



**On Measuring the Scale and Effects  
of Fiscal Equalization Grants  
in China**

Zhang Bo

Renmin University of China

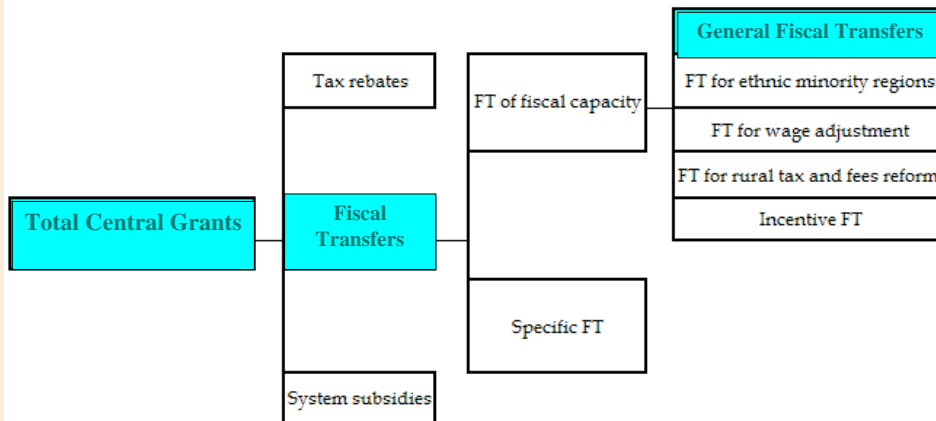
July 2006, July 14, 2006 • ACESA



**Topics Covered**

- ❖ **Types and Structure of Current Central-provincial Fiscal Transfers in China**
- ❖ **The growth trend and equalization effects of GFT**
- ❖ **Policy recommendations for increasing the scale of GFT**

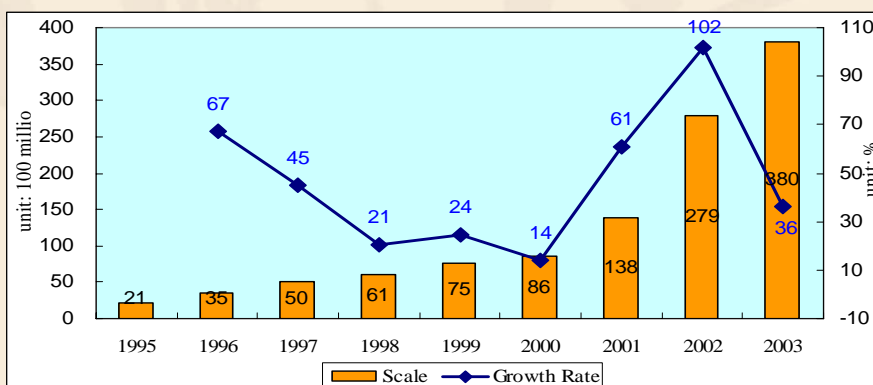
## Types and Structure of Current Central-provincial Fiscal Transfers in China



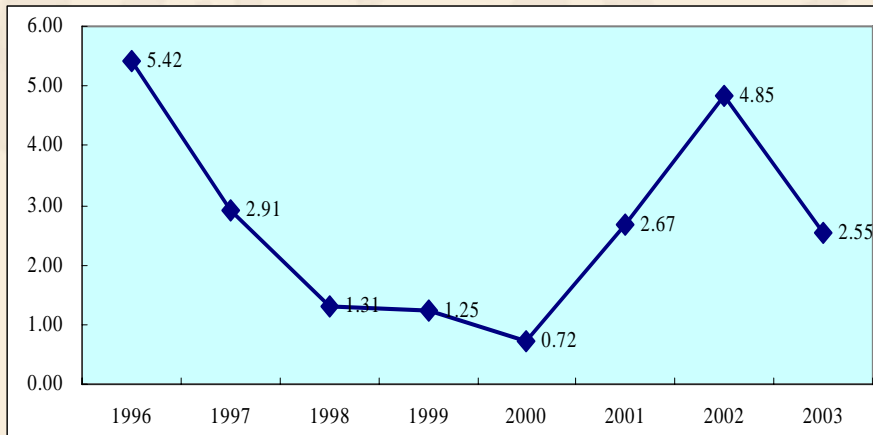
Note: FT refers to fiscal transfers.

## The growth trend of GFT

### Scale and Growth Trend of GFT 1995-2003



## Elasticity Coefficient of GFT in China 1996-2003



## Another perspective on the scale

Although GFT in China has experienced fast growth in recent years, a comparative analysis shows that the scale of current China's GFT is still at a low level.

### Changes in the Relative Scale of GFT

Unit: 100 million yuan

Year	GFT	Total Central Grants	Local Fiscal Expenditure	Ratios of GFT (%)	
				Total Central Grants	Local Fiscal Expenditure
1995	20.7	2534.1	4828.3	0.8	0.4
1996	34.6	2722.5	5786.3	1.3	0.6
1997	50.2	2856.7	6701.1	1.8	0.7
1998	60.5	3321.5	7672.6	1.8	0.8
1999	75.3	4086.6	9035.3	1.8	0.8
2000	85.9	4665.3	10366.7	1.8	0.8
2001	138.2	6002.0	13134.6	2.3	1.1
2002	279.1	7351.8	15281.5	3.8	1.8
2003	380.3	8240.0	17229.9	4.6	2.2

Source: China Fiscal Statistical Yearbook 2004: Statistical Data of Local Public Finances, various issues.

## The equalization effects of GFT

Gini Coefficients of Provincial per Capita Revenue and Expenditure

Year	Revenue Per Capita	Expenditure Per Capita	Effectiveness Of Transfers
	A	B	C=A-B
1994	0.358	0.320	0.038
1995	0.386	0.331	0.055
1996	0.389	0.326	0.062
1997	0.399	0.336	0.062
1998	0.401	0.332	0.069
1999	0.411	0.332	0.079
2000	0.413	0.318	0.095
2001	0.439	0.330	0.110
2002	0.446	0.336	0.110
2003	0.449	0.340	0.108

Source: calculated based on data from China's fiscal Yearbook and Statistical Yearbook, various issues.

## The equalization effects of GFT

Theil Index of Provincial per Capita Revenue and Expenditure

Year	Revenue Per Capita			Expenditure Per Capita		
	National Total	Between-region		National Total	Between-region	
		Index	Contribution %		Index	Contribution %
1994	0.1895	0.0814	42.9	0.1238	0.0352	28.5
1995	0.1983	0.0894	45.1	0.1358	0.0433	31.9
1996	0.1976	0.0907	45.9	0.1334	0.0439	32.9
1997	0.2047	0.0953	46.6	0.1433	0.0475	33.1
1998	0.2083	0.1016	48.8	0.1405	0.0496	35.3
1999	0.2229	0.1161	52.1	0.1404	0.0465	33.1
2000	0.2322	0.1344	57.9	0.1296	0.0440	33.9
2001	0.2692	0.1659	61.6	0.1269	0.0405	31.9
2002	0.2793	0.1662	59.5	0.1278	0.0398	31.2
2003	0.2846	0.1723	60.6	0.1394	0.0487	34.9

Source: calculated based on data from China's fiscal Yearbook and Statistical Yearbook, various issues.

## The equalization effects of GFT

- ❖ Summary of the effectiveness review
- ❖ A further thought

Correlations Between Equalization Effects (EET) and Relative Scale of Total Fiscal Transfers (RSt)

		EET	RSt
EET	Pearson Correlation	1	.305
	Sig. (2-tailed)		.425
	N	9	9
RSt	Pearson Correlation	.305	1
	Sig. (2-tailed)	.425	
	N	9	9

Correlations Between Equalization Effects (EET) and Relative Scale of General Fiscal Transfers (RSg)

		EET	RSg
EET	Pearson Correlation	1	.809**
	Sig. (2-tailed)		.008
	N	9	9
RSg	Pearson Correlation	.809**	1
	Sig. (2-tailed)	.008	
	N	9	9

\*\* Correlation is significant at the 0.01 level

## Policy recommendations for increasing the scale of GFT

- ❖ To consolidate and incorporate different types of fiscal transfers and increase the scale of GFT in the short-run
- ❖ To use annual fiscal revenue exceeding the budgeted figure to increase the scale of GFT
- ❖ To gradually establish a reliable mechanism for the funds source of GFT
- ❖ To establish and improve relevant supplemental measures

## Fiscal Revenue Exceeding the Budgeted Figure in China 1994-2004

Unit: 100 million yuan

Year	Fiscal Revenue	Actually Increased Revenue	Budgeted Revenue	Budgeted Increased Revenue	Revenue Exceeding Budgeted Figure	Ratio of Revenue Exceeding Budgeted Figure to Fiscal Revenue	Ratio of Revenue Exceeding Budgeted Figure to Actually Increased Revenue
1994	5218.1	869.15	4759.95	411	458.15	8.80%	52.70%
1995	6242.2	1024.1	5692.4	474.3	549.8	8.80%	53.70%
1996	7407.99	1165.79	6872.18	629.98	535.81	7.20%	46.00%
1997	8651.14	1243.15	8397.94	989.95	253.2	2.90%	20.40%
1998	9875.95	1224.81	9683.68	1032.54	192.27	1.90%	15.70%
1999	11444.08	1568.13	10809	933.05	635.08	5.50%	40.50%
2000	13395.23	1951.15	12338	893.92	1057.23	7.90%	54.20%
2001	16386.04	2990.81	14760.2	1364.97	1625.84	9.90%	54.40%
2002	18903.64	2517.6	18015	1628.96	888.64	4.70%	35.30%
2003	21715.25	2811.61	20501	1597.36	1214.25	5.60%	43.20%
2004	26355.88	4640.63	23570	1854.75	2785.88	10.60%	60.00%
Total	145595.5	22006.93	135399.35	11810.78	10196.15	7.00%	46.30%

Source: *China Fiscal Yearbook*, various issues; annual central and local budget reports.



**THANK YOU!**