

**REPORT ON THE EXECUTION OF THE CENTRAL AND  
LOCAL BUDGETS FOR 2019 AND ON THE DRAFT CENTRAL  
AND LOCAL BUDGETS FOR 2020**

*Third Session of the 13th National People's Congress of  
the People's Republic of China*

*May 22, 2020*

Ministry of Finance

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The official Chinese version of this report will be released by Xinhua News Agency.

Esteemed Deputies,

The Ministry of Finance has been entrusted by the State Council to submit this report on the execution of the central and local budgets for 2019 and on the draft central and local budgets for 2020 to the present Third Session of the 13th National People's Congress (NPC) for your deliberation and for comments from members of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

## **I. Execution of the 2019 Central and Local Budgets**

In 2019, we faced a complicated terrain of significantly increasing risks and challenges both in China and abroad. Under the strong leadership of the Central Committee of the Communist Party of China (CPC) with Comrade Xi Jinping at its core, all regions and departments followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully applied the guiding principles of the 19th CPC National Congress and the second, third, and fourth plenary sessions of the 19th CPC Central Committee. We strengthened our consciousness of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment with the central Party leadership; increased our confidence in the path, theory, system, and culture of socialism with Chinese characteristics; and upheld General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole and upheld the Party Central Committee's authority and its centralized, unified leadership. We fulfilled the decisions and plans made by the Party Central Committee and the State Council, and implemented with rigor the budgets reviewed and approved by the Second Session of the 13th NPC.

Following the general principle of pursuing progress while ensuring stability, we continued to act on the new development philosophy, persisted in making supply-side structural reform our main task, and worked for high-quality development. We successfully ensured stability on six fronts,<sup>1</sup> and

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<sup>1</sup> The six fronts refer to employment, the financial sector, foreign trade, foreign investment, domestic investment, and expectations.

through coordinated efforts, achieved stable growth, promoted reform, advanced structural adjustments, improved living standards, prevented risks, and maintained stability.

As a result, sustained and healthy economic and social development were achieved and the main targets and tasks for the year were accomplished, which have laid a decisive foundation for building a moderately prosperous society in all respects. Execution of both central and local budgets was satisfactory.

#### *1. General public budgetary revenue and expenditure in 2019*

##### **1) National general public budget**

Revenue in the national general public budget was 19.038223 trillion yuan, representing 98.9% of the budgeted figure, an increase of 3.8% over 2018. Revenue included tax receipts of 15.799221 trillion yuan, an increase of 1%, and non-tax revenue of 3.239002 trillion yuan, an increase of 20.2%. This rise was due mainly to the central finance authorities increasing the amount of profits to be turned in by certain state-owned financial institutions and enterprises directly under the central government, and to local finance authorities putting more state-owned resources and assets to good use. Adding in 2.216095 trillion yuan of funds from other sources and utilized carryover and surplus funds (this includes funds transferred from the Central Budget Stabilization Fund and local budget stabilization funds, the budgets of central and local government-managed funds, and the budgets of central and local government state capital operations; and carryover and surplus funds used by local governments), total revenue came to 21.254318 trillion yuan.

Expenditure in the national general public budget was 23.887402 trillion yuan, representing 101.5% of the budgeted figure and an increase of 8.1%. With the addition of 126.916 billion yuan used to replenish the Central Budget Stabilization Fund, total expenditure rose to 24.014318 trillion yuan. Total expenditure exceeded total revenue, leaving a deficit of 2.76 trillion yuan, which is consistent with the figure projected.

##### **2) Central general public budget**

Revenue in the central government's general public budget was 8.930541 trillion yuan, representing 99.4% of the budgeted figure and an increase of 4.5%. Adding in the transfer of 280 billion yuan from the Central Budget Stabilization Fund and 39.4 billion yuan from the budgets of central government-managed funds and central government state capital operations, total revenue came to 9.249941 trillion yuan.

Expenditure in the central government's general public budget totaled 10.953025 trillion yuan, representing 98.4% of the budgeted figure and an increase of 7%. This figure includes: central government expenditures of 3.511515 trillion yuan, representing 99.2% of the budgeted figure and a 6% increase; and transfer payments to local governments of 7.44151 trillion yuan, representing 98.7% of the budgeted figure and a 7.5% increase. With the addition of 126.916 billion yuan contributed to the Central Budget Stabilization Fund, total expenditure reached 11.079941 trillion yuan. Total expenditure exceeded total revenue, leaving a deficit of 1.83 trillion yuan, which is consistent with the figure projected.

*Main revenue items in the central government's general public budget:* Domestic value-added tax (VAT) revenue was 3.116101 trillion yuan, 103.7% of the budgeted figure. Domestic excise tax revenue amounted to 1.256152 trillion yuan, 108.5% of the budgeted figure. Revenue from VAT and excise tax on imports totaled 1.58123 trillion yuan, 93.1% of the budgeted figure. Revenue from customs duties came to 288.911 billion yuan, 105.1% of the budgeted figure. Corporate income tax revenue was 2.3786 trillion yuan, 97.4% of the budgeted figure. Individual income tax revenue was 623.414 billion yuan, 80.5% of the budgeted figure, which was mainly down to a rise in the individual income tax threshold and a larger-than-expected scale of tax cuts in implementing the policy on special additional individual income tax deductions and other policies. VAT and excise tax rebates on exports totaled 1.65032 trillion yuan, 103.5% of the budgeted figure.

*Main expenditures in the central government's general public budget:* General public service expenditures reached 198.516 billion yuan, 99.7% of the budgeted figure. Spending on foreign affairs totaled 61.539 billion yuan, 98.1% of the budgeted figure. National defense spending was 1.189656 trillion yuan, 100% of the budgeted figure. Public security expenses totaled 183.945 billion yuan, 102.3% of the budgeted figure. Spending on education came to 183.588 billion yuan, 100% of the budgeted figure. Spending on science and technology amounted to 351.618 billion yuan, 99.2% of the budgeted figure. Spending on stockpiling grain, edible oils, and other materials was 120.404 billion yuan, 102.3% of the budgeted figure. Interest payments on debt were 456.662 billion yuan, 91.4% of the budgeted figure.

*Central government transfer payments made to local governments:* General transfer payments totaled 6.68494 trillion yuan, 98.7% of the budgeted figure. This figure includes transfer payments for shared fiscal powers of 3.190325 trillion yuan, 100.2% of the budgeted figure. Special transfer payments reached 756.57 billion yuan, 99.1% of the budgeted figure.

In 2019, there was a 126.916 billion yuan surplus in the central general public budget (this includes the unspent central government reserve funds, amounting to 50 billion yuan). The full amount of the surplus, together with 300 billion yuan in recovered central government carryover funds, was transferred to the Central Budget Stabilization Fund. At the end of 2019, the Central Budget Stabilization Fund had a balance of 527.249 billion yuan.

### **3) Local general public budget**

Revenue in the local general public budget was 17.549192 trillion yuan. This figure includes 10.107682 trillion yuan in local government revenue, an increase of 3.2% over 2018, and 7.44151 trillion yuan in transfer payments from the central government. With the addition of 1.896695 trillion yuan of funds transferred from local budget stabilization funds, local government-managed funds, and the local state capital operations budget as well as utilized carryover and surplus funds, total revenue reached 19.445887 trillion yuan. Expenditures in the local general public budget totaled 20.375887 trillion yuan, an 8.5% increase. Total expenditure exceeded total revenue, creating a local government deficit of 930 billion yuan, which is consistent with the figure projected.

#### *2. Budgetary revenue and expenditure of government-managed funds in 2019*

In accordance with regulations concerning the management of local government debt, revenue and expenditure generated from special local government debt are included in the budgets of government-managed funds.

Revenue of China's government-managed funds in 2019 was 8.451575 trillion yuan, a 12% rise. Adding in 36.04 billion yuan carried over from 2018 and 2.15 trillion yuan raised by local governments through special-purpose bond issues, total revenue amounted to 10.637615 trillion yuan. Expenditure of all government-managed funds was 9.13648 trillion yuan, an increase of 13.4%.

Revenue of central government-managed funds was 403.962 billion yuan, representing 96.3% of the budgeted figure and an increase of 0.1%. With the addition of 36.04 billion yuan carried forward from 2018, total revenue came to 440.002 billion yuan. Expenditure of central government-managed funds totaled 417.886 billion yuan, representing 91.9% of the budgeted figure and a 3.9%

increase. Broken down, this figure includes 311.341 billion yuan of central government spending and 106.545 billion yuan of transfer payments to local governments. Funds transferred from central government-managed funds to the central general public budget amounted to 423 million yuan. Total revenue of central government-managed funds exceeded total expenditure by 21.693 billion yuan. Of this figure, 18.004 billion yuan was carried forward to 2020, while 3.689 billion yuan, comprising the portion of individual government-managed funds' carryover that exceeded 30% of revenue in 2019, was contributed to the Central Budget Stabilization Fund in accordance with regulations.

Revenue of local government-managed funds was 8.047613 trillion yuan, an increase of 12.6%. Revenue from the sale of state-owned land-use rights accounted for 7.258442 trillion yuan of this figure, an 11.4% rise. Adding in transfer payments of 106.545 billion yuan from central government-managed funds and 2.15 trillion yuan raised by local governments through special-purpose bond issues, total revenue came to 10.304158 trillion yuan. Expenditure of local government-managed funds totaled 8.825139 trillion yuan, an increase of 13.9%.

### *3. Budgetary revenue and expenditure of state capital operations in 2019*

Revenue of state capital operations nationwide was 396.042 billion yuan in 2019, an increase of 36.3%. Expenditure totaled 228.743 billion yuan, an increase of 6.2%.

Revenue of central government state capital operations was 163.593 billion yuan, representing 99.9% of the budgeted figure and an increase of 23.3%. With the addition of 670 million yuan carried over from 2018, total revenue was 164.263 billion yuan. Expenditure of central government state capital operations reached 110.88 billion yuan, representing 88.4% of the budgeted figure and a decrease of 0.3%. This expenditure included 98.655 billion yuan of central government spending and 12.225 billion yuan in transfer payments to local governments. An amount of 38.977 billion yuan was transferred into the central general public budget, with the transfer proportion being raised to 28%. A sum of 14.406 billion yuan of budgetary revenue from these operations has been carried over to 2020.

Revenue of local government state capital operations reached 232.449 billion yuan, an increase of 47.2%. Adding in transfer payments of 12.225 billion yuan made to local governments from the central government state capital operations budget, total revenue was 244.674 billion yuan. Expenditure of local government state capital operations was 130.088 billion yuan, an increase of 15.3%. The proportion of funds allocated from the local state capital operations

budget to the local general public budget increased to 94.319 billion yuan. An amount of 20.267 billion yuan of budgetary revenue from these operations has been carried over to 2020.

#### *4. Budgetary revenue and expenditure of social security funds in 2019*

Revenue of social security funds nationwide was 8.084409 trillion yuan, an increase of 2.3%. Revenue included 5.784905 trillion yuan in insurance premiums and 1.939261 trillion yuan in government subsidies. Expenditure of social security funds nationwide totaled 7.498923 trillion yuan, an 11.3% increase. The surplus for 2019 of 585.486 billion yuan was rolled over, bringing the year-end balance to 9.402697 trillion yuan.

Revenue of the central government social security fund was 68.861 billion yuan. This includes 35.444 billion yuan in insurance premiums and 31.936 billion yuan in government subsidies. With the addition of 628 billion yuan of basic old-age insurance funds allocated by local governments for central regulation, total revenue rose to 696.861 billion yuan. Expenditure of the central government social security fund was 66.32 billion yuan. Adding in 627.38 billion yuan of basic old-age insurance funds reallocated to local governments through central regulation, total expenditure came to 693.7 billion yuan. The surplus for 2019 of 3.161 billion yuan was rolled over, bringing the year-end balance to 35.875 billion yuan.

Revenue of local government social security funds was 8.015548 trillion yuan, which included 5.749461 trillion yuan in insurance premiums and 1.907325 trillion yuan in government subsidies. With the addition of 627.38 billion yuan of basic old-age insurance funds reallocated to local governments by the central government, total revenue rose to 8.642928 trillion yuan. Expenditure of local government social security funds was 7.432603 trillion yuan. Adding in 628 billion yuan of basic old-age insurance funds allocated for central regulation, total expenditure came to 8.060603 trillion yuan. The surplus for 2019 of 582.325 billion yuan was rolled over, bringing the year-end balance to 9.366822 trillion yuan.

At the end of 2019, outstanding central government debt was 16.803804 trillion yuan, within the budgeted limit of 17.520835 trillion yuan approved by the NPC. Outstanding local government debt totaled 21.307226 trillion yuan, which included 11.869414 trillion yuan of general debt and 9.437812 trillion yuan of special debt. This figure is also within the NPC-approved budget limit of 24.07743 trillion yuan.

For a more detailed account of the budget execution in regard to the above items, please refer to the Chinese language version of the Report on the Execution of the 2019 Budget of the People's Republic of China and the 2020 Draft Budget.

*5. Implementation of the main fiscal and tax policies and other major fiscal work in 2019*

In 2019, finance departments conscientiously implemented the decisions and plans of the Party Central Committee and the State Council; adhered to the Budget Law and the Guidelines on People's Congresses Expanding the Focus of Budget Review and Oversight to Expenditure Budgets and Policies; and worked as required by the outcomes of the NPC's deliberations and their comments on the budgets. We pursued a proactive fiscal policy with greater intensity and better results, gave more support to key areas, accelerated reform of the fiscal and tax systems, and continually improved our level of fiscal management.

▪ **Implementing larger-scale tax and fee cuts**

Tax and fee cuts that are fair, efficient, and directly benefit businesses and people are a major measure for dealing with downward pressure on the economy. Finance and taxation authorities at all levels made instituting tax and fee cuts on a larger scale the top priority in pursuing a proactive fiscal policy in 2019. On January 1 we introduced policies on general-benefit tax cuts for small and micro businesses and special additional deductions for individual income tax; we took measures to deepen VAT reform on April 1, reducing the rate in manufacturing and other industries from 16% to 13% and lowering the rate from 10% to 9% in the transportation, construction, and other industries; and we made reductions to social insurance premiums on May 1. We continued to review and standardize administrative charges and payments to government-managed funds.

Tax and fee reduction policies have done much to support stable growth in the real economy—they have lightened the burden on enterprises, spurred consumer spending, stabilized market expectations, and created more jobs. Over the year, we reduced taxes and fees by 2.36 trillion yuan, 1.93 trillion yuan of which are tax cuts.

VAT in manufacturing and related links was reduced by 592.8 billion yuan, or 24.1%; in the construction and transportation sectors VAT was cut by 25.7 billion yuan and 4.4 billion yuan respectively, reductions of 5.2% and 6.7%; and

VAT rates in modern services, consumer services, and other industries were also lowered to varying degrees.

Tax cuts for private companies reached 1.26 trillion yuan, which is 65.5% of the total. Reductions for small and micro businesses totaled 283.2 billion yuan, and the number of taxpayers eligible for a corporate income tax break reached 6.26 million, while the number of small-scale taxpayers qualifying for the VAT exemption rose by 4.56 million.

Reductions to individual income tax total 460.4 billion yuan when we add in the special additional deductions policy and the carryover effect from the policies introduced on October 1, 2018 to raise the individual income tax threshold and optimize the tax rate structure. These reductions directly benefited 250 million taxpayers, with an average saving of 1,842 yuan per person.

To facilitate implementation of the tax and fee reduction policies, governments at all levels cut general expenditures and made up for reduced revenue by raising funds through multiple channels, in an effort to balance revenue and expenditures. The central government increased transfer payments to local authorities. Furthermore, it tilted payments for equalizing access to basic public services and rewards and subsidies for the mechanism to ensure county-level governments' basic funding to regions where primary-level governments were experiencing financial difficulties and to regions whose revenue was sharply reduced by the tax and fee reduction policies, to ensure they had the financial resources to function as normal. We set up monitoring, early-warning, and risk-assessment mechanisms for ensuring county-level governments' salary payments, adopted a coordinated approach to revenue and expenditure and management of the treasury balance, and made reasonable arrangements for spending priorities to ensure county-level governments had adequate funding to protect the three priorities of people's basic wellbeing, payment of salaries, and normal functioning of government.

- **Providing continued support to the three critical battles**

*Strong support was given to the battle against poverty.* We put into effect and improved on measures for precision poverty alleviation, and raised inputs to guarantee rural poor populations' basic needs of food and clothing and their access to compulsory education, basic medical services, and housing. Central government subsidies for local poverty alleviation programs totaled 126.1 billion yuan, an 18.9% increase, with more funding tilted toward deeply

impoverished areas such as the three regions and three prefectures.<sup>2</sup> All of the 81.7 billion yuan that was allocated from the proceeds of inter-provincial coordination of newly-added cropland and the adjustment of surplus quotas produced by linking newly-added cropland quotas with the amount of land for construction went toward the fight against poverty and implementing the rural revitalization strategy. A total of 129.4 billion yuan worth of general-purpose bonds for helping relocate people in poverty away from inhospitable areas were issued by local governments. They were used to ensure poverty-reduction related construction tasks set in the 13th Five-Year Plan were basically completed one year ahead of schedule. We introduced policies to offer businesses corporate income tax deductions on the contributions they make to poverty alleviation and VAT exemptions on the goods they donate, and to support poverty reduction programs through government procurement. Trials to integrate different rural development funds continued in poor counties.

Full-process performance management was implemented in poverty reduction programs. Initial progress was made in assembling a dynamic monitoring platform for the use of government poverty alleviation funds. Over the course of the year, the number of people registered as living below the poverty line fell by 11.09 million, and poverty was eliminated in 344 counties.

*Active assistance was provided to the battle against pollution.* We made pollution prevention and control a priority of government expenditure and secured funding to support signature campaigns to prevent and control air, water, and soil pollution. Trials of using clean energy sources for winter heating were expanded to more areas in northern China. Over the year, 40 cities were incorporated, in two groups, into the demonstration policy for cleaning up black, malodorous water bodies. Reward policies for protection and restoration of ecosystems along the Yangtze Economic Belt continued, and an overarching framework for environmental protection along the Yangtze River began taking shape at a faster clip. Trials continued on the conservation and restoration of mountain, river, lake, forest, farmland, and grassland ecosystems. We launched a Blue Bay environmental improvement initiative, adopted comprehensive measures to improve the water environment in the Bohai Sea area, and supported the efforts to protect and improve marine ecosystems. A reduced

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<sup>2</sup> The three regions refers to Tibet, four prefectures of southern Xinjiang—Hotan, Aksu, Kashi, and the Kirgiz Autonomous Prefecture of Kizilsu, and the areas of Sichuan, Yunnan, Gansu, and Qinghai provinces with large Tibetan populations; the three prefectures are Liangshan in Sichuan, Nujiang in Yunnan, and Linxia in Gansu.

corporate income tax rate of 15% was applied to eligible third-party enterprises engaged in pollution control. Positive strides were made toward the establishment of a national green development fund.

*Support was also provided to the battle against financial and fiscal risks.* Acting on the principle of “opening the front door and closing up the back door,” we coordinated efforts to ensure local government bonds were issued and used properly and related risks were well-controlled. We pressed local governments to strictly adhere to the rules and requirements on the budgetary management of debts and to willingly accept oversight from people’s congresses over the full process of borrowing, using, and repaying debts. We followed the “user takes responsibility” principle in order to make it clear who was responsible for the repayment of special-purpose bonds and thus prevented risks from arising. We also improved regular oversight mechanisms to ensure those who borrow in violation of regulations are held to account. Local governments’ hidden debt-related risks have been effectively brought under control thanks to the concerted efforts of all relevant parties. In addition, we assisted in properly handling and defusing financial risks, strengthened financial oversight of financial enterprises, and pressed them to improve the quality of their accounting information.

- **Supporting supply-side structural reform**

We continued to pilot insurance compensation for newly-developed major technological equipment. The preferential policy of accelerated depreciation of fixed assets was extended to the entire manufacturing sector. The development of integrated circuits was promoted through market-oriented means. To consolidate the gains made in the five priority tasks,<sup>3</sup> we promptly paid out 2 billion yuan of special awards and subsidies to support the completion of goals on cutting overcapacity in key industries such as steel and coal ahead of time.

Central government expenditures on science and technology totaled 351.618 billion yuan, up 12.5%. We backed endeavors to raise science and technology’s capacity to support development and to accelerate the development of major science and technology projects. We worked for progress on the establishment of a new system of nationwide support for making breakthroughs in core technologies in key fields under the socialist market economy.

We gave support to another 58 development zones to make their service platforms more market-based and professional and to create a range of

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<sup>3</sup> The tasks are to cut overcapacity, reduce excess housing inventory, deleverage, lower costs, and strengthen areas of weakness.

platforms to serve startups and innovation endeavors. Through the National Venture Capital Guide Fund for Emerging Industries, we supported more than 5,100 startups. We supported the development of systems to provide small and medium businesses with public and financing services. We rewarded and subsidized localities that kept fee rates for small- and micro-business financing guarantees under 2% in 2018. We gave our support to 59 cities, prefectures, and districts piloting comprehensive reforms to financial services for private companies and especially small and micro businesses. We also worked toward the resolution of pronounced problems such as late payments to private companies and small and medium-sized enterprises.

- **Working to stimulate investment and consumer demand**

Throughout the year, central government budgetary investment totaled 577.6 billion yuan. Investment focused on government-subsidized housing; agriculture, rural areas, and rural residents; major infrastructure projects; innovation-driven development and structural adjustments; social programs and social governance; and energy conservation, environmental protection, and ecological improvement. We issued 2.15 trillion yuan worth of local government special-purpose bonds, an increase of 800 billion yuan over 2018. We also allowed local governments to use funds from special-purpose bond issues as capital for eligible major projects, thus strengthening funding for major on-going projects and initiatives to strengthen areas of weakness. We granted larger tax and fee breaks for elderly care, childcare and early childhood education, housekeeping, and other community and domestic services, and promoted high-quality spending on culture, tourism, and leisure. To support the roll-out of new-energy vehicles, we subsidized new-energy buses and rewarded localities that installed charging facilities. We set up comprehensive demonstrations for introducing e-commerce into rural areas and achieved roll-out in all national-level poor counties. Subsidies were provided for the development of supply chains for farm produce, with a focus on facilities for post-harvest commercial handling and cold-chain logistics.

- **Promoting coordinated urban-rural and regional development**

We prioritized the development of agriculture and rural areas. Subsidies totaling 67.1 billion yuan were issued to support the development of high-standard farmland and farmland irrigation and water conservancy projects. To keep the production and supply of hogs stable amid the African swine fever outbreak, we moved promptly to give rewards to major

hog-producing counties and subsidize the compulsory culling of hogs. We improved subsidy policies for agricultural machinery purchases and increased rewards for major grain-producing counties. We supported the establishment of modern agriculture industrial parks and towns with agricultural strengths, and encouraged the integration of primary, secondary, and tertiary industries in rural areas. We included maintenance expenses for drinking water facilities in rural areas in the range of central budget support and channeled greater subsidies to the central and western regions. Progress was made in the three-year campaign to improve rural living environments.

We issued fiscal and tax policies to support the implementation of major regional development strategies. Transfer payments to local governments were increased by a considerable sum, and they were tilted toward central and western China and regions with difficulties, in a further effort to equalize access to basic public services among regions. We supported old revolutionary base areas, areas with large ethnic minority populations, border areas, and poor areas in accelerating their development.

- **Steadily raising funding levels to ensure people's basic wellbeing**

*We promoted job creation.* To fund the employment-first policy, the central government allocated 53.9 billion yuan for employment subsidies, a 14.9% increase. We used 100 billion yuan of surplus from the unemployment insurance funds for a vocational upskilling initiative, which is training technicians and skilled workers at a faster pace across all professions. Vocational upskilling and reskilling initiatives provided over 15 million training opportunities. We raised the limit on deductible tax for self-employed demobilized military personnel and other key groups seeking work or starting a business, and expanded the coverage of tax relief for businesses.

*We continued to increase appropriations for education.* We consolidated the unified, rurally focused funding mechanism for compulsory education in urban and rural areas, and promoted the development of preschool, vocational, and higher education. Across China, approximately 150 million students in compulsory education were exempted from paying tuition and miscellaneous fees and were provided with free textbooks, 19 million students from families with financial difficulties received living allowances, 14 million children were able to transfer their fiscal outlays for education to the cities where they live with their migrant worker parents, and 37 million primary school students in

rural areas benefited from nutritious meal subsidies. We established a state scholarship for secondary vocational education, expanded the coverage of scholarships and grants for vocational college students and raised the level of financial assistance in this respect, and lent support to vocational colleges to expand enrollment by over 1 million students.

*We strengthened guarantees for old-age pensions.* We unveiled the general plan on basic old-age insurance reform, and set standards for unified management of old-age insurance funds at the provincial level. The share of funds under central regulation increased to 3.5%. Over the year, 22 central and western regions and provinces with concentrations of old industrial bases benefited from these funds to the sum of 151.2 billion yuan. Steady progress was made in transferring a portion of state capital into social security funds. We increased basic pension payments for retirees of enterprises, government offices, and public institutions by an average of about 5%.

*We made smooth progress in building a Healthy China.* We made moves toward establishing a unified basic medical insurance system for rural and non-working urban residents nationwide, and increased government subsidies for medical insurance by an average of 30 yuan per person. We unveiled policies to reduce or waive VAT on medicines including reductions for rare disease drugs, and made outpatient medicines for treating high blood pressure and diabetes reimbursable under the medical insurance scheme, benefiting over 300 million patients.

*We strengthened policies to ensure people's basic living needs are met.* We continued to raise the level of social assistance, increasing urban and rural subsistence allowances and raising subsidies for entitled groups. Policies were introduced to address difficulties, such as help for demobilized military personnel to re-activate social security accounts which had been discontinued.

*We did more to guarantee basic housing.* We provided funding to begin renovations on 3.16 million housing units in run-down urban areas and 1.355 million dilapidated rural houses for four key groups—registered poor households, recipients of subsistence allowances, rural residents in extreme poverty who receive basic assistance, and families of people with disabilities affected by poverty. We also funded the renovation of 3.52 million houses in old urban residential communities in 27 regions, covering an area of 320 million square meters. Trials on development of the central government-sponsored housing rental market were carried out.

*We promoted the development of culture and sports.* The central government earmarked 14.7 billion yuan in subsidies to local governments for development of the public cultural service system, an increase of 14%. We supported efforts to preserve and develop fine traditional Chinese culture and provided better protection for cultural heritage.

- **Deepening fiscal and tax system reform**

*We further improved the fiscal relationship between the central and local governments.* We are vigorously pursuing reform to appropriately divide fiscal authority and spending responsibilities between the central and local governments on a sector-by-sector basis. We introduced reform plans for education, science and technology, transportation, and other sectors. We advanced the reform of revenue distribution between the central and local authorities, electing to leave the “50/50 split” for VAT revenue unchanged, adjusting and improving the mechanisms for sharing the load with regard to refunding VAT credits, while also making clear moves toward collecting excise tax at a point further downstream in the production-to-consumption process and handing it over to local governments in a stable way.

*We improved the budget management system.* We achieved greater coordination between government-managed fund budgets and general public budgets, and extended budgetary control to more central government state capital operations. We launched performance-based budget management across the country, improved the system of core performance indicators and standards, further expanded the coverage of key performance evaluations, and made better use of evaluation results. We continued the reform to make government bond management more market-based, and optimized the variety, maturity, and structure of government bonds. We expanded the trial preparation of government financial statements to 40 central government departments and 36 localities. We deepened reform of the government procurement system, and comprehensively standardized and strengthened management of government service procurement.

*We made a major push to reform the taxation system.* We made improvements to the VAT system and took initial steps to institute an individual income tax system based on adjusted gross income and specific income types. The Resource Tax Law was deliberated and approved by the NPC Standing Committee, and the law on urban construction and maintenance tax and the

draft law on a deed transfer tax were submitted to the NPC Standing Committee for the first reading in accordance with procedures. We explored ways of gradually improving the system of local taxation to ensure it is stable and sustainable.

*We were active in promoting state capital and state-owned enterprise (SOE) reform.* We presented to the NPC Standing Committee a report on the management of state-owned assets nationwide. We made an active push to establish state capital investment and management companies, and basically completed the introduction of corporate systems into China State Railway Group and China Post Group. We refined the system for managing state-owned financial capital.

- **Continuously raising the level of fiscal management**

*We redoubled efforts to ensure successful budget implementation.* We approved budgeted funds on time in early 2019, released transfer payments to local governments more quickly, and urged local authorities to divvy out funds and put them into projects as soon as possible, so as to get funding and relevant policies working as early as possible. We closely tracked and carefully analyzed budget execution. Observing the principle of cutting back where possible, we made savings on items for which no new funding was needed at the year end, and took resolute action to stop “spending splurges” at the end of the fiscal year. We offered guidance to local authorities on making budgetary adjustments in accordance with law and local conditions, with 11 provinces and municipalities directly under the central government making such adjustments in accordance with law.

*We strengthened the foundations of fiscal management work.* We advanced the development of an integrated system for budget management and made progress on the formation of nationally unified regulations for budget management and a unified system of technical standards. Dynamic monitoring over centralized treasury payments was strengthened, and mechanisms for dynamic monitoring of budget execution at all levels of government took shape.

*We accepted people’s congress budget oversight in accordance with law.* We worked to see that the resolutions of people’s congresses and their standing committees on budgets were implemented. We worked for simultaneous progress on the resolution of problems and the development of permanent mechanisms, and made timely reports to the NPC Standing Committee on our efforts to rectify pronounced problems that were identified in auditing.

We actively worked with people's congresses in their review of government budgets. We made active efforts to keep people's congress deputies well-informed about budget compilation and improved our work on an ongoing basis. We strengthened communications and links with people's congress deputies, heard their opinions and suggestions and responded to their concerns in a timely manner.

Overall, the execution of China's budget in 2019 was satisfactory. We made positive headway in the reform and development of the public finances, which offered a strong support for sustained, healthy economic development and social harmony and stability. We owe these achievements to the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core; to the sound guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era; to the oversight and guidance of the NPC, the CPPCC National Committee and their deputies and members; and to the concerted efforts of all regions, all departments, and the people of all our nation's ethnic groups.

At the same time, we still face the following main problems and challenges in budget execution and other fiscal work:

- In some localities primary-level authorities are experiencing rising difficulties in keeping their budgets balanced and increasing pressure in ensuring local residents' basic wellbeing, salary payments, and normal functioning.
- Fixed and rigid expenditure arrangements are still an issue in some sectors, and some funds have yet to be used more efficiently.
- The setting of some budget performance targets is not well-conceived, self-conducted performance evaluation is not precise or standard enough, and evaluation results need to be put to better use.
- Some local governments are carrying heavy debt burdens, and there are risks related to hidden debt that cannot be ignored.

We view these problems as extremely important and will adopt active measures to resolve them.

Esteemed Deputies,

At the beginning of the year, the sudden strike of covid-19 dealt an unprecedented blow to China's economic and social development. The Party Central Committee made epidemic containment the top priority. General Secretary Xi Jinping, putting the health and safety of our people before everything else, has personally taken charge and planned our response, leading the Party, the armed forces, and the Chinese people of all ethnic groups in fighting an all-out people's war against the epidemic. Through immense and arduous efforts, we have secured a decisive victory in the battle to defend Hubei Province and its capital city Wuhan, achieved major strategic results in the fight against covid-19, and made progress in the coordinated efforts on epidemic control and economic and social development.

Finance departments have conscientiously implemented the decisions and plans of the Party Central Committee and the State Council, responded to the central Party leadership's call to stay confident, come together in solidarity, adopt a science-based approach, and take targeted measures against covid-19, and strengthened the financial guarantees for response efforts. To reduce treatment costs for patients, improve benefits for people working on control and treatment, ensure emergency control supplies, and expedite vaccine and drug research and development, we launched a series of fiscal and tax policies and provided our full support for the endeavor to win the war against covid-19.

By the end of April, finance authorities at all levels had allocated a total of 149.9 billion yuan for control efforts, which has ensured that no one has avoided seeking treatment because of worries over costs, and no localities have had their medical treatment and control work affected by a lack of funding.

While doing a good job in our work related to virus containment, we implemented a number of time-limited policies to offer help to enterprises, stabilize employment, and ensure people's basic living needs are met. We supported businesses' efforts to overcome difficulties and achieve development, promoted an orderly return to work and resumption of production, and facilitated the restoration of normal work and life routines at an early date.

We issued, in advance and in three batches, a total ceiling amount of 2.848 trillion yuan for new local government debt in 2020, comprising 558 billion yuan of general debt and 2.29 trillion yuan of special debt. Higher priority has been given to regions with more key projects, lower risk levels, and greater

potential to drive effective investment, in order to expedite key projects and major projects for people's wellbeing and begin construction on such projects as soon as possible to promote economic growth.

From March 1 to the end of June, the ratio of funds retained by local budgets has been temporarily raised by 5 percentage points, and the full amount of the resulting cash flow of around 110 billion yuan has been given to county-level authorities to effectively ensure their stable operations.

## II. Draft Central and Local Budgets for 2020

The year 2020 is the final year of building a moderately prosperous society in all respects and implementing the 13th Five-Year Plan. It is also the year of securing a decisive victory in the battle against poverty. This makes the compilation of this year's budgets and public finance work all the more important.

We will follow the plans and requirements of the Party Central Committee and the State Council, and coordinate our efforts to effectively control the epidemic and advance China's economic and social agenda. We will accurately assess the economic situation, properly compile budgets, systematically plan public finance work, and ensure a decisive victory over poverty and achieve moderate prosperity.

### *1. Analysis on the prospects for fiscal revenue and expenditure in 2020*

At present, due to the shock of the covid-19 pandemic, the world economy is in severe recession, the fluidity of industrial and supply chains is constricted, international trade and investment have contracted, and commodity markets are volatile. Domestically, consumption, investment, and exports have declined. Pressure on employment has risen significantly. Businesses, especially micro, small, and medium ones, face growing difficulties. The imbalance between revenue and expenditures is becoming more pronounced; and there is increasing pressure on fiscal operations.

**From a fiscal revenue perspective,** due to the impact of the crisis and the effect of tax and fee cuts, fiscal revenue in the first four months of 2020 fell by 14.5%. Revenue dropped by a progressively larger margin in the first quarter of the year—3.9% in January, 21.4% in February, and 26.1% in March, and by a relatively smaller margin of 15% in April. In the months to come, as work and

life routines are restored, we forecast that fiscal revenue will see the beginnings of a stable recovery, though great uncertainty remains. The general public budget may continue to post negative growth in the second quarter, while the latter half of the year may see a return to positive growth, which would make up for some of the revenue reduction of the first half of year.

**From a fiscal expenditure perspective,** a certain level of fiscal spending will need to be maintained to promote coordinated progress on covid-19 control and economic and social development, provide ample support for achieving a decisive victory over poverty, and finish building a moderately prosperous society in all respects. In particular, governments at all levels have spent a great deal of money on the epidemic response. Our efforts to maintain security in six areas and cut taxes and fees also need fiscal support,<sup>4</sup> and some localities will require fiscal subsidies for their social security funds owing to the policy of temporarily reducing social insurance premiums.

At present and for some time to come, China will face risks and challenges like never before. However, we have unique political and institutional strengths, a strong economic foundation, enormous market potential, and hundreds of millions of intelligent and hardworking people. We just have to face challenges head-on, boost confidence in development, and create strong impetus for growth, and we will, without doubt, be able to get across the narrow pass of the present and embrace a bright future for China's development. These are the solid foundations and supports that will ensure we accomplish our public finance work and give play to the roles and functions of public finance.

## *2. The thinking and principles guiding the preparation of the 2020 budget and public finance work*

The thinking guiding this year's budget preparation and public finance work is as follows:

- Follow the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core
- Take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as our guide
- Fully implement the guiding principles of the Party's 19th National Congress and the second, third, and fourth plenary sessions of its 19th Central Committee

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<sup>4</sup> The six areas refer to job security, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments.

- Firmly put into practice the Party's basic theory, line, and policy
- Strengthen our consciousness of the need to maintain political integrity, think in big-picture terms, follow the leadership core, and keep in alignment with the central Party leadership
- Have firm confidence in the path, theory, system, and culture of socialism with Chinese characteristics
- Uphold General Secretary Xi Jinping's core position on the Party Central Committee and in the Party as a whole and uphold the Central Committee's authority and its centralized, unified leadership
- Focus on the objectives and tasks for completing the building of a moderately prosperous society in all respects
- Coordinate the work of covid-19 containment and the tasks of economic and social development
- Continue regular covid-19 control
- Adhere to the general principle of pursuing progress while ensuring stability
- Continue to apply the new development philosophy
- Continue to regard supply-side structural reform as our main task
- Continue to draw on the impetus of reform and opening up to drive high-quality development
- Achieve decisive progress on the three critical battles
- Step up efforts to ensure stability on the six fronts and maintain security in the six areas
- Firmly implement the strategy of expanding domestic demand and offset the impact of the covid-19 outbreak with stronger macro policies
- Pursue a proactive fiscal policy that is more proactive and impactful
- Raise the deficit-to-GDP ratio, issue government bonds for covid-19 control, and increase the special-purpose bonds issued by local governments
- Scrutinize all expenditure items and see that every sum is spent where it is needed most
- Improve the efficacy of expenditure and give full play to its crucial role in stabilizing the economy

- Maintain economic and social development and social stability, ensure a decisive victory in the fight against poverty, and bring to completion the building of a moderately prosperous society

To put the above thinking into action, we need to focus on applying the following principles:

**First, working hard and economizing.** Government must truly tighten its belt, grow its revenue streams and reduce expenses, and carefully cost and count all spending. We will keep things as simple as possible, abstain from all excess, and practice economy in all activities.

**Second, basing expenditures on receipts and enhancing quality and efficiency.** We must prepare revenue budgets in a realistic and pragmatic fashion, and work to improve the quality of receipts. We will continue to measure outlays based on receipts, continue to spend in some areas and to cut in others, and make cuts to expenditures wherever possible. We will break with the idea of base budgets and fixed expenditure patterns.

**Third, strengthening management and enforcing strict discipline.** We will insist that a budget first be in place before an outlay is made, and keep strict control over additional budgetary items. We will strictly comply with the provisions of financial and economic laws and regulations and hold to account those who violate financial and economic discipline.

**Fourth, coordinating the actions of central and local authorities and getting all levels working as one.** We will bear in mind the importance of coordinating resources nationwide, foster stronger collaboration and support between the central and local governments, and generate powerful synergy for overcoming the impact of the virus, implementing fiscal and tax reform plans, strengthening management of fiscal receipts and outlays, and enhancing the sustainability of public finance and economic and social development.

### *3. Fiscal policy and fiscal tasks in 2020*

Our proactive fiscal policy will be made more proactive and impactful in 2020. Great efforts will be made to ensure stability on the six fronts and security in the six areas. We will adopt stronger policies to mitigate the impact of the covid-19 outbreak, and see that we truly serve as a key ballast for the economy.

Priorities in fiscal policy in 2020 include the following:

*First, we will step up tax and fee cuts.* We will use both institutional arrangements and temporary policies to cut taxes and fees, with the focus on reducing the burden on micro, small, and medium-sized enterprises,

self-employed individuals, and enterprises in industries in difficulty. Major policies on tax and fee cuts that were introduced earlier and are due to expire by June will be continued till the end of the year, to support market entities through difficulties and help them develop and to stabilize employment. It is estimated that with these measures we will ease the burden on market entities by more than 2.5 trillion yuan for the year.

*Second, we will collect funds through multiple channels.* Special measures are required for special circumstances. We will raise the deficit-to-GDP ratio from 2.8% to above 3.6%, which is at least 0.8 percentage point higher than last year. The fiscal deficit will be 1 trillion yuan more than last year, in order to effectively offset the pandemic's impact on revenue and expenditure, and to stabilize and bolster market confidence. Meanwhile, we will issue covid-19 bonds of 1 trillion yuan. All types of surplus, idle and carryover funds that should be taken back will be withdrawn and reallocated to increase available funds and make up for the gap caused by increased expenditure and decreased revenue.

*Third, we will adjust and optimize the composition of fiscal expenditure.* Spending on public wellbeing will only be increased and not cut. Spending in key areas will be truly guaranteed, while general expenditures will be firmly cut. Construction of new government buildings and wasteful and excessive spending will be strictly prohibited. Central government departments will take the lead on belt tightening. Central government will achieve spending cuts of 0.2%, of which outlays on non-essential and non-obligatory items will be slashed by over 50%. Local authorities will also need to drastically reduce general expenditure, and continue working to pare down spending on official overseas visits, official vehicles, and official hospitality; strictly rein in expenses on meetings and business trips, consulting and training, and forums and exhibitions. All types of surplus, idle, and carryover funds that should be taken back will be withdrawn and reallocated. We will improve the quality and efficiency of fiscal expenditures, make careful calculations and sound arrangements, and spend money where it will be used to the best effect.

*Fourth, we will ease local government budget difficulties.* All of the deficit increase and all funds raised from the covid-19 bonds will be given to local governments to be used solely for maintaining security in the six areas and funding tax and fee cuts. A special transfer payment mechanism will be set up to ensure that funds go straight to prefecture and county governments and directly benefit businesses and people. Such funds should be primarily used to

ensure employment, meet basic living needs, and protect market entities. This includes support for efforts to cut taxes and fees, reduce rentals and interest on loans, and increase consumption and investment. We will ensure the public nature of government funds is preserved and see that no such funds are allowed to be withheld or diverted to non-designated uses.

*Fifth, we will expand government investment.* The covid-19 bonds will be mainly used for local public health and other infrastructure construction and epidemic response, while some funds will be reserved for local governments to solve special difficulties at the primary level. This year 3.75 trillion yuan of special-purpose bonds will be issued by local governments, a 1.6 trillion yuan increase over last year, to be used to effectively address deficiencies, improve living standards, boost consumer spending, and expand domestic demand.

Main revenue and expenditure policies in 2020 and major fiscal work in the next stage:

### **1) Supporting efforts to advance the three critical battles**

*We will strive to win the battle against poverty.* We will continue to scale up funding for poverty alleviation. The central finance authorities will put 146.1 billion yuan toward subsidizing local poverty alleviation programs, which is a 20 billion yuan increase for the fifth year running. In addition, a one-time payment of 30 billion yuan funded by carryover funds will also go to poverty alleviation programs. The increase will be weighted more heavily toward deeply impoverished areas such as the three regions and the three prefectures, counties and villages which have not eliminated poverty and are listed for poverty alleviation supervision, and regions severely affected by the epidemic. We will intensify efforts to integrate rural development funds in poor counties, and implement policies on alleviating poverty through the development of local industry and employment. We will strengthen follow-up support for poor populations relocated from inhospitable areas. We will further improve the platform for dynamic monitoring of government poverty alleviation funds, strengthen supervision over the use of these funds, and step up performance management throughout the entire process of project implementation. We will facilitate monitoring to prevent people from falling back into poverty and the provision of timely help for those in need, and work out supporting policies for consolidating our poverty alleviation achievements and moving on to address relative poverty.

*We will promote the completion of the current pollution prevention objectives.* We will persist with the same direction and the same level of effort, taking targeted, scientific, and law-based measures to bring pollution under control and bring about continued improvements in the environment. Priority will be given to the campaigns to keep our skies blue, our waters clear, and our land pollution-free, with 25 billion, 31.7 billion, and 4 billion yuan, respectively, being allocated to the prevention and control of air, water, and soil pollution. We will work faster to advance key pollution control initiatives including the treatment of black, malodorous water bodies in urban areas, improvements to the quality and efficacy of urban sewage treatment in the central and western regions, protection and restoration in the Yangtze and Yellow river basins, pollution control in agriculture and rural areas, and the removal of old and high-emission diesel trucks from our roads.

We will press ahead with trials to protect and restore mountain, water, forest, farmland, lake, and grassland ecosystems, and continue with the Blue Bay initiative and further improve the water environment in the Bohai Sea area through comprehensive measures. We will support the development of a nature reserve system composed mainly of national parks, implement initiatives for afforestation and the control of desertification, and place greater weight on forest and grassland ecological conservation and restoration. We will promote the official launch of the national green development fund, and step up efforts to establish trans-regional compensation mechanisms for ecological conservation in the Yangtze and Yellow river basins.

*We will take effective measures to prevent and defuse risks.* We will develop a mechanism for regular monitoring of local government debt and enforce unified standards and regulatory rules, so that we can identify and deal with potential risks promptly. We will take a variety of comprehensive and prudent measures to clear existing hidden debts, forbid fraud related to the clearing of debts, and firmly reject solutions that fix short-term problems but have long-term consequences. We will intensify oversight and accountability and ensure lifelong accountability and the retroactive investigation of liability. We will properly deal with risks in high-risk local financial institutions, and define the responsibilities of relevant parties, so that any losses incurred are duly borne in accordance with law. We will focus on preventing domestic risks from becoming interwoven with externally-generated risks, and resolutely ensure systemic risks are forestalled.

## **2) Supporting implementation of the strategy of expanding domestic demand**

*We will promote the recovery of consumer spending.* Provided that science-based epidemic prevention and control is ensured, we will support all types of shopping malls and markets in fully resuming normal business and consumer service industries in restoring normal operations. We will encourage the development of new forms of business such as online shopping, and expand green and healthy consumption. We will extend government subsidy policies for promoting the use of new-energy vehicles until the end of 2022 and ease the gradient and pace of phasing out the subsidy, while working to accelerate the introduction of electric automobiles in urban public transportation. We will support e-commerce and express delivery services in entering rural areas and address inadequacies in cold-chain logistics facilities for agricultural products. We will expedite the development of elderly care service systems, promote in-depth integration between medical care and healthcare, and steadily advance trials for long-term care insurance schemes.

*We will actively expand effective investment.* The central authorities will issue covid-19 bonds of 1 trillion yuan, which will be transferred in their entirety to local budgets and mainly used for expenditures related to public health and other infrastructure construction and epidemic control. Efforts will be made to improve coordination and alignment between covid-19 bonds and other fiscal funds, and more decision-making power will be given to local authorities over the use of funds. We will increase issues of local government special-purpose bonds by a large margin, adhere to the principle that funding follows specific projects, and take account of the debt burden of local governments in different areas and their project requirements when allocating the amounts for bond issues. Funds raised through this channel will be used primarily for key areas and major strategic projects confirmed by the Party Central Committee and the State Council with the aim of driving non-governmental investment and supporting the efforts to address deficiencies, improve living standards, boost consumer spending, and expand domestic demand. A total of 600 billion yuan will be earmarked in the central general budget for investment, an increase of 22.4 billion yuan over last year. The central government will inject 50 billion yuan into China State Railway Group, and support the issue of 50 billion yuan of railway construction bonds as capital funds, with the aim to step up the development of trunk high-speed railways along the coastline, intercity railways, and high-speed railways along the Yangtze River.

### **3) Supporting efforts to safeguard employment**

*We will do all we can to stabilize and expand employment.* Safeguarding employment is a top priority. Total job numbers will be stabilized, while improvements will be made to the structure and quality of employment. Apart from the 53.9 billion yuan set aside by the central government for employment subsidies, we will also make good use of over 100 billion yuan of special funds for vocational skills training allocated from the balance of unemployment insurance funds as well as the funds for rewarding and subsidizing structural adjustments in industrial enterprises, and press local authorities to fully implement all policies on employment and startups. We will make it a priority to support key groups, such as higher education graduates, rural migrant workers, and demobilized military personnel in finding employment, and facilitate employment and business startups through multiple channels. We will continue to support vocational skills training, and encourage vocational colleges to expand their student enrollments and pursue quality development. Between this year and next, more than 35 million people will receive vocational skills training and student enrollments in vocational colleges will grow by 2 million. We will extend, in accordance with regulations, the policy of providing a one-time start-up subsidy payment to migrant workers who return to the countryside and set up businesses.

*We will guarantee basic living standards for unemployed workers.* We will continue to put unemployment insurance funds to good use; strengthen safeguards for the basic living needs of unemployed workers; implement in full the unemployment assistance policies introduced earlier this year, including extensions to the duration of insurance benefits for older unemployed workers, the provision of time-limited unemployment subsidies, and increases to temporary price subsidies; and expand the coverage of unemployment insurance.

### **4) Supporting efforts to ensure people's basic wellbeing**

*We will support the development of fair, high-quality education.* We will make adjustments to the structure of educational spending to make certain that teachers in compulsory education receive their pay packages in full. We will continue to provide aid to impoverished areas in the central and western regions to improve conditions in schools and narrow the gap between urban and rural areas, between regions, and between schools. Transfer payments for local education will increase: subsidies for urban and rural compulsory

education will rise by 8.3%, support for the development of pre-school education by 11.8%, funding for student financial aid by 9.6%, and subsidies for improving conditions in regular senior secondary schools by 9.2%.

We will speed up the integrated development of urban and rural compulsory education. Starting from the 2020 spring semester, we will establish a unified benchmark for public funding per student in compulsory education schools nationwide. We will step up the development of small rural schools and boarding schools in towns and townships, and basically put an end to oversized classes in primary and secondary schools in urban areas. We will effectively ensure that all children of rural migrant workers in cities have access to education. We will work to increase the provision of public-interest preschool education and continue to tilt resources toward deeply impoverished areas. We will intensify efforts to provide universal senior secondary education and promote better quality vocational education that cultivates outstanding graduates. We will support the development of world-class universities and world-class disciplines.

*We will advance the Healthy China initiative.* With continued commitment to making people's health and safety our top priority, we will increase government investment in health and improve public health and medical services in a sustainable way that ensures basic needs. We will increase per capita government subsidies for basic medical insurance for rural and non-working urban residents by 30 yuan, to 550 yuan per person per annum. Similar increases will be applied to personal contributions. We will raise per capita government subsidies for basic public health services by 5 yuan, to 74 yuan per person per annum. All of the increase in subsidies for basic public health service expenditures will go to urban and rural communities.

The mechanism for settling inpatient expenses where incurred via basic medical insurance accounts will be improved. Steady moves will be made to turn the overall management of medical insurance funds over to higher-level authorities, and solid steps will be taken toward unifying management at the city level. We will support the deepening of coordinated medical service, medical insurance, and pharmaceutical reforms, push forward the reform on centralized medicine procurement and use, and help to realize substantive reductions to drug prices. We will optimize the structure of medical and healthcare inputs and continue to support further comprehensive reform of public hospitals. We will intensify the development of the public healthcare system and promote the building of systems for the prevention, control, and treatment of major epidemic diseases and for guaranteeing emergency supplies.

*We will increase support levels for our seniors.* Pension benefits for retirees will be increased by 5%. Minimum basic pension benefits for rural and non-working urban residents will also be increased as appropriate. We will press ahead with bringing basic old-age insurance under provincial-level management, ensuring that by the end of 2020, the collection and spending of funds is unified at the provincial level. We will also accelerate efforts to carry out overall planning for old-age insurance at the national level. We will raise the share of basic old-age insurance funds for enterprise employees under central regulation to 4% and increase support for areas in financial difficulty to ensure aged-care pensions for retirees are paid on time and in full. We will support the provision of elderly care services and the construction of service facilities at the community level and continue promoting the integration of medical and elderly care services.

*We will work hard to meet people's basic needs.* We will prioritize expenditures on the people's wellbeing, such as assistance to ensure the basic living needs of people in financial difficulty. The central government will allocate 148.4 billion yuan in aid subsidies for groups in need. This funding will support local governments in providing subsistence allowances, assistance to people in extreme poverty, temporary assistance, and assistance to beggars and the homeless, and in ensuring basic living conditions for orphans. We will expand the coverage of subsistence allowances, ensure every urban and rural household in financial difficulty receives the benefits they are entitled to, and include eligible jobless workers in both urban and rural areas and returning migrant workers within the scope of social assistance including subsistence allowances. We will increase social security assistance and benefit payments in step with price increases as necessary and increase temporary price subsidies in the short term, so as to reduce the impact of price rises on the basic quality of life for people in financial difficulty. The central government will allocate 28.6 billion yuan for medical assistance subsidies to ease the medical care burden on people in financial difficulty and meet people's basic medical care needs.

*We will improve the basic housing support system.* The central government will allocate 70.7 billion yuan for government-subsidized housing projects in urban areas, with a focus on supporting the renovation of old residential communities and the development of rental housing to strengthen housing support for urban residents in need. The central government will allocate 18.5 billion yuan in subsidies to continue renovations of dilapidated rural housing and upgrade rural housing to make it more earthquake resistant.

*We will develop the system of public cultural services.* The central government will allocate 15.2 billion yuan in subsidies to local governments for developing the system of public cultural services. We will facilitate efforts to expand the coverage of basic public cultural services, make sure such services are more adaptable to people's needs, and make access to them more equitable. We will actively assist cultural industries that have been affected by the covid-19 outbreak to boost their recovery. We will support programs to keep fine traditional Chinese culture thriving. We will provide financial guarantees for preparatory work for the 2022 Beijing Winter Olympics and for Team China's preparations for the coming Olympic Games.

#### **5) Supporting efforts to safeguard market entities**

*We will step up tax and fee cuts.* This year, we will continue the policy introduced in 2019 on reduced VAT rates and enterprise contributions to old-age insurance schemes, the carryover effect of which will result in tax and fee reductions of around 500 billion yuan. Some of the time-limited policies on tax and fee cuts that were introduced earlier will be continued till the end of the year, including the exemption of micro, small, and medium-sized enterprises' contributions to old-age insurance, unemployment insurance, and workers' compensation insurance schemes, the reduction or exemption of VAT for small-scale taxpayers, VAT exemption for public transportation, catering, accommodation, tourism, entertainment, cultural, and sports services, and the deduction or waiving of port development fees and payments to the civil aviation development fund. Collection of income tax for small and micro businesses and self-employed individuals will be postponed until next year.

*We will help enterprises reduce their production and operating costs.* Combining our efforts on financial and industrial policies, we will enhance support for enterprises in industries severely affected by the covid-19 outbreak. We will reduce state-owned property rentals and encourage all types of property owners to also reduce rent rates or defer collection. We will halve guarantee fees collected by government guarantee institutions and lower the comprehensive financing guarantee fee to below 1%. The re-guarantee businesses of the state financing guaranty fund will be increased by no less than 400 billion yuan in 2020. We will allow extensions to eligible guarantee loans for business startups, and see that such loans provide support to more groups by making them more accessible to self-employed individuals, taxi drivers and others affected by the outbreak.

*We will continue to stimulate the vitality of market entities.* We will support the development of comprehensive and professional public service platforms, and give play to the guiding role of state-level new areas, new- and high-tech development zones, and innovation and entrepreneurship demo centers. We will implement preferential tax policies to encourage investment in business startups. We will continue to implement the policy of providing rewards and subsidies to promote the reduction of financing guaranty fees for small and micro businesses, encourage a larger scale of financing guarantees for such businesses in the real economy, and ensure lower guaranty fee rates for them. We will continue working to clear late payments to private enterprises and small and medium businesses.

#### **6) Supporting efforts to ensure food and energy security**

*We will make all-out efforts to ensure the supply of grain and other major agricultural products.* We will keep grain acreage and output stable, and enhance our country's ability to guarantee food security, so that we always have control of our own food supply. We will strengthen the protection of cultivated land and the development of farmland irrigation and water conservancy, support an increase in the area of high-quality cropland by 5.33 million hectares, and apply conservation tilling techniques to 2.67 million hectares of chernozem soil in northeast China. We will make steady progress on a plan to revitalize soybean production, deepen reform of grain purchase and storage systems, and improve the policy on setting minimum state-purchase prices for rice and wheat as well as the mechanism for combining market-based purchases with government subsidies for corn and soybean producers. We will support and ensure domestic grain supply and market stability. We will implement policies on supporting the recovery of hog production, and stabilize and ensure pork supply in the domestic market. We will continue to strengthen the prevention and control of major animal epidemics and diseases such as African swine fever and highly pathogenic avian influenza, and promote comprehensive development of livestock and aquaculture farming.

*We will redouble efforts to ensure energy security.* We will continue supporting the exploitation and utilization of unconventional natural gas such as shale gas and coal seam gas, and facilitate the sound development of renewable energy, in an effort to adjust the energy mix. We will put in place sound reserve systems to ensure energy security. We will work to lower electricity and gas costs for enterprises: we will further cut the price of electricity by 5% for all general industrial and commercial users and large industries, except for energy intensive businesses; we will implement two-part tariff in electricity, with the

focus on waiving or reducing capacity charges for two-part tariff consumers, and waive high-reliability power supply charges for the building of new medical facilities and extensions; we will introduce time-limited price cuts for non-household gas consumption, bring forward the introduction of slack season gas prices, and apply reduced gas charges to agriculture-related industries seriously affected by covid-19 such as chemical fertilizer businesses.

## **7) Supporting efforts to ensure stable industrial and supply chains**

*We will support high-quality development of the manufacturing sector.* We will facilitate accelerated efforts to restore and stabilize industrial chains and supply chains. We will encourage enterprises to spend more on equipment upgrading and technological transformation, promote improvement and upgrading in traditional manufacturing, and support project-based development in key areas of strategic importance and upgrading of service platforms in key industries. We will implement the policy on piloting insurance compensation for newly-developed major technological equipment, which will help to promote wider application of innovative products. We will launch a campaign to foster new forms of business in the digital economy, and support the development of digital supply chains. We will promote high-quality development of the integrated circuits and software industries. Explorations will be made toward establishing government procurement trading systems and cost management and risk sharing mechanisms that facilitate innovation. We will promote the further integration of advanced manufacturing and modern services and the building of high-end Chinese service brands.

*We will enhance the capacity of scientific and technological innovation to support development.* We will increase support for scientific research into covid-19 vaccines and remedies, and ensure that funding needs for research are satisfied. We will improve our supporting systems and mechanisms for basic research and original innovation, in order to grow China's capacity for core technology innovation in key fields. We will support the building of national laboratories and the reorganization of the system of key national laboratories, efforts which will increase China's strategic scientific and technological strength. We will promote trials to grant researchers ownership or permanent use rights over scientific and technological outputs at work. This will unlock fresh vitality for innovation among research institutes and personnel.

*We will ensure basic stability of foreign trade and foreign investment.* We will continue to support and guide the development of integrated experimental zones for cross-border e-commerce, and work faster to foster new growth areas

in foreign trade. We will expedite the development of the Hainan Free Trade Port. We will support border economic cooperation zones and other key areas in improving public services, and encourage increases in the import of advanced equipment, technologies, and important parts and components. We will expand trials for innovative development of the trade in services, and encourage domestic companies to undertake services outsourced from other countries and the export of technologies and technological services. We will improve public service systems for facilitating foreign investment, provide guidance for the orderly growth of outbound investment and international cooperation, and promote joint efforts to pursue the Belt and Road Initiative.

#### **8) Supporting efforts to ensure the normal functioning of primary-level governments**

The central government will utilize a number of avenues, such as a deficit increase, carryover from previous years, and financial resources freed up by cuts to its spending, to substantively boost its fiscal support for local governments, so as to ease the expenditure pressure they face as a result of the slowdown in local revenue growth. To support the normal functioning of local governments, especially in areas in financial difficulty, the central government will increase transfer payments to local government by 12.8%. Of this, general transfer payments (not including payments for shared fiscal powers) will increase by 7.5%, which is 7.7 percentage points higher than the expenditures of the central government this year. General transfer payments will be weighted toward old revolutionary base areas, areas with large ethnic minority populations, border areas, poor areas, and areas significantly impacted by the covid-19 outbreak. General transfer payments will include: 1.7192 trillion yuan for ensuring equal access to basic public services, an increase of 10%; 297.9 billion yuan in rewards and subsidies for the mechanism to ensure basic funding for county-level governments, an increase of 10%; and 279.61 billion yuan for old revolutionary base areas, areas with large ethnic minority populations, border areas, and poor areas, an increase of 12.4%. We will make a special transfer payment of 605 billion yuan to local governments, which will be used to guarantee security in the six areas and to respond to the various uncertainties that arise in doing so. In addition, we will also create new approaches for allocating government funds, channel as many financial resources as possible to the lower levels of government, and ensure resources go directly to prefecture and county governments and directly benefit businesses and people.

## 9) Supporting coordinated urban-rural and regional development

*We will make solid strides in advancing rural revitalization.* With covid-19 containment as a starting point, we will intensify efforts to improve the living environment and public health system in rural areas, and support Toilet Revolution initiatives that meet local needs, improvements to household waste and sewage treatment, and efforts to take the building of a beautiful countryside to the next level. We will lend support to the maintenance of safe drinking water programs in rural areas, with weighting toward poor areas. We will launch trials to connect up water systems and improve rural water systems with comprehensive measures. We will work faster to ensure our rural roads are well built, managed, maintained, and operated. We will deepen trials related to comprehensive rural reform, strengthen funding safeguards for the operations of community-level organizations in rural areas, and explore a new and more effective rural governance model.

*We will promote sustained growth in rural incomes.* We will enhance support for appropriately scaled agribusiness of various forms, and provide better services for small-scale family farming businesses. We will encourage deeper integration of primary, secondary, and tertiary industries in rural areas, continue to promote the development of modern agriculture industrial parks and towns with agricultural strengths, and begin to develop clusters of leading agro-industries with unique features, with a view to increasing the return in agribusiness. We will help rural residents start businesses or find employment closer to home, provide vocational skills training for more rural residents, and increase subsidies and guarantee loans to support returning rural migrant workers setting up businesses.

*We will move forward with new urbanization.* We will make a major push to improve urban infrastructure and public services, step up government investment, and actively boost private investment in this regard. We will improve fiscal policies to support the granting of permanent urban residency to people living in urban areas with rural household registration. The central government is putting in place 35 billion yuan in rewards to encourage local governments, especially city authorities, to grant permanent residency to people originally from rural areas and improve the quality of government work in this respect. We will strengthen public finance support for local governments to raise the quality of basic public services for such residency-holders in the fields of employment, social insurance, government subsidized housing, and education for their children.

*We will promote implementation of China's major regional strategies. We will strengthen fiscal and tax policies in support of further progress in the coordinated development of the Beijing-Tianjin-Hebei region, development of the Guangdong-Hong Kong-Macao Greater Bay Area, integrated development of the Yangtze River Delta, and other major strategies for regional development. We will take solid steps to advance the development of Xiongan New Area, implement measures for collective environmental protection on the Yangtze Economic Belt, promote ecological conservation and high-quality development of the Yellow River basin, and facilitate the development of the Chengdu-Chongqing economic circle. We will help revolutionary base areas, areas with large ethnic minority populations, border areas, and poor areas achieve faster development. We will work out fiscal and tax policies to support the social and economic development of Tibet and Xinjiang during the 14th Five-Year Plan period (2021-2025).*

Meanwhile, we will ensure proper implementation of the fiscal and tax policies to support the economic and social development of Hubei Province. Support will be focused on helping Hubei to ensure employment, people's wellbeing, and normal functioning of government, speed up the return to work and resumption of production, restart market and business operations, and keep industrial and supply chains running smoothly, so as to promote its economic and social recovery and the steady operation of its public finances.

#### **10) Supporting national defense and diplomacy**

To better serve the overall interests of the Party and the country, we will support defense and military modernization with priority for ensuring national defense spending. We will provide financial guarantees and improve support policies to promote faster and deeper integration of military and civilian sectors. We will refine policies on preferential treatment and resettlement and support the development of a system to safeguard services for demobilized military personnel so as to effectively guarantee their due benefits. We will support the development of China's diplomacy as a major country and actively contribute to the reform of global economic governance.

#### *4. General public budgetary revenue and expenditure for 2020*

##### **1) Central general public budget**

Revenue in the central government's general public budget is projected at 8.277 trillion yuan, a drop of 7.3% over the actual figure in 2019. Adding in the total balance of the Central Budget Stabilization Fund of 530 billion yuan (including supplementary funds expected to be transferred in while combing

through final accounts) and 358 billion yuan from the budgets of central government-managed funds and central government state capital operations, total revenue for 2020 is calculated at 9.165 trillion yuan. Expenditures in the central general public budget are projected to reach 11.945 trillion yuan, up 9.1%. Total expenditure will exceed total revenue, leaving a deficit of 2.78 trillion yuan, an increase of 950 billion yuan over that of 2019.

Expenditures in the 2020 central general public budget comprise central government expenditures, transfer payments to local governments, and payments to central government reserve funds.

(1) Central government expenditures are projected at 3.5035 trillion yuan, down 0.2%. The breakdown of this spending is as follows: 172.176 billion yuan on general public services, down 13.3%; 54.305 billion yuan on foreign affairs, a drop of 11.8%; 1.268005 trillion yuan on national defense, up 6.6%; 183.272 billion yuan on public security, up 0.7%; 169.909 billion yuan on education, a drop of 7.5% (national spending on education, which includes local outlays, will increase by 5.4%); 319.651 billion yuan on science and technology, down 9.1% (national spending in this area, which includes local outlays, will rise by 3.1%); 121.618 billion yuan on stockpiling grain, edible oils, and other materials, up 1%; 539.943 billion yuan on debt interest payments, up 18.2%.

(2) A total of 8.3915 trillion yuan will be transferred to local governments, up 12.8%. General transfer payments to local governments will total 7.010762 trillion yuan, up 4.9%. Of this amount, transfer payments for shared fiscal powers will increase by 2% to total 3.262001 trillion yuan. These payments will be mainly used to support local governments in implementing policies regarding shared fiscal powers in the areas such as education, elderly care, and medical insurance, and promoting equal access to basic public services. The remaining portion of general transfer payments totals 3.748761 trillion yuan, up 7.5%, which is 7.7 percentage points higher than the projected growth of total central government expenditures. This is a reflection of our policy orientation toward increasing the central government's fiscal support for local governments and strengthening the fiscal capacity of regions facing economic difficulties.

Special transfer payments to local governments (including central government budgetary investment) will total 775.738 billion yuan, an increase of 2.5%. Transfer payments will be used primarily for guiding local governments to implement the major decisions and plans of the Party Central

Committee and the State Council, with fiscal support going to areas like infrastructure construction, pollution control, and rural revitalization.

In addition, transfer payments to local governments include a new one-time special payment, which is to be used for supporting local governments to ensure security in the six areas, with a focus on guaranteeing basic living standards, ensuring normal functioning of primary-level governments, developing the public health system and the emergency supply system, and responding to uncertainties in the second half of the year. Funding in this regard is set at 605 billion yuan for the year. In the course of implementation, more detailed arrangements will be made for the abovementioned programs.

(3) Central government reserve funds total 50 billion yuan, which is consistent with the budgeted figure for 2019. The use of reserve funds will be counted as either central government expenditures or transfer payments to local governments, according to their use in practice.

## **2) Local general public budget**

Revenue in the local general public budget is projected at 9.75 trillion yuan, down 3.5%. Adding in 8.3915 trillion yuan in transfer payments from the central government and 2.11 trillion yuan transferred from other local sources and utilized carryover and surplus funds, total revenue is calculated at 20.2515 trillion yuan. Expenditure in the local general public budget is projected at 21.2315 trillion yuan, an increase of 4.2%. This will create a deficit of 980 billion yuan at the local level, an increase of 50 billion yuan over 2019, to be made up by local governments through general-purpose bond issues.

## **3) National general public budget**

Revenue in the national general public budget, combining the general public budgets of both the central and local governments, is projected at 18.027 trillion yuan, a drop of 5.3%. With the addition of 2.998 trillion yuan transferred from other sources and utilized carryover and surplus funds, total revenue is calculated at 21.025 trillion yuan. Expenditure in the national general public budget is projected at 24.785 trillion yuan (including 50 billion yuan for central government reserve funds), up 3.8%. This will leave a deficit of 3.76 trillion yuan, an increase of 1 trillion yuan over 2019.

### *5. Budgetary revenue and expenditure of government-managed funds for 2020*

Budgetary revenue of central government-managed funds is projected at 361.141 billion yuan, down 10.6%. Adding in 18.004 billion yuan carried forward from last year and 1 trillion yuan raised from the issue of covid-19

bonds, total revenue is calculated at 1.379145 trillion yuan. Budgetary expenditure of central government-managed funds is expected to total 1.078895 trillion yuan. This figure consists of 278.132 billion yuan of central government spending, a decrease of 10.7%, and 800.763 billion yuan in transfer payments to local governments, the large bulk of which will be funded by covid-19 bonds. A projected 300.25 billion yuan will be transferred into the central general public budget.

Budgetary revenue of local government-managed funds is projected at 7.783464 trillion yuan, down 3.3%. Of this figure, proceeds from the sale of state-owned land-use rights account for 7.040689 trillion yuan, down 3%. Adding in 800.763 billion yuan in transfer payments from the budget of central government-managed funds and 3.75 trillion yuan of revenue generated from special local government debt, total revenue is expected to be 12.334227 trillion yuan. Budgetary expenditure of local government-managed funds is expected to total 12.334227 trillion yuan, up 39.8%.

Budgetary revenue of government-managed funds nationwide, combining central and local government-managed funds, is projected at 8.144605 trillion yuan, a drop of 3.6%. Adding in 18.004 billion yuan carried forward from last year, 1 trillion yuan raised from the issue of covid-19 bonds, and 3.75 trillion yuan of revenue generated from special local government debt, total revenue of government-managed funds nationwide is calculated at 12.912609 trillion yuan. Budgetary expenditure of government-managed funds nationwide is projected at 12.612359 trillion yuan, up 38%. A projected 300.25 billion yuan will be transferred into general public budgets.

#### *6. Budgetary revenue and expenditure of state capital operations for 2020*

Budgetary revenue of central government state capital operations is projected at 169.165 billion yuan, an increase of 3.4%. Adding in 14.406 billion yuan carried over from last year, total revenue is calculated at 183.571 billion yuan. Budgetary expenditure of central government state capital operations is expected to total 125.821 billion yuan, up 13.5%. This figure consists of 119.76 billion yuan of central government spending, which is an increase of 21.4%, and 6.061 billion yuan in transfer payments to local governments. A total of 57.75 billion yuan will be transferred into the central general public budget, which will further increase the transferred portion of the central government state capital operations budget to around 35%. This is mainly to strengthen the unified management of funds, with the aim of ensuring a balanced central general public budget following tax and fee reductions.

Budgetary revenue of local government state capital operations is projected at 194.661 billion yuan, a drop of 16.3%. Adding in 6.061 billion yuan in transfer payments from the central government state capital operations budget and 20.267 billion yuan carried over from last year, total revenue is calculated at 220.989 billion yuan. Budgetary expenditure of local government state capital operations is estimated at 141.732 billion yuan, up 9%. A projected 79.257 billion yuan will be transferred into the local general public budget.

Revenue in the state capital operations budgets of both the central and local governments is projected at 363.826 billion yuan, a drop of 8.1%. Adding in 34.673 billion yuan carried over from last year, the total budgetary revenue of state capital operations nationwide is calculated at 398.499 billion yuan. Budgetary expenditure of state capital operations nationwide is estimated at 261.492 billion yuan, up 14.3%. A projected 137.007 billion yuan will be transferred into general public budgets.

#### *7. Budgetary revenue and expenditure of social security funds for 2020*

Revenue of the central government social security fund is projected at 138.444 billion yuan—an increase of 101%, which mainly comprises lump sum payments of basic old-age insurance premiums for past years by central Party and government offices and public institutions. Revenue includes 74.161 billion yuan in insurance premiums and 63.092 billion yuan in government subsidies. Adding in 737.955 billion yuan of basic old-age insurance funds allocated for central regulation by local governments, total revenue is calculated at 876.399 billion yuan. Expenditure of the central government social security fund is estimated at 140.782 billion yuan, up 112.3%. Adding in 737.005 billion yuan to be reallocated through central regulation to replenish the basic old-age insurance funds of local governments, total expenditure is calculated at 877.787 billion yuan. With a projected deficit of 1.388 billion yuan, the year-end balance will be 34.487 billion yuan after the balance from 2019 has been rolled over.

Revenue of local government social security funds is projected at 7.590294 trillion yuan, down 5.3%, which includes 5.167628 trillion yuan in insurance premiums and 2.099804 trillion yuan in government subsidies. Adding in 737.005 billion yuan of basic old-age insurance funds reallocated to local governments through central regulation, total revenue comes to 8.327299 trillion yuan. Expenditure of local government social security funds is estimated at 8.087629 trillion yuan, up 8.8%. Adding in 737.955 billion yuan of basic old-age insurance funds allocated by local governments for central regulation, total expenditure comes to 8.825584 trillion yuan. With a projected deficit of

498.285 billion yuan, the year-end balance will be 8.868537 trillion yuan after the balance from 2019 has been rolled over.

Counting both central and local government budgets, revenue of social security funds nationwide is calculated at 7.728738 trillion yuan, down 4.4%. This includes 5.241789 trillion yuan in insurance premiums and 2.162896 trillion yuan in government subsidies. Expenditure of social security funds nationwide is expected to total 8.228411 trillion yuan, up 9.7%. With a projected deficit of 499.673 billion yuan, the year-end balance will be 8.903024 trillion yuan after the balance from 2019 has been rolled over.

It should be noted that the budget of social security funds nationwide is compiled according to the policies that have already come into effect. It does not include policies still under deliberation, such as detailed policies on extending temporary exemptions to contributions made by micro, small, and medium-sized enterprises to their employees' old-age, unemployment, and workers' compensation insurance schemes.

In 2020, the ceiling for outstanding central government bonds is 21.300835 trillion yuan; the ceiling for outstanding local government general-purpose bonds is 14.288922 trillion yuan; and the ceiling for outstanding local government special-purpose bonds is 14.518508 trillion yuan.

It should be noted that as local budgets are formulated by local people's governments and submitted for approval to the people's congresses at their respective levels, the relevant data is still being compiled. All projected figures for local revenue and expenditure in this report have been compiled based on the preliminary calculations of the central finance authorities.

For a detailed account of the above budget arrangements, please refer to the Chinese language version of the Report on the Execution of the 2019 Budget of the People's Republic of China and the 2020 Draft Budget.

In accordance with the Budget Law, after the beginning of a new budget year and prior to the approval of that year's draft budgets by the National People's Congress, arrangements may be made for the following expenditures: carryover expenditures from the previous fiscal year; the basic expenditures and project expenditures of government departments and transfer payments to lower-level governments that must be made in the current year, which are to be arranged with reference to the budgetary expenditure amount for the same period over the previous year; expenditures mandated by law, and expenditures for dealing with natural disasters and other emergencies.

In line with the above stipulations, from January to April of 2020, expenditures in the national general public budget totaled 7.359589 trillion yuan, a year-on-year decrease of 207.132 billion yuan or 2.7%. Of this figure, expenditures in the central general public budget totaled 1.031455 trillion yuan, a year-on-year increase of 0.1%, or a decrease of 9.3% when national defense spending and debt interest payments are deducted. Expenditures in the local general public budget amounted to 6.328134 trillion yuan, a year-on-year drop of 3.2%, which was mainly due to the covid-19 outbreak. Apart from spending on epidemic control and on ensuring people's basic wellbeing, salary payments, and normal government functioning, expenditures on most other programs progressed more slowly compared to the same period of the previous year. We will implement the budgets approved by the NPC.

### **III. Fiscal Reform and Budgetary Management in 2020**

#### *1. Fully enforcing the Budget Law*

We will ensure full compliance with the Budget Law, make budgets more binding, and introduce greater standardization in government revenue and expenditure actions. We will deepen reform of the budget management system, apply the concept of zero-based budgeting, break the ingrained pattern of government spending, and make budget compilation more scientific and accurate. Fiscal revenue will be collected in strict accordance with laws and regulations, budgets approved by people's congresses at all levels will be faithfully executed, and adjustments and additions to budgets will be stringently controlled.

We will strengthen dynamic monitoring of budget execution, and improve mechanisms for monitoring government funds such as fiscal poverty alleviation funds, centralized treasury payments and funds in extra-budgetary accounts of institutions in trial programs. We will also strengthen security management of budget execution and government funds. We will redouble efforts to make good use of fiscal funds on hand and promptly recall funds that have long stayed unused in accordance with regulations and put them to use in other fields in urgent need of funding support. To improve transparency in public finance, we will strictly enforce regulations on the public release of budgets

and final accounts, and work to make publishing more procedure-based, regularized, and institutionalized. We will also readily accept budget oversight from all sides.

*2. Protecting the three priorities of people's basic wellbeing, payment of salaries, and normal government functioning*

To see that primary-level governments can function normally and effectively implement all policies, the central government will continue to sizably increase fiscal support to lower levels of government, while at the same time strengthening unified coordination and regulation. The central finance authorities will guide and press local authorities to effectively enforce budgetary management mechanisms for pre-review, ongoing monitoring, and post-operational handling of matters to ensure they have adequate funding for the three priorities of people's basic wellbeing, payment of salaries, and normal functioning; strengthen allocation of treasury funds; and establish a monitoring mechanism for fund allocations from central to provincial and provincial to city and county level governments.

Finance authorities at the provincial level must genuinely assume principal responsibility. They should allocate more funds to county-level governments to see they are able to meet the three priorities; review county-level government budgets to ensure fiscal outlays for the three priorities are in place, closely follow execution at the primary level regarding these priority expenditures, and formulate contingency plans at an early date for relevant risks in areas within their jurisdiction.

County-level finance authorities should take comprehensive measures to fulfill their responsibilities. They should continue to give precedence to the three priorities when arranging fiscal outlays and precedence to state-set standards when arranging outlays for the three priorities as a whole, and do their work well in relation to budgetary arrangements and allocation of treasury funds. All these will help us forestall any problems in this respect.

*3. Managing and making good use of funds from local government bond issues*

Provincial-level financial departments should diligently execute their legally prescribed duty of regulating local government bonds and strengthen regulation, put funds to good use, and ensure against the emergence of risks. They should fully exert the role of special-purpose bonds in promoting social and economic development, improve management mechanisms, optimize investment compositions with a focus on key areas, and appropriately raise the

proportion of special-purpose bonds to be used as capital for eligible major projects to encourage more nongovernmental investment.

We will strengthen communication, coordination, and cooperation between different departments to accelerate the issue and use of bonds, and work for the launch of a group of major projects and the earliest possible start date for work on these projects. Compliance review and risk assessment of projects financed by special-purpose bonds will be stringent, to make certain special-purpose bonds are used solely for major projects with a certain level of returns and that the scale of financing is compatible with returns projections.

As prescribed by law, local government bonds should only be issued to fund public welfare capital expenditure, rather than regular expenditure. Accordingly, we will forbid the use of funds from bond issues for salary payments, government operating expenses, or pension benefits. We will work to see that local government bonds are redeemed on time by those responsible for repayments, and ensure no risks arise from local government bonds.

#### *4. Accelerating fiscal and tax system reform*

We will continue to deepen reform of the fiscal and tax systems with a view to modernizing China's system and capacity for governance. We will take solid steps forward in the reform to define the respective fiscal powers and expenditure responsibilities of central and local governments, implement the plan for further reforming central-local revenue sharing following the implementation of larger-scale tax and fee cuts, and promote the establishment of a fiscal relationship between governments built on clearly defined powers and responsibilities, appropriate financial resource allocation, and greater balance between regions. We will improve how items for transfer payments are set, and make transfer payment management more procedure-based, sound, and effective.

We will continue to build a transparent budget system that uses well-conceived standards and imposes effective constraints, improve the system of standards for budgetary expenditure, and develop better mechanisms for applying these standards. Preparation of government financial statements will be conducted across the board.

We will steadily advance reforms to improve local tax systems, clarifying what are taxes and what are fees to ensure local governments have more steady sources of receipts. We will implement the principle of law-based taxation and accelerate legislative work on VAT, excise tax, tariff, and other taxes. We will continue building a tariff system that suits China's economic development.

Reforms of state-owned enterprises and assets will be deepened, and efforts will be made to promote the creation of a stronger state-owned asset oversight and supervision system with the focus on capital management. We will take solid measures to advance centralized, unified management of state-owned financial capital, and work to ensure that over time all state financial capital operations are covered by government budgets. Work on transferring a portion of state capital into social security funds will be basically completed.

*5. Implementing comprehensive performance-based budget management*

We will work faster to establish a performance-based budget management system that covers the whole budgetary process and all sectors, projects, and budget types, so as to improve the capacity for budget management and ensure our policies generate better results. We will improve mechanisms for performance-based budget management to ensure a correspondence between power and responsibility as well as compatible incentives, set up better performance management systems as well as a system of performance indicators and standards, and look into the roll-out of cost-benefit analysis to provide a reference for improving budget compilation.

We will explore performance-based management of departmental expenditure as a whole, conduct performance evaluation prior to the introduction of major policies and expenditure items, and strengthen reviews of performance targets and make them more binding. Oversight of ongoing performance will be strengthened.

We will carry out solid work in relation to key performance evaluations, work to improve the quality and expand the coverage of performance evaluations, and make such evaluations more science-based and reliable. We will put performance evaluation results to better use, and establish a sound mechanism for linking budgetary adjustments and improvements in management and policy to evaluation results. We will put into action the idea of linking spending to performance and performance to accountability, so that spending with poor results is cut, while spending with good returns is increased. We will vigorously promote the publishing of performance information, and actively guide and regulate third-party evaluations.

*6. Supporting and assisting budget review and oversight by people's congresses in accordance with law*

In full compliance with the Guidelines on People's Congresses Expanding the Focus of Budget Review and Oversight to Expenditure Budgets and Policies and relevant requirements of the NPC, we will willingly accept people's

congress review and oversight of budgets and final accounts. We will earnestly listen to and take opinions and suggestions from people's congress deputies and people from all sectors of society, and in light of the implementation of major decisions and plans of the Party Central Committee and the State Council, improve the compilation of reports on budget execution and draft budgets and make expenditure budgets and policies more sound and effective. The resolutions on budgets and final accounts of people's congresses and their standing committees will be fully implemented. We will actively assist with advancing online budget oversight. We will do a good job of comprehensively reporting on the management of state-owned assets and related reporting on specific issues. We will take the initiative to respond to the concerns of NPC deputies, provide clear explanations on relevant issues, and strive to better serve the deputies as they perform their duties in accordance with law.

Esteemed Deputies,

For now and sometime to come, China will face unprecedented challenges in development. Accomplishing the fiscal and budgetary work of 2020 will be a demanding and onerous task. We must unite more closely around the CPC Central Committee with Comrade Xi Jinping at its core and continue to follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. We must proactively submit ourselves to the NPC's oversight, seek comments and suggestions from the CPPCC National Committee with an open mind, make the most of our time to do solid work and deliver real outcomes, and pool our will and strength to overcome difficulties and challenges. In this way, we will break new ground and score new victories in fiscal reform and development in the new era, and contribute our part to achieving the Two Centenary Goals and realizing the Chinese Dream of national rejuvenation.