INCREASING GOVERNMENT SOCIAL EXPENDITURE AND INTERGOVERNMENTAL FISCAL RELATION IN CHINA

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Executive Summary

1. China's government spending on social policy areas including education, health, social security and housing reached over RMB6.9 trillion in 2016.

2. With demographic changes and new government initiatives, government social spending is likely to increase further in the coming years.

3. Likewise for fiscal subsidy for social insurance including pension and health insurance, the share has increased in the recent years.

4. Many social indexes including years of schooling, poverty alleviation and urban shantytown renovation have been included as "obligatory targets" (*yueshuxing mubiao)* in the 13th Five-Year Plan.

5. Under the current intergovernmental fiscal system, local fiscal capacity is not sufficient to fulfil local governments' expenditure responsibilities for implementing and financing social policies.

6. Two recent policy initiatives have been introduced to reallocate the expenditure responsibility between central and local governments, and encourage the entry of the private sector to share some outlays of the social programmes.

7. Issues remain for increasing government social expenditure and overcoming institutional constraints of the fiscal system. The first is to coordinate the reform on intergovernmental fiscal system and other social policy reforms.

8. The second is to give local government incentive to perform in the social policy areas. The third is to address the financial sustainability problem of the private sector for its participation in social programmes.