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**Reforms and Improvement of Compiling Methods of Flow of Funds in Physical
Transaction in China**

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Flow of Funds (FOF) in physical transaction play a basic role in reflecting the income distribution, including primary distribution and secondary distribution, between general government , corporations and households. China's FOF accounting started from late 1980s, and the first formal FOF table was compiled in 1992, in which the People's Bank of China (PBC - the central bank) was responsible for the financial transaction part, and the National Bureau of Statistics was responsible for the non-financial transaction part. Till now, the NBS has compiled and published 17 non-financial FOF tables between the year of 1992 and 2008. For the past two decades, China's FOF accounting has been reformed and improved continuously owing to economic restructuring and the improvement in **statistical system and methods**. The 2004 and 2008 economic censuses have provided great opportunities for improving FOF accounting in China. This paper consists of six parts, of which the first part introduces the state of non-financial FOF accounting before the first economic census; the second part expounds the revision and improvement of FOF compilation method after the first economic census; the third part states the revision and improvement of FOF compilation method after the second economic census; the fourth part briefs about the improvement in recent years; the fifth part analyzes the major problems and shortcomings in the current non-financial FOF compilation methods; and the sixth part comes up with some ideas on further improvement of the FOF compilation methods.

I. The State of Non-financial FOF Accounting Before the First Economic Census

1. *<China's National Accounts System(1992)>* formally established the FOF Accounting System

China issued and implemented *<China's National Accounts System(1992)>* in 1992. The system borrowed the principles and methods recommended in SNA which are implemented by most countries in the world. Since then, FOF accounting, as an important part of the new national accounts system, became a regular accounting system. In 1993, under the support and cooperation of departments concerned, we **attempted to compile** the 1992 national and provincial FOF tables.

2. *<Compilation Method of China's Flow of Funds Table (1997)>* became the first mature compilation method of FOF table

To ensure the unity and comparability of the new national accounting system, some

adjustments were made to the FOF table described in the < *National Accounts System of China (1992)* >. On the basis of summing up the compilation experiences of the FOF table, absorbing relatively mature international practice, and using the new rules and system, we produced *The Compilation Method of China's FOF Table (1997 Guideline)* at the beginning of 1997. *1997 Guideline* is a set of relatively ripe compilation methods, which set down the basic format of FOF table of China. All the previous adjustments after 1997 focused on improvement of the accounting methods and **increasing accuracy of sector classification**. However, the accounting rules, such as accrual basis of recording, rules of valuation, rules of institutional units sectoring, rules of transaction items classification and balanced relations, basically retained the basic principle of *1997 Guideline*.

3. FOF table to be included in the five basic accounts in the *System of National Accounts of China (2002)*

In order to fully reflect the accurate state of national economy of China, to enhance the consistency between the national accounts of China and international principles with regard to the general framework, basic rules and calculation methods, as well as to strengthen the international comparability of some **indicators**, NBS made a comprehensive and systematic revision of the *System of National Accounts of China (1992)* from 2000, removing the content of MPS, carding the basic concepts, updating the classification of institutional sectors and industrial sectors, adjusting the fundamental framework, complementing the content of national accounts, changing and refining the indicators of related format, and built up the *System of National Accounts of China (2002)*. *The System of 2002* included the FOF table in the five basic accounts (including GDP Accounts, Input-Output table, Flow of Funds table, Balance of Payments, and Balance sheet) of the system of national accounts of China, but made few changes of accounting methods, and retained the rules set by *1997 Guideline*. This system further elaborated the basic concepts and recording rules of FOF accounting, and adjusted the transactions under “current transfer” in accordance with 1993SNA. There were only two changes. One is to cancel the transaction of ‘regular financial appropriation’, and **record it in social assistance**; the other is to divide ‘social insurance payment’ into ‘social contributions’ and ‘social benefits’, respectively recording the insurance premium payable by households and corporations and the benefits provided by the social security department.

II. **Changes and improvements of the FOF compilation methods after the first economic census**

As an important component of the system of national accounts, FOF accounting was getting mature after years of constant development in terms of institutional sectoring, indicators and accounting methods. However, there were still problems. For example, the **institutional sectoring was less than detailed**, the transaction items were too integrated, data source gap was big, and many **indicators remained to be accurately calculated**.

The first national economic census in 2005 provided a rare opportunity to solve the above problems. NBS established *The Compilation Methods of National FOF table in Census Year (the first economic census Guideline hereafter)*, a revision of *1997 Guideline*. According to the information provided by the census, NBS re-compiled the FOF table of 2004 and revised the historical FOF table from 1992 to 2003. The main changes and improvements of the *first economic census Guideline* are mainly as followings:

1. Applying fresh data source. In the previous years, FOF accounting was mainly based on the data from statistical department and from ordinary statistical information, accounting information and concerned records of administrative department. After the first economic census, new data from economic census was adopted in FOF accounting, at the same time, the data source was broadened by widening the financial information of finance, tax, bank, security and insurance, as well as the data of social security fund.
2. **Specifying institutional sectoring**. Apart from the five institutional sectors known as the first level classification of institutional sectors listed in *1997 Guideline*, a second level classification was established by dividing the four domestic institutional sectors into subsectors (see table below)

Table 1 Institutional sectoring

First level classification	Second level classification	Industrial sector
Non-financial corporation sector	Industrial corporation	Mining, Manufacturing, Production and Supply of Electricity, Gas and Water
	Other non-financial corporations	
Financial institutional sector	Bank sector	People Bank of China (PBC), China Banking Regulatory Commission (CBRC), commercial bank, other bank
	Security sector	China Securities Regulatory Commission (CSRC), Securities brokerage and trading, portfolio investment, Securities analysis and consulting activities
	Insurance sector	China Insurance Regulatory Commission (CIRC), life insurance, non-life insurance

		and Auxiliary insurance activities
	Other financial institutional sector	
Government sector	Central government	Administrative institutions and nonprofit institutions financed by central government
	Local government	Administrative institutions and nonprofit institutions financed by central government
Households sector	Urban households	Urban resident households
	Rural households	Rural resident households, including farm households
other countries		Non-resident institutional units that enter into transactions with resident units

3. Improving Compilation Methods.

1. Some major indicators as value added, compensation of employees, net taxes on production and gross capital formation were calculated directly instead of estimating indirectly, which realized the basic coherence between industrial sectors and institutional sectors, as well as FOF accounting and GDP estimates. For example, a cross-reference table of institutional sector and industrial sector was set up, by which the value added of institutional sector could be derived from summing up the value added of corresponding industrial sectors.
2. **Introducing** the financial intermediation services indirectly measured (FISIM) for the first time. In *1997 Guideline*, the amount of interest payable and receivable on loans and deposits were actual interest on loans and deposits payable to and receivable from financial corporations which were directly obtained from accounting statements without allocating **the service charge on deposits and loans**. *The first economic census guideline introduced FISIM* for the first time, and calculated the service charge to be allocated on deposits and loans. Thus, interest on deposits equals to the actual interest receivable on deposits plus service charges payable to the banks; interest on loans equals to the actual interest payable on loans deducting service charges payable to the banks.
3. **Recalculating social contributions**. *1997 guideline* recorded social contributions as the payment of corporations and households and the income of government respectively. In the *first economic census guideline*, social contributions made by employers on behalf of their employees were treated as part of compensation of employees and included in the resource side of household compensation; in the current transfer, these contributions together with payments made by households

themselves were recorded as amount payable by households and receivable by government.

4. Recalculating current transfers. In *1997 guideline*, other current transfers including **retirement fees** and medical fees payable were recorded for non-financial corporation sector and government sector to use. Considering the fact that **old-age insurance** of the **urban employees** had been included in social security system after **pension system** reform in 1996, **retirement fees** and medical fees payable **were only targeted at retirees of administrative institutions**. Therefore, in the *First Economic Census Guideline*, **retirement fees** and medical fees payable were only recorded as other current transfers of government sector instead of non-financial institutions.
5. Recalculation of capital transfers.
 - a. Investment grants. In *1997 guideline*, capital construction expenditure was all treated as investment grants without deducting the investment in government unit itself. However, it was deducted in the *first economic census guideline*.
 - b. Other capital transfers. In *1997 guideline*, apart from the cancellation of debt between China and foreign government, subsidies for enterprise losses, **securities tax, housing property tax**, as well as estate duty were included in the use of other capital transfers of government. In the *first economic census guideline*, subsidies for enterprise losses, **securities tax and housing property tax were included in production tax or subsidies on production**. **Only** the cancellation of debt between China and foreign government was recorded under other capital transfers.

III. Improving the FOF Compilation Method After the Second Economic Census

In response to the new problems that came out after the first economic census, and by combining the *GDP Accounting Method in the Second Economic Census Year* and *2008 SNA*, NBS made some changes to *the first economic census guideline* and in this way the *Accounting Method of FOF table in the Second Economic Census Year (draft)* (*second economic census guideline* hereafter) was established. The main improvements in the *second economic census guideline* are as follows.

1. Shortening the time lag of data publication. In order to satisfy the users' **demand** for non-financial FOF table to be time effective, **on the basis of improving the accounting method**, from 2009 on we shortened the time lag of the publication of FOF table from 3 years to 2 years.
2. Further clarification of some basic concepts. In line with *2008 SNA*, some concepts in FOF table were further clarified and specified, including compensation of employees, production tax, production subsidies, property incomes, capital transfers, acquisitions and disposals of other non-financial assets, etc. For example, in the *second economic census guideline*, **compensation of**

employees was defined as the total remuneration, in cash or in kind, including any social contributions payable by employees, income tax, as well as social insurance contributions payable by employers on behalf of employees. *Capital transfers* were a kind of unrequited transfers where one institutional unit transferred its ownership of financial assets or non-financial assets to another institutional unit without any reimbursement, that is to say the part of capital provided by government to corporations with corresponding right was not belong to capital transfers.

3. Improvement in accounting methods.
 - A. Compensation of employees. In *the first economic census guideline*, the uses of compensation of employees of domestic institutional sectors were obtained by combining the industrial compensation of employees from GDP calculated by income method. In *the second economic census guideline*, the domestic resources of compensation of employees of households were calculated by extrapolating the growth rate of compensation of employees, which was measured from the income related to the compensation of employees in the disposable income of urban households and net income of rural households by **amplifying** resident population.
 - B. **Social contributions from employers**. In *the first economic census guideline*, the five social insurances **including basic old-age insurance**, medical insurance, unemployment insurance, **work injury insurance** and maternity insurance made up the total amount of social insurance contributions, which was allocated between non-financial corporation sector and financial corporation sector, but with no record under government sector and households sector. However, apart from the contributions paid by corporations, the social security fund also includes the payment from urban individual residents and financial subsidies. At the same time, with the continual expansion of the coverage of social security system, rural households also engaged in the old-age insurance and medical insurance. The changes in *the second economic census guideline* bring the accounts into line with the above problems.
 - C. **Net production tax**. In *the first economic census guideline*, net production tax was directly obtained from GDP at income method. Taken into account of the discrepancy, especially in the production subsidies, a new method was recommended in *the second economic census guideline*, which was to use the *final annual fiscal revenue* to calculate the total amount of net production tax, which is **the resources of net production tax of government**. Formula was as follow:
Net production tax of government sector (resources) = tax (deducting income tax, securities transaction stamp tax paid by individuals and sales tax of second-hand housing) + production tax included in non tax revenue + production tax included in off-budget revenue – production subsidies
 - D. Property income.
 - a. Interest income. After the second economic census, method for calculating and allocating FISIM in GDP accounting were replaced by the reference rate method, which brought a corresponding reallocation of FISIM in interest income in *the*

- second economic census guideline*. In *the first economic census guideline*, the virtual service charges were not calculated in the interest income of the rest of the world, while **such charges** were included in *the second economic census guideline*.
- b. Dividends. After the **share-holding system reform**, China's A share market is realizing Full Circulation gradually. In this context, *the second economic census guideline* adjusted the allocation of dividends according to the changes of capital stock structure.
 - c. Rent. Due to the limitation on data source, rent was not calculated in *the first economic census guideline*. The basic data source was further broadened after the second economic census, which made it possible to estimate rent according to the *Land & Resource Almanac*.
- E. Current transfers.
- a. Income tax. In *the first economic census guideline*, individual income tax and enterprise income tax published by the National Tax Bureau were directly used as the income tax of households and corporations. However, tax income published by tax department is **warehousing-data** excluding tax drawback by finance, while tax from Finance Statements is lack of data by industries. Therefore, in *the second economic census guideline*, individual income tax and enterprise income tax in final statement of finance were taken as the total controls, and the income tax by **sectors were obtained by dividing the total controls using the proportion calculated from taxes by industries from tax department**.
 - b. Social contributions and social benefits. The *first economic census guideline* only considered the social contributions and benefits of urban households, while *the second economic census guideline* also included the **old-age insurance** premium and medical insurance premium payable by rural households, as well as the old-age **insurance and medical insurance benefits** provided by government to rural households.
 - c. Other current transfers. In line with the recommendations on insurance in *2008 SNA*, *the second economic census guideline* treated life insurance and non-life insurance separately. Net non-life insurance premiums were treated as current transfers of policyholders to insurance company, and non-life insurance claims were treated as current transfers of insurance company to policyholders; while life insurance premiums and claims were not recorded under current transfers, but recorded in the financial account as a net amount (the difference between premiums and claims).
- F. Capital transfers.
- a. Updating the data source of investment grants. The Ministry of Finance introduced the new **classification of government expenditure**, which cancelled the item of "**funds for potential exploration, technical innovation and scientific research**". Under the premise of calculating on the base line, according to the new classification of government expenditure, *the second economic census guideline* adjusted the formula of investment grants to: (capital construction expenditure + other capital expenditure) * capital transfer ratio * investment ratio without corresponding rights.

b. Refining the accounting of **debt cancellation**. In *the first economic census guideline*, only the debt cancellation by China to the rest of the world were recorded, which is shown as a **debt under capital balance** in the Balance of Payments. However, **the credit side of the balance sheet** in BOP is no longer zero from 2005, which represents the debt cancellation by the foreign countries to Chinese government, so that *the second economic census guideline* included this information, recording the credit under the resources of government sector and uses of the rest of the world.

G. Gross Capital Formation.

a. Perfecting the estimation of the Fixed Capital Formation of households. One is that, the fixed capital formation of households included the expenditure of individual housing **in urban, industrial and mining areas**, however, according to related departments this kind of expenditure had been included in the social fixed asset investment, **although it is listed independently**. Thus, adding this kind of expenditure in households fixed capital formation could lead to double calculation. In *the second economic census guideline*, the expenditure of individual housing **in urban, industrial and mining areas was deducted from** households fixed capital formation. The other is that, *The first economic census guideline* took ‘the amount of **commercial housing sales**’ as the **capital formation of housing purchase of urban households**. However, in fact that the **amount of commercial housing sales** includes not only the sales of new housing completed in the current year, but also the **new housing completed in the past years and second hand housing**. While the FOF table should represent the economic activities in the current year, and fixed capital formation should **correspond** to the investment. Thus, the capital formation of housing purchase of urban households should only include the new housing completed in the current year. Because the building construction usually takes years and crosses several accounting periods, according to the recommends in *2008 SNA*, for the fixed assets crossing more than one accounting period, the completed value of assets should be allocated to the corresponding period in line with project process. Limited to the data source, *the second economic census guideline* **brought** all the fixed assets **formed by** housing into the fixed capital formation of the **completion period of the project**, and used **sales valued added of finished housing** and housing investment to estimate the capital formation of **housing of households**.

b. Changing the allocation of gross fixed capital formation between non-financial corporation sector, financial corporation sector and government sector. *The first economic census guideline* used the **completed investment** of corresponding industrial sectors to allocate the GFCF apart from the part of households, **to obtain** the gross fixed capital formation of institutional sectors. Actually, the completed investment of industrial sectors also included the investment from households, while the GFCF of households sector have been deducted from the GFCF engaging in the allocation, which led to a different coverage. Therefore, in *the second economic census guideline*, the **peasant household investment** of corresponding industries, self-employed individual **investment in urban fixed asset**

investment, as well as housing investment by urban households was deducted from the completed investment of corresponding industrial sectors.

H. Acquisitions less Disposals of other non-financial assets.

Because of data limitation, the term of acquisitions less disposals of other non-financial assets was not accounted in *the first economic census guideline*. However, considering of the increasingly great amount of land transfer fees which was having a greater influence on economy, *the second economic census guideline* treated land as a kind of non-production tangible asset, recording under acquisitions less disposals of other non-financial assets. Government and real estate enterprises are the subjects in land use right transactions which dispose and acquire of land assets; government provides land expropriation compensation to farmers, so that farmers also engage in land use right transactions. According to the accounting rules, asset should be recorded at use side, and acquisition of asset (acquisition of land right) is recorded as positive while disposal of asset (disposal of land right) is recorded as negative. Thus, acquisitions less disposals of other non-financial assets were recorded under uses of non-financial corporation sector, government sector and households sector.

IV. Improvement of the Compilation Method of FOF Table in Recent Years

In recent years, with the rapid development of socialist market economy and deepening of economic restructuring, the interest relationship and benefit pattern of China are constantly adjusted. Income distribution, especially the shrinking proportion of household income in national disposable income has attracted wide public attention. In 2011, NBS thoroughly discussed several times with Ministry of Finance about the compilation method of FOF table and the data source used in government sector calculation, and it was found that a big data gap existed in the important basic information applied in national FOF table compilation, which were mainly caused by: firstly, incomplete and roughly classified income data, only reflecting fund resources from budget units, without detailed information on revenue from **social insurance fund, from governmental fund and from state owned capital operating budget**, thus the revenue from governmental fund (excluding land-transferring fees) and from state owned capital operating budget were missing in the **FOF table**; secondly, seriously insufficient expenditure data, which doesn't include the expenditure on social insurance fund, most expenditure on **state owned capital operating budget and part of budget expenditure**. Take 2008 as an example, the only missing parts of budget expenditure amounted to 2.3 trillion RMB, about one third of the total budgeted expenditure. Based on new data source and the new situation, we have renovated the compilation method of FOF table .

1. Recalculation of payment for civil servants

Before the adjustment, payment for civil servants in FOF table **was the aggregate payment in all industries accounted by income approach**, while after the

adjustment, it is calculated directly using the *Final Statements of Institutional Units* and the supplementary data provided by MOF, that is,
 Payment for civil servants = salaries and welfare, expenditure on commodity and service in budget data for government institutions + subsidies for individual and household (including retirement pay, severance pay, medical fees of institutional units, bonus, public housing fund, house rent allowance, housing allowance, etc.) + the omission in budget data for government institutions (expenditure on social security & employment -expenditure on medical insurance-medical spending in government institutions-medical allowance, social security spending & employment spending to civil servants-spending on retire settlement for soldiers+expenditure on general public service-expenditure on personnel service-expenditure on reemploying servicemen as cadres & industrial & commercial sector-expenditure on mining & quarrying- rural & urban spending-spending on medical care-expenditure on housing reform-salary and welfare to armed police-expenditure on science & technology, etc.).

2. Recalculation of the net production tax of all sectors.

A. production tax

Before the adjustment, the total production tax under the resource of government in FOF table = total tax income (after deducting the income tax, stamp tax for securities transactions paid by individuals, turn over tax on second hand housing purchase) + the production tax including in non-tax income + the production tax including in off-budget income. In practice however, because they are hard to distinguish, the **total non-tax income** and **total off-budget income** were included in production tax. There existed some problems in this treatment, mainly because it didn't deduct certain part of administrative charges which should be included in service sales, current transfers such as fines and confiscation fees, donations and lottery public welfare funds, capital transfers such as **land value-added tax**, property income such as resource tax in tax income, revenue from national share oil in non-tax income and part of state-owned capital operating revenue. Based on the supplementary data provided by Ministry of Finance, the calculation of production tax of government sector, corporation sector and household **sector has been changed as follows:**

Production tax received by government sector = total tax income (after deducting income tax, resource tax, turn over tax on second hand housing purchase and **land value-added tax**) + non-tax income (after deducting administrative charges, fines and confiscation fees, donations, lottery public welfare funds, revenue from national share oil and part of state-owned capital operating revenue) + governmental fund (after deducting **land transfer charges**, **revenue** from operation of foreign exchange funds controlled by the central government, government housing funds, etc.) + **administrative charges belonging to production tax**

Production tax paid by corporation sector = production tax in tax income paid by corporation sector + production tax in non-tax income paid by corporation sector + production tax in governmental fund paid by corporation sector + production tax in

off-budget income paid corporation sector

Production tax paid by household sector = production tax in tax income paid by individuals + production tax in non-tax income paid by individuals + production tax in governmental fund paid by individuals + production tax in off-budget income paid individuals

B. production subsidies

Before this adjustment, the production subsidies in FOF table only includes budgetary subsidies for losses of enterprises and production subsidies for enterprises and farmer-households recorded in the *Final Statements of Institutional Units*. Base on the complementary data provided by MOF, the calculation of production subsidies of corporation sector and households sector **is changed as follows**:

Production subsidies received by corporation sector = subsidies recorded in the *Final Statements of Institutional Units*, including policy-related subsidies for enterprises, loss subsidies to state-owned enterprises, finance discount, subsidies to other enterprises and institutional units (after deducting subsidies on **general government service, national defense, public security and education**) + the missing terms of the *Final Statements of Institutional Units* (including expenditure on general public service-mineral resources compensation fees-usage fee about respecting and mining rights-expenditure on science & technology & its applied research-technical research and development fee-expenditure on social security and employment-employment subsidy-subsidy on reform of enterprises-environmental fee-pollution control fee-special fee on emission reduction & energy conservation & renewable energy-transportation fee-railway transportation cost-subsidy on operating public transportation & etc-expenditure on industry & commerce & finance-manufacturing cost-special fee for electricity reform-special fee on international business-national price subsidies on grain and edible oil-interest subsidy on food financial credit-oil price reform subsidy on urban transport, rural passenger transport, taxi-expenditure on running SMEs, industrial, commercial and financial sectors and tourism-expenditure involving foreign interests, commerce circulation-production subsidy on other sectors-post-disaster reconstruction fee-expenditure of the industrial and commercial sector on post-disaster reconstruction & etc-production subsidy on operating state-owned capital budget)

Production subsidies received by household sector = production subsidies to individual production and grain risk fund recorded in the *Final Statements of Institutional Units* + the missing terms of the *Final Statements of Institutional Units* (environmental fee, subsidy on converting farmland to forestry and pasture, subsidy on agro forestry and irrigation, social welfare and employment-employment subsidy, subsidy on the industrial, commercial and financial sectors (grain and edible oil cost-grain risk fund-grain direct subsidy-oil price reform subsidy on fishery & forestry), post-disaster reconstruction fee-expenditure on recovering and redeveloping agriculture and forestry, subsidy on village committee, collectives and one case one meeting, debt repayment).

3. Recalculation of property income of all government institutions

A. Interest

Before this adjustment, interest contains the loans and deposits interest and bond interest, and the bond interest includes the interest on book-entry treasury bills, financial bonds (including financial bonds, short-term financing bills and asset-backed securities) and corporate bonds. After the revision, interests on special state treasury bonds and loans granted by **local government financing platform** are added to **the interests of the government sector**; interest on public housing fund and **saving bonds** (including book-entry bond and electronic bond) are added to the interest income of household sector; interest on special state treasury bonds is added to the interest income of financial corporation sector.

B. Dividends

Before this adjustment, it was only the dividends paid by listed companies were recorded in FOF table. After the adjustment, it is added the profits recorded in the state-owned capital operating budget, revenue from the foreign exchange funds controlled by the central government (mainly are the profits delivered by China Investment Ltd.) and part of state-owned capital operating returns (equals to profits + dividends – draws back of the state-owned capital operating returns + other state-owned capital operating returns)to the dividends received by government sector; it is added the profits delivered by China Investment Ltd. to the dividends paid by financial institutional sector; it is added the dividends delivered by state-owned enterprises to the dividends paid by non-financial corporation sector.

C. Rent

There is nearly no record under rent before the adjustment. After the adjustment, we added the resources tax, the mineral resources compensations fee, the charges of using the exploration and mining rights and the revenue of state-owned resources compensable use to the rent receivable by government sector; we added correspondingly the resources tax (after deducting the part paid by household), the mineral resources compensations fee, the charges of using the exploration and mining rights and the revenue of state-owned resource compensable use to the rent paid by non-financial corporation sector; and resources tax contributed by household to its rent use.

D. Other property income

Before this adjustment, only the investment income attributed to insurance policyholders was included in other property income. **The insurance corporation holds technical reserves and funds for policyholders, and the investment income on these reserves and funds is treated as income attributed to the policyholders.** After the revision, special tax on oil profits (after deducting the **special tax on oil profits returned**) , **revenue from price differential through drawing on state grain and oil reserve**, as well as property income in administrative charges are added to other property income

of government sector, at the same time, interest on social security fund deposits is treated as use of government sector and resource of household sector (regarding it as supplementary premium of household); and the same amount is added to other property income of non-financial corporation sector correspondingly; interest on social security fund deposits is added to other property income of household sector.

4. Recalculation of current transfers

A. Social contributions

Before this adjustment, government subsidies to social security fund were treated as a part of compensation of civil servants. After the adjustment, the subsidies are treated as current transfers from government to households. As the subsidies are transferred among government departments, the government becomes an operator rather than a provider of the money, and the subsidy with the same amount of the salary of civil servants is deducted. By doing so, the disposable income of the government remains unchanged, but not for the primary distribution of national income.

B. Social subsidies

Before this adjustment, social subsidy expenses only included the expenses belonging to social subsidy recorded in the *Institutional Units Final Statements*. After the adjustment, the missing items of the *Institutional Units Final Statements* are added to social subsidies of government sector. The missing items relate to the expenses on social security and employment, including the expenses on the subsistence security system for urban residents, pensions, social welfare, subsidies for enterprises' closing-down and bankruptcy, subsidies for social insurance, other social relief in urban areas, natural disaster aids, subsistence security system for rural residents, other social relief in rural areas, other expenses on social security and employment, subsidies for other social security funds, Medicaid for preferential groups, New Cooperative Medical System, medical aids in rural areas, basic medical insurance for urban resident and other expenses on medical insurance; the missing items also include the social insurance allowance for natural forest protection under environment protection, **policy-related social subsidies**, allowance for reallocating **employees**, low-rent housing expenses under urban and rural community affairs, damaged housing reconstruction expenses under post-earthquake recovery and reconstruction, expenditure on Wenchuan earthquake donations, lottery public welfare funds (welfare lottery) under government funds, **support to resettlers in large and medium sized reservoirs in later period (living subsidies for resettlers)**, employment guarantee fund for the disabled, other poverty alleviation expenditure under agriculture, forestry and water conservancy, part of other expenses under other expenses of budget expenditure, national damages under general public services, subsidies for energy saving and use under environmental protection, subsidies for “domestic appliances to the countryside”, and **incentives for family planning**.

C. Other current transfers

Before this adjustment, other current transfers include three parts, medical expenses and retirement pensions paid by units not included in the **overall plans**, currents transfers between residents and non-residents, and insurance payment. After the adjustment, medical expenses and retirement pensions paid by units not included in the **overall plans** are no longer included in other current transfers of government sector, but treated as compensation of employees paid by government sector instead. Moreover, it is added fines and confiscations income, donations, lottery public welfare funds, transfers in administrative charges, subsidies for energy saving, national **indemnity**, and housing sales tax contributed by individuals, etc. In addition, the government donations to the rest of the world was obtained from BOP before, however it is calculated using the data from budget expenditure provided by MOF after the adjustment.

5. Recalculation of capital transfer of government sector and non-financial corporation sector

Before this adjustment, capital transfers include two items, investment allowances and other capital transfers, capital tax and capital transfer tax were contained in other capital transfers. After the adjustment, it is added land value added tax to capital transfers under the resource of government sector and use of non-financial corporation sector.

V. Main problems and shortcomings in FOF table (non-financial part) compilation method

China's FOF table is getting perfect during the past 20 years of reform and development, and the current method is basically in accordance with *2008 SNA*, however certain problems and shortcomings still exist mainly in the aspects as follows:

1. Inconsistency remains between different data

- A. Compensation of employees and net production tax in FOF table are not consistent with the data in GDP at income side as well as in input-output table. Compensation of employees in FOF table has coincided GDP at income side during the second economic census, however the net production tax remains inconsistent. Production tax in FOF table is calculated directly from finance data, while in GDP at income side is obtained from summarizing the financial statements data on enterprises. The differences in data source and calculation method result in the gap between FOF table and GDP at income side.
- B. **Net financial investment in non-financial FOF table does not match that in financial FOF table.** FOF table contains two kinds of forms, one is non-financial table reflecting the situation of commodity circulation, and the other is financial table reflecting the situation of fund circulation. These two tables have the same classification of institutional sectors but

different transaction items, while both tables have the item of “net lending and borrowing”. Theoretically, the item of “net lending and borrowing” should be completely in line in the two tables. However, due to the data gap, many indicators need to be estimated or projected, these two “net lending and borrowing” are inconsistent in reality. **From the data in recent years**, the difference of this item between the two tables is getting bigger which is difficult to be explained by statistical error.

- C. The gap between GDP at production side and GDP at expenditure side leads to the imbalance in FOF table, **reflected in** the non-zero of the sum of “net lending and borrowing”. “Net lending and borrowing” represents the fund surplus and deficiency of institutional sectors. **“Net lending and borrowing” above zero represents fund surplus of the sector**, or a net lender, and vice versa. According to the compilation method of FOF table, the fund deficiency of domestic sectors should be supplemented by the fund surplus of the rest of the world. The difference between GDP at production side and GDP at expenditure side causes the sum of “net lending and borrowing” doesn’t equal to zero for a long time in china.
 - D. The disposable income of household in FOF table greatly contradicts the household survey data. The disposable income of household in FOF table is greatly different from the **data calculated using household survey information extrapolate by population**. Except from different data source, some conceptual differences also lead to the **inconsistency**.
2. Dividends of unlisted companies are not fully covered. Theoretically, it should fully collect the financial statement data of companies, then classify the distribution plan one by one to calculate dividends of company. However, for unlisted companies, since it lacks of direct information to reflect the dividends distribution, dividends of unlisted companies are not covered in FOF table **in the past**. After acquiring more detailed information of government revenue and expenditure, part of profits contributed by state-owned enterprises have been recorded in dividends, however, it still could not fully cover all the unlisted companies. The unlisted companies exceed the listed companies currently not only on numbers but also on **size**, therefore, lack of this part of data has greatly influenced the veracity of the dividends.
 3. “The non-profit institutions serving households sectors” **hasn’t been separated from government** sector. “The non-profit institutions serving households sectors” is treated as an independent sector in many countries, especially in developed countries. Considering that the number of this kind of institutions is comparatively small, and the data source is limited, “the non-profit institutions serving households sectors” hasn’t been accounted separately but included in government sector.
 4. The existing data gap and indicators that remain to be estimated or projected have

caused a poor data quality. There are still many indicators **that need to be projected** because of data limitation despite reforms and adjustments, such as compensation of employees of non-financial corporation sector, fixed capital formation **from households** housing purchase, compensation for rural households from land transferring fee, etc.

5. The index classification in institutional accounts is relatively **rough**, for example, there is no sub-items under production tax and income tax, which could not reflect detailed transactions between government sector and other institutional sectors.
6. The time lag of data publication is comparatively long, could not satisfy the needs of government and community. Limited on the time of getting government revenue and expenditure as well as the final data of GDP, the time lag of the publication of FOF table is two years conventionally, or even three years for specific years. 第 5 条和第 6 条与中文不对应。

VI. Suggestions on further improvement of FOF table compilation

To solve the problems in FOF table mentioned above, further reforms and improvements in the following aspects are needed.

1. Broaden the source of basic information, develop the statistical system of dividends distribution of unlisted company, etc, then to improve the compilation method of FOF table. Lack of basic data is a vital restraining factor of the veracity of FOF accounting currently. The solutions of the problems, such as “the calculation of dividends of unlisted companies” and “accounting the non-profit institutions serving households” that mentioned above are limited by basic data. Therefore, broaden data source is the foundation for further improving and perfecting FOF accounting in China. There are two ways to solve the problem of data limitation: one way is to fully mine and take advantage of information **from other departments**. It could use data from other department with relatively high quality to evaluate corresponding data from statistical department in order to improve data quality. For example, both China Bond and MOF have the data of local debt interest, after comparison we found that, MOF has wider and more comprehensive data but less detailed classification, while China Bond could provide data classified by investees, so that it should take the local debt interest from MOF as total control, and to divide it between institutional sectors applying the proportion obtained from the detailed data of China Bond. The other way is to conduct FOF survey to acquire the data that is difficult to be obtained from existing statistical information, such as special survey on compensation of employees, special survey on property income, etc.
2. Strengthen internal and external negotiation and communication. FOF table compilation is a complicated, mammoth and systematic project, which needs to investigate and analyze the situation of fund resource, usage and constitution in all

departments and all stages of national economy in the scope of the whole society, and requires amount of statistical and financial information, therefore, close cooperation and coordination with related departments are very important for the accurate of FOF table. Thus, on the one hand, it is necessary to strengthen the internal negotiation in statistical system to solve the problem with data inconsistency. For example, work together with **Ministry of Civil Affairs** on the accounting of household disposable income, jointly study with department of income GDP and input-output on the the inconsistency between income GDP, input-output table and FOF table. On the other hand, strengthen external communication and cooperation to improve the compilation method of FOF table. For example, to cooperate with department of civil affairs to study the possibility of separating the “non-profit institutions serving households” from government sector, and to work together with Bank of China to solve the problem with data inconsistency of net lending and borrowing of all sectors between financial FOF table and non-financial FOF table.

3. Detail the index settings in institutional accounts. For example, further classify the indicator of production tax, production subsidies, income tax and property income for more details of some important transactions.
4. Improve the timeliness of FOF table publication, and reduce the timeliness from two or three years to one year step by step.