	839.2	821.9
Fixed asset investment growth rate (%)	13.7	7.4	7.9	21.6
Population (million)	9.2	9.3	9.4	9.5

Note: Some numbers were estimated by Lianhe Global due to insufficient public information
Source: Qingdao Bureau of Statistics

A Moderate Debt Level on Strong Fiscal Strength

Qingdao's aggregate fiscal revenues are mainly derived from stable budgetary revenues with tax revenue accounting for about 70% between 2016 and 2019 and more volatile government fund income. Subsidies from higher government authorities have been minimal. We expect ongoing economic development to support persistent growth in Qingdao's budgetary revenues, while the government policies in the property market and land transfer planning remain key factors affecting government fund income.

Qingdao's strong stand-alone fiscal strength with small budget deficits helps the government maintain a moderate debt ratio (i.e. total government debt divided by aggregate revenue) of 58.5% at end-2019. Qingdao had RMB158.2 billion outstanding debt at end-2019.

EXHIBIT 2: Qingdao's Fiscal Condition

(RMB billion)	2016	2017	2018	2019
Budgetary revenue	110.0	115.7	123.2	124.2
Budgetary revenue growth rate (%)	10.3	7.1	6.5	0.8
Tax revenue	76.1	82.4	90.6	90.2
Tax revenue (% of budgetary revenue)	69.2	71.2	73.5	72.6
Government fund income	44.5	53.4	88.6	120.5
Transfer payment	21.5	22.3	23.0	24.8

Aggregate revenue	176.6	192.1	235.7	270.3
Budgetary expenditure	135,3	140,3	156,1	157,6
Budget deficit ¹ (%)	-23.0	-21.3	-26.7	-26.9

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%
Source: Qingdao Finance Bureau and Lianhe Global's calculations

Appendix: List of Major LGFVs in Qingdao

EXHIBIT 3: Major LGFVs' Financials at End-2019

(RMB billion)	Total Assets	Total Liabilities	Total Equity
Qingdao City Construction Investment (Group) Limited	242.5	160.0	82.5
Qingdao Metro Group Co Limited ¹	151.3	94.6	56.7
Qingdao Conson Development (Group) Co., Ltd	80.2	48.5	31.7
Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd	28.9	19.7	9.2
Qingdao Shiyua (Group) Company Limited	25.8	17.7	8.1

¹ End-September 2019
Source: Companies' Financial Reports

EXHIBIT 4: Major LGFVs' Ownership and Business Profile as of May 2020

	Major Shareholder	Shareholding	Main Business
Qingdao City Construction Investment (Group) Limited	The State-owned Assets Supervision and Administration Commission of Qingdao	100%	Infrastructure construction, primary land development, development of affordable and commodity housing, financial services, photovoltaic power generation and basic materials trading business
Qingdao Metro Group Co Limited	The State-owned Assets Supervision and Administration Commission of Qingdao	94.5%	Metro operation, advertising, construction and rental business
Qingdao Conson Development (Group) Co., Ltd.	The State-owned Assets Supervision and Administration Commission of Qingdao	100%	Construction and operation of undersea tunnel, primary land development, securities investment, property development
Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd.	The State-owned Assets Supervision and Administration Commission of Qingdao	100%	State-owned asset management (covering a wide range of industries including machinery, food, finance, real estate and hotel and tourism)
Qingdao Shiyuan (Group) Company Limited	The State-owned Assets Supervision and Administration Commission of Qingdao	100%	Development and operation of Qingdao Shiyuan District

Source: Wind, Chinamoney

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