

# REPORT ON THE IMPLEMENTATION OF FISCAL POLICY OF CHINA FOR 2020

## Summary

2020 was an unusual year in the history of the People's Republic of China. Against the complicated global landscape, challenging tasks in pursuing reform, development and stability at home, and heavy blows from the COVID-19 pandemic in particular, the Communist Party of China (CPC) Central Committee with Comrade Xi Jinping at the core kept the whole picture in mind as it charted the course of national development, rallied the whole Party and the nation to forge ahead and blaze new trails of innovation, and advanced the great causes of the Party and the country with innovation and an enterprising spirit able to overcome risks and challenges. The country secured major strategic gains in the fight against COVID-19, scored decisive successes in the three critical battles against poverty, pollution and potential risks, and made major progress in scientific and technological innovation. Significant breakthroughs in reform and opening up were achieved with solid improvement in

people's livelihoods, and the economy is now on a steady recovery path. In 2020, China's gross domestic product (GDP) grew by 2.3 percent year on year, making it the only major economy in the world to achieve positive growth.

Under the strong leadership of the CPC Central Committee, the Ministry of Finance (MOF) has always adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and actively ensured that its fiscal work fit well into the national strategies of building a moderately prosperous society in all respects and developing a modern socialist country. The ministry has risen to challenges with courage and responsibility, coordinated pandemic prevention and control with economic and social development, and delivered remarkable results on all fronts.

The first step was to put pandemic prevention and control at the top of its agenda. MOF unveiled at the earliest moment the "Two Guarantees" policy for free treatment of all COVID-19 patients and adequate funds for the government's pandemic fight across the country. The ministry beefed up its financial and tax policy support and stepped up efforts in policy explanation

and publicity to fully support the country's fight against the pandemic.

The second task was to step up policy countermeasures. MOF increased the fiscal deficit ratio to over 3.6 percent, issued 1 trillion yuan of special treasury bonds for COVID-19 control, and added 1.6 trillion yuan of local government special bonds. The ministry swiftly introduced large-scale relief policies for enterprises, and creatively established new fiscal mechanisms for direct funding as strong and effective response to the pandemic's impact.

The third measure was to strengthen support for national strategies so as to ensure a decisive success in the fight to eliminate absolute poverty as scheduled, significant improvement in the environment, steady progress in preventing and defusing major risks, and success in the last-mile dash to build a moderately prosperous society in all respects.

The fourth measure was to guarantee people's basic livelihoods, make great efforts to stabilize enterprises and employment and to achieve solid progress in the "three priorities" of safeguarding

people's livelihoods, income and the smooth functioning of institutions at the primary level, steadily improve the basic livelihood security level, and resolutely safeguard the bottom line in maintaining security in six areas: jobs, basic living needs, operations of market entities, food and energy, stable industrial and supply chains, and the normal functioning of primary-level governments.

The fifth step was to deepen supply-side structural reform, vigorously support technological innovation, accelerate the transformation and upgrading of the manufacturing industry, support the relief and development of small and micro enterprises, strengthen food and energy security, and enhance innovation and competitiveness in the country's real economy.

The sixth measure was to deepen reform and opening up, steadily advance the reform of the fiscal and taxation system, continue to deepen international financial cooperation, and further consolidate the foundation of fiscal management. The transformation of the regulatory bureau was achieved with substantial results and the level of fiscal governance was continuously improved.

With the strong support of Party committees and governments and other relevant departments at all levels, the finance departments doubled their efforts and took on more responsibilities to deliver good fiscal results in 2020, with fiscal operations improving quarter by quarter and budget implemented soundly, contributing greatly to economic recovery and social stability. The national general public budget revenue reached 18.29 trillion yuan in 2020, underpinning the nation's financial strength and providing a solid foundation for the sustained and sound development of the economy and society. Fiscal expenditures were maintained at a relatively high level, with national general public budget expenditures totaling 24.56 trillion yuan in 2020, providing a strong guarantee for the development of the undertakings of the Party and the country. Tax cuts and fee reductions reached unprecedented levels in 2020, resulting in more than 2.5 trillion yuan in total deductions, which invigorated the development of market entities and the real economy. Top priority was given to guaranteeing people's basic livelihoods, with the levels of basic pensions, basic medical care, and urban and rural subsistence allowances further improved and the public benefiting more from the country's reform and development achievements in a fairer manner. The reform of the fiscal and taxation system was further advanced in

depth, budget management became more science-oriented and standardized, performance review reform was fully implemented, and a modern fiscal system framework was basically established. China's participation in global economic governance increased as well, further enhancing the country's voice and influence in international finance.

The year 2021 is of special importance for China's modernization drive as it marks the beginning of the 14th Five-Year Plan (2021-25) and a new journey to build a modern socialist country in an all-round way. The finance departments will continue to actively play their role, holding steadfast to the major task of supply-side structural reform while focusing on demand-side management. We will accurately implement proactive fiscal policies, and strengthen fiscal and tax policy support and guidance. Unremitting efforts will be made to promote innovative development and industrial upgrading, strengthen basic livelihood protection, and support all-round rural vitalization. And more work will be done to vigorously promote green development, prevent and defuse risks in key areas, accelerate the establishment of modern fiscal and taxation systems, improve fiscal management and supervision systems, and deepen practical international cooperation in finance and the economy. The finance departments will celebrate the 100th

anniversary of the founding of the CPC with outstanding achievements and work to ensure a good start to the efforts in fostering the new development paradigm.

**I. The proactive fiscal policy became more positive as a forceful and effective counterbalance to the downward pressure on the economy.**

The requirement that China's proactive fiscal policy should be more positive was earnestly implemented by sending "one positive signal", along with "four countermeasures" in resisting the downward pressure on the economy. With efforts to do a good job in ensuring "stability on six fronts" and maintaining "security in six areas", MOF has adopted stronger policy measures to offset the impact of the pandemic, thus playing a crucial role in stabilizing the economy.

**1. The fiscal deficit ratio was raised to over 3.6 percent, and fiscal macro-control was further strengthened.**

In line with the decisions and plans of the CPC Central Committee and the State Council, China's proactive fiscal policy became more positive in 2020. Special measures were taken during special times as the fiscal deficit ratio was raised

from 2.8 percent to over 3.6 percent in 2020, with the deficit climbing to 3.76 trillion yuan, up by 1 trillion yuan from that of 2019. That included 2.78 trillion yuan in central fiscal deficit and 980 billion yuan in local fiscal deficit, up by 950 billion yuan and 50 billion yuan from those of 2019 respectively. The decision to raise the deficit ratio, on the one hand, sent out a clear and positive message, stabilizing and boosting market confidence; on the other hand, it served as an effective counterbalance to the impact of reduced revenue and increased expenditure caused by the pandemic and strengthened the power of central fiscal macro-regulation, thereby making an important and special contribution to mitigating the impact of the pandemic, protecting market players, safeguarding employment and people's livelihoods, and enabling a relatively fast economic recovery.

## **2. More government investment was made to stabilize the economy.**

One trillion yuan of special treasury bonds for pandemic control was issued to support local public health infrastructure construction and anti-pandemic efforts, strengthen the weak



points exposed by the pandemic, ensure adequate funding for pandemic prevention and control, and provide a solid foundation for fulfilling the tasks of ensuring "stability on six fronts" and maintaining "security in six areas".

The quota of local government bonds was significantly expanded, with the National People's Congress giving the nod to a debt ceiling of 980 billion yuan in general local government bonds in 2020, as well as 3.75 trillion yuan in local government special bonds in 2020, 1.6 trillion yuan more than the figure of the previous year. Those funds were mainly used to finance major infrastructure programs and people's livelihood services approved by the CPC Central Committee and the State Council, meet the reasonable local funding needs and provide necessary construction funding for major regional development strategies and public welfare projects.

### **3. China's tax and fee cuts topped 2.5 trillion yuan in 2020, benefiting market players significantly.**

Reducing taxes and fees was an important action taken to stabilize enterprises, ensure employment, bail out market

players and support their development. In 2020, in face of severe and complex situations, the finance authorities resolutely implemented the major decisions and plans made by the CPC Central Committee and the State Council on tax and fee reduction, and issued and implemented seven tax and fee cut documents including 28 items of tax and fee cut policies despite the fiscal difficulties. Among the afore-mentioned policies, there were emergency measures to support pandemic prevention and control and guarantee supply, such as fully refunding the incremental value-added tax (VAT) credit of the key pandemic prevention and control material production enterprises, and the one-time pre-tax deduction on the newly-purchased equipment by those enterprises for the purpose of expanding their production capacity.

There were also steps taken to help industries that were affected by the pandemic and faced difficulties, such as extending the loss carry-over period for enterprises in the transportation, catering, accommodation, tourism, film and other industries that were severely affected by the pandemic; exempting cultural undertaking construction fees and the national film industry development special fund, as well as the civil aviation

development fund paid by airlines; and remitting real estate tax and urban land use tax for enterprises in industries that were affected by the pandemic.

There were also tax measures supporting enterprises to resume work and production, such as improving VAT rebates on exports; exempting port construction fees for imported and exported goods; halving the compensation fund for oil pollution damage and other policies to stabilize foreign trade; and introducing tax policies to boost automobile purchases. To help small and micro businesses tide over difficulties, small-scale taxpayers in Hubei province were exempted from paying 3 percent VAT, and the VAT rate for small-scale taxpayers outside Hubei was lowered from 3 percent to 1 percent.

With the concerted efforts of all parties, China's tax and fee cut measures were enforced rigorously and the policies gradually took effect. The tax and fee cuts exceeded 2.6 trillion yuan in 2020, which effectively relieved pressure on enterprises as they sought to overcome difficulties. By the end of 2020, the tax and fee rate of sales income of the 100,000 key tax source enterprises across the country (the proportion of tax and social

insurance fees paid by enterprises as a percentage of sales gains) was expected to decrease by 8 percent year on year, providing strong support for various market entities to resume work and business, and for industries severely impacted by the pandemic to restore growth. Strong efforts to maintain jobs and ensure people's well-being, targeted tax and fee cut policies, plus the inclusive tax cut policy for small and micro enterprises in recent years, had effectively reduced the labor costs of enterprises and strongly supported them in keeping employment and surviving the hard period. In 2020, there were 11.44 million new tax-related market entities nationwide, a yearly increase of 10.1 percent, which greatly safeguarded people's employment.

#### **4. We persisted in living on a tight budget, and put financial resources to where they could be used better.**

Taking hard work, diligence and thrift as the basic policy in budget-making for a long time, and advocating the Party and government organizations' leading an austere life, the central government slashed expenditures. First, the central government expenditure was vigorously cut. The central government expenditures in 2020 registered negative growth, and non-urgent

and non-mandatory expenditures were cut by over 50 percent, which was unprecedented. Second, the local authorities and departments received guidance in reducing expenditures, and the caliber and scope of local governments were standardized to reduce general expenditures. The main responsibilities of the budget unit were consolidated and strict economy in budget-making, implementation, government procurement, and asset allocation and utilization was stressed at the departmental level. Third, a long-term mechanism was evolved to promote establishment of a budget standard system and to strengthen the review of project expenditure budgets. The mechanism enabled comprehensive performance management of budgets, and strengthened financial supervision. Fourth, year-end budget flushes were resolutely avoided. Close attention was paid to the progress of local fiscal budgeting, and local governments were guided to make scientific arrangements for cross-year budgets, do a good job in ensuring “stability on six fronts” and maintaining “security in six areas”, and to sort out carryover funds in light of requirements. Efforts were also made to establish and improve the admonition and notification procedures as well as accountability mechanisms to regulate the fiscal expenditure behavior.

## **II. Fiscal operations withstood the impact of the pandemic and other factors, and execution of the budgets generally performed well.**

The outbreak of the COVID-19 pandemic led to a sharp fall in national fiscal revenues and a prominent imbalance between revenues and expenditures, and local fiscal operations in particular were confronted with difficulties. In the face of the severe situation, MOF, in accordance with General Secretary Xi Jinping's important instructions and the decisions and plans made by the CPC Central Committee and the State Council, coordinated pandemic prevention and control with economic and social development, and put in place a more proactive fiscal policy. Fiscal operations improved quarter by quarter, and overall budget implementation was sound.

### **1. The decline in fiscal revenue gradually narrowed, with a year-on-year decrease of 3.9 percent.**

In 2020, the revenues in the national general public budget totaled 18.2895 trillion yuan, a year-on-year decrease of 3.9 percent. Among them, the revenues in the central general public

budget amounted to 8.2771 trillion yuan, a year-on-year decrease of 7.3 percent; the revenues in the local general public budget stood at 10.0124 trillion yuan, a year-on-year decrease of 0.9 percent. In quarterly terms, the growth rates of the revenues in the national general public budget were respectively -14.3 percent, -7.4 percent, 4.7 percent and 5.5 percent from the first quarter to the fourth quarter. After a sharp decline in the first quarter, the revenue bottomed out and picked up in the second quarter, turned positive in the third quarter, and continued to improve in the fourth quarter. At the same time, as the economy continued to recover steadily, major economic indicators such as value-added industrial output, corporate profits, and imports and exports stabilized and improved, driving a rebound in the main tax categories. In 2020, national tax revenue stood at 15.4310 trillion yuan, down 2.3 percent, and the rate of decline gradually narrowed.

## **2. Funds were raised through multiple channels and total fiscal expenditures remained stable.**

MOF took coordinated measures, including increases in fiscal deficits, issuance of special treasury bonds to fight the pandemic,

flexible use of various types of carry-over idle funds and reductions in general expenditures, to increase available financial resources through multiple channels and make up for the gap between decreasing fiscal revenues and rising expenditures. We established a special transfer payment mechanism to increase transfer payments to local areas, and prioritized old revolutionary base areas, ethnic minority areas, border areas, poverty-stricken areas and areas affected by the pandemic to make up for local revenue gaps and support the local areas, especially those in difficulties, for maintaining normal fiscal operations. In 2020, expenditures in the national general public budget totaled 24.5588 trillion yuan, a year-on-year increase of 2.8 percent. Expenditures in the central general public budget stood at 3.5096 trillion yuan, a year-on-year decrease of 0.1 percent; those in the local general public budget totaled 21.0492 trillion yuan, a year-on-year increase of 3.3 percent.

### **3. The structure of expenditures was adjusted and optimized, and expenditures in key areas were effectively ensured.**

We vigorously optimized the structure of fiscal expenditures and



resolutely reduced general expenditures to ensure increases, instead of decreases, in the expenditures on people's basic livelihoods. Expenditures in key areas such as pandemic prevention and control, poverty alleviation, and the "three priorities" tasks at the grassroots level were strongly guaranteed. Public healthcare expenditures directly related to pandemic prevention and control increased by 74.9 percent, and expenditures on social security and employment, housing security, agriculture, forestry and water increased respectively by 10.9 percent, 10.5 percent and 4.4 percent, all higher than the national averages.

**III. The task of maintaining "security in six areas" was fully implemented, and the overall situation of economic development and social stability was effectively safeguarded.**

We strengthened research and judgment on the macroeconomic situation, made systematic plans for fiscal and taxation policies and measures based on the requirements of the tasks to ensure "stability on six fronts" and maintain "security in six areas", and resolutely held the bottom line of "maintaining security" to ensure stability, buy time and create suitable conditions to tide

over difficulties and to stabilize macroeconomic and social development.

**1. Priority was given to securing jobs, and residents' employment was stabilized and expanded.**

We underlined the implementation of the employment-first policy and vigorously supported and stabilized the employment of residents by simultaneously reducing burdens, stabilizing jobs, and increasing employment opportunities.

First, we further expanded the channels for funding of employment security. In 2020, a total of 53.878 billion yuan was allocated from the central fiscal budget as employment subsidies to support local governments in implementing various employment and entrepreneurship support policies. More than 100 billion yuan of vocational skills improvement funds was extracted from the unemployment insurance fund balance to support the development of vocational training.

Second, we continuously strove to offer greater assistance to enterprises and further stabilize jobs. We cooperated with relevant departments to study and formulate periodical policies

for the reduction and exemption of corporate social security premiums and introduced a series of periodical and targeted tax reduction policies to lighten the burden on key enterprises and key industries. We supported enterprises to stabilize their jobs through measures such as rebating unemployment insurance premiums for stabilized job positions.

Third, we made solid progress in facilitating the employment of key groups such as people in difficulties. We made every effort to help college graduates with employment and entrepreneurship, and encouraged and guided them to find jobs and start businesses in urban and rural communities. We guided the safe and orderly transfer of migrant workers, and encouraged the eastern provinces to overcome the impact of the pandemic and absorb poor laborers for cross-provincial employment. We also increased targeted employment support for Hubei province covering laborers working in Hubei.

Fourth, we significantly expanded the coverage of unemployment insurance. We expanded the benefits of unemployment insurance funds. Deadlines were extended for unemployed older individuals to receive unemployment

insurance benefits, and the easy access of application channels was ensured. The unemployed residents who have not yet been employed after the expiry of unemployment insurance benefits, and the insured unemployed individuals who did not meet the conditions for unemployment insurance benefits were granted unemployment benefits for six months. Insured unemployed migrant workers were granted one-time living allowances or temporary living allowances; Unemployed individuals provided with unemployment insurance and unemployment subsidies were granted temporary price subsidies which were periodically increased.

## **2. Efforts were made to help those most in need and steady progress was made in increasing basic living standards.**

First, the basic pension was paid on time and in full. In 2020, the central government allocated 788.506 billion yuan in basic pension transfer payments to support the on-time and in-full payment of basic pension in various localities. The central adjustment system of the pension fund for enterprise employees was improved and the adjustment ratio was increased to 4 percent. Twenty-two provincial regions, including those in the

central and western regions as well as old industrial bases, benefited from a total amount of 176.845 billion yuan. A long-term mechanism for poverty alleviation through basic pension insurance for urban and rural residents was established. The elderly care service system and the quality of elderly care services were improved.

Second, the basic livelihood of the people in need was guaranteed. Localities were asked to ensure that eligible people in difficulties affected by the COVID-19 pandemic were promptly covered by such programs as subsistence allowances, assistance and support for extremely poor people, and temporary assistance, and could receive temporary price subsidies in full. People who had fallen into temporary difficulties in non-registered places were provided with assistance directly from the locality where the emergency occurred. The coverage of social assistance and social security based on a mechanism linking them with price increases was temporarily expanded, and monthly temporary price subsidies were doubled. The scope of subsistence allowances and temporary assistance was moderately expanded. In 2020, the central government allocated a total of 148.397 billion yuan in subsidies for people in need

through a special transfer payment mechanism to support local areas ensuring the basic livelihoods of people in difficulty.

Third, medical care services were continuously improved. In 2020, the per capita basic medical insurance subsidy for urban and rural residents was increased by 30 yuan, reaching no less than 550 yuan per person per year. A total of 346.758 billion yuan was allocated as the basic medical insurance subsidies for urban and rural residents. Efforts were made to advance the direct settlement of cross-provincial hospitalization expenses and to pilot cross-provincial on-the-spot settlement of outpatient expenses through basic medical insurance accounts. The centralized procurement policy for medicines and high-value medical consumables was improved, and the pilot program of the long-term care insurance system was expanded. Investment in medical assistance was increased, and the policy of poverty alleviation through medical insurance was fully implemented.

Fourth, the Healthy China Action was continuously pushed forward. Efforts were made to promote the equalization of basic public services. In 2020, the per capita subsidy for basic public health service expenditures was raised from 69 yuan to 74 yuan.

The central government allocated 60.33 billion yuan as assistance funds to support basic public health services in providing, free of charge, health education, vaccination, health management of key groups and so on. A total of 17.526 billion yuan was allocated to support the prevention and control of major infectious diseases. Endeavors were also made to support the implementation of the national essential drug system at grassroots medical institutions, and priority was given to expenditures for village clinics.

### **3. We took multiple measures to ensure the security of market entities and effectively stimulate market vitality.**

First, we allocated a special fund of 3 billion yuan for the development of small and medium-sized enterprises (SMEs). Rewards and subsidies were combined to bring incentives to the localities where the policy guidance could play a better role in scaling up the financing guarantee business and reducing the guarantee rate for SMEs so as to help them tide over their difficulties.

Second, we continued to increase the interest subsidies for

guaranteed business start-up loans. Application requirements for SMEs were gradually relaxed and individual entrepreneurs in industries heavily hit by the COVID-19 pandemic including drivers for ride-hailing apps and taxis were included in the scope of support. Maximum loan amounts for individuals were increased from 150,000 yuan to 200,000 yuan and reasonable extension of loans was allowed. The central government earmarked an additional budget of 2 billion yuan and the total interest subsidies for the guaranteed business start-up loans in the year amounted to 3.82 billion yuan, an increase of 54 percent year on year.

Third, we greatly expanded the coverage of governmental financing guarantees and reduced the guarantee fee rate significantly. MOF issued performance evaluation guidelines to enhance positive incentives for governmental financing guarantee and re-guarantee institutions to support SMEs and agriculture and encourage governmental financing guarantee institutions to provide financial services and increase credit for SMEs and for “agriculture, rural areas and farmers”. Efforts were made to expand the business scale of the National Financing Guarantee Fund and accelerate its equity investment.



In 2020, the National Financing Guarantee Fund completed 422.4 billion yuan worth of re-guarantee services and provided re-guarantee for 274,000 accounts, and services for supporting SMEs and agriculture accounted for 97.6 percent of all services provided. The average guarantee fee rate for partner institutions dropped to 0.95 percent, and the scale of cumulative re-guarantee cooperative services exceeded 700 billion yuan, with 12 local governmental financial guarantee institutions being identified as the first equity investment targets.

Fourth, we temporarily exempted processing trade enterprises from domestic sales interest tax, and expanded pilot policy on selective levy of tariffs on domestic sales. The difficulties faced by processing trade enterprises were effectively relieved. The processing and trade industries were exempted from domestic sales interest tax from April 15, 2020 to December 31, 2020. From April 15, 2020, the pilot policy on selective levy of tariffs on domestic sales was expanded to all Comprehensive Bonded Areas, which was conducive to relieving processing and trade industries from their "two-way squeeze" difficulties in import and export brought about by the pandemic.

Fifth, we flexibly adjusted the additional tariff and improved the system of tariff exclusion. The impact of economic and trade friction between China and the United States on enterprises was alleviated. The consensus achieved in China and the U.S. consultations was implemented, increase on tariff rates on a portion of imported goods made in the U.S. was adjusted in a timely way, market-based procurement was excluded from additional tariffs, the import tax burden on enterprises was reduced and bilateral economic and trade relations were stabilized.

#### **4. We adjusted and improved support policies to strongly guarantee food and energy security.**

Efforts were made to ensure national food security. First, we beefed up our work on developing high-standard farmland and farmland water conservancy facilities. In supporting the strategy to safeguard grain production based on sustainable farmland use and agriculture technology, MOF allocated 69.48 billion yuan for farmland construction in 2020 and continued to strengthen the foundation of agricultural production. Second, an improved agricultural subsidy policy was implemented. MOF allocated 120.485 billion yuan as assistance fund for arable land

conservation to guide farmers in consciously improving land arability. 17 billion yuan was arranged to subsidize agricultural machinery purchase for furthering the subsidy pilot on promoting purchase of new equipment and expanding the scope of the pilot policy on agricultural machinery scrap renewal subsidy. A total of 7.619 billion yuan was allocated to support the rotation of arable land lying fallow and to launch the Northeast China black soil conservation farming project. Third, through strong and orderly placement of grain stocks, the stability of grain and oil markets was maintained. Fourth, the grain subsidy policy was improved to support reform in the minimum purchase price policy for rice and wheat, and to implement a subsidy policy for corn and soybean producers to elevate the farmers' motivation in farming. Fifth, incentives for major grain-producing counties were increased. 46.67 billion yuan was arranged as rewards for major grain-producing counties in 2020, an increase of 1.714 billion yuan over the previous year, to better mobilize local enthusiasm in "placing emphasis on agriculture and food security". Sixth, efforts were made to enhance the role of agricultural insurance in sustaining production and increasing income for farmers. The scope of the central government's pilot insurance program on agricultural

products with local advantages and characteristics was expanded from 10 provincial regions to 20 provincial regions. In 2020, the central government allocated a fund of 28.539 billion yuan in subsidies for agricultural insurance premiums, an increase of 7.5 percent year on year.

We spared no efforts in ensuring energy security. First, we kept up support for the development of new energy vehicles, continued to promote the concept of "replacing oil with electricity" and extended the implementation period of financial subsidies for the promotion and application of new energy vehicles to the end of 2022, while appropriately raising the technical threshold of subsidies, optimizing the subsidy fund settlement system and making sure that the decrease and phase-out of subsidies should be implemented in a gradual manner both in terms of amount and speed. Annual sales of new energy vehicles reached 1.367 million units, an increase of 10.9 percent year on year. Second, we furthered our work on promoting high-quality development of the renewable energy industry. The subsidy policy on renewable power generation was adjusted to help achieve carbon neutrality. With central fiscal support, China's total scale and new scale of renewable energy power generation rank first in the world. As technology

levels continue to rise and costs continue to drop, renewable energy has become an important force in the transformation of China's energy structure.

**5. We worked to promote optimization and upgrading of industrial chains and supply and demand chains to further raise the quality and efficiency of the economy.**

First, we aimed to improve China's ability to support innovation through science and technology. We provided support for the launch of a key special project of "Science and Technology in Support of the Economy 2020", helped with the implementation of a number of technological innovation projects covering the main industries of the national economy in which enterprises were encouraged to assume the undertakings of the national science and technology development programs. A funding mode which gives state science and technology projects the go-ahead before the appropriation of funds was adopted to guide enterprises and other market players to increase innovation, accelerate the transfer and commercialization of scientific and technological achievements, and provide scientific and technological support for the stability of the industrial chain and

the supply and demand chain.

Second, we worked on the high-quality development of the manufacturing industry. Existing manufacturing designated funds were coordinated to guide capital and resources to focus on strategic key areas and encourage greater investment in equipment renewal and technological transformation, so that the industrial chain could forge ahead into the middle and high ends. Implementation of the first (set) of major technological equipment insurance compensation policies was deepened. The role of governmental investment funds was given full play to support fields such as integrated circuits, new materials and new generations of information technology and to promote leapfrog development of those industries.

Third, we supported the quality improvement and upgrading of the modern service industry. A fund of 6.5 billion yuan on service industry development was allocated to focus on supporting and guiding localities to sort out blockage points in rural logistics, promote two-way circulation of agricultural products and industrial products and aid in expanding consumer markets. We established an intellectual property rights operating

service system to strengthen the support from the productive services for industrial innovation and development.

Fourth, we made efforts to stabilize basic foreign trade and foreign investment. A foreign trade development fund of 11.57 billion yuan was allocated to stimulate and cultivate new momentum in the field of foreign trade. We adjusted the direction of support of the designated fund in a timely manner towards foreign economic and trade sectors and regions heavily hit by the pandemic so as to stabilize basic foreign trade and foreign investment. We took active actions to facilitate the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) and other free trade agreements and used tariff instruments to promote the construction of a diversified and stable trade channel. The successful overseas issuance of 15 billion yuan in treasury bonds, 6 billion dollars in sovereign bonds and 4 billion euros in sovereign bonds played an active role in stabilizing the inflow of foreign capital.

Fifth, we went all out to ensure the emergency supply of important agricultural products and agricultural resources. In active response to the impact of the pandemic, we worked with

relevant departments to formulate policies in a timely manner, so as to ensure that the supply chain of vegetables and other important agricultural products would not be interrupted. We strengthened our work to ensure the availability of funds for the central reserve of meat and supported relevant institutions in their efforts to maintain stable supply and prices in the poultry market through placing central reserves of meat into circulation in a timely fashion at key junctures of the year, such as Spring Festival.

Sixth, we contributed to the quality and efficiency improvement of international logistics supply chain development and international competitiveness. In conjunction with relevant departments, we studied and formulated policy guidance on promoting the development of modern international logistics supply chains in China to ensure safe and smooth international logistics and transportation security of strategic materials and key spare parts and products. A total of 1 billion yuan from the state capital budget was allocated to China Post Group Corporation to support the construction of the international logistics system.



**6. We ensured that financial resources reach local levels where they should and adequately protect the "three priorities" of people's basic well-being, payment of salaries and normal government functioning.**

First, we increased transfer payment efforts to localities. We arranged a transfer payment of 8.3315 trillion yuan from the central government to local governments, an increase of 12 percent, the highest increment in recent years, and shifted the focus towards the central and western regions and regions with financial hardship. Within those areas, we established special one-time transfer payments to support localities in ensuring "stability on six fronts" and maintaining "security in six areas". At the same time, we periodically increased the proportions of local fiscal funds retained to support local fiscal response to the impact of the pandemic and made up for the reduction in revenue and expenditure and the gap in protecting "three priorities" at the county level.

Second, we established a sound institutional mechanism. We set up a "three priorities" leading group and direct fund monitoring leading group to guide local governments in the implementation

of the budget management mechanism for the "three priorities" featuring before-process auditing, during-process monitoring and after-process disposal. Provincial finance departments must audit and review the budget for county-level "three priorities" and quickly correct any issues. We tracked and monitored all levels of the treasury to further expand the scope of monitoring and issuing of early warnings on status of salary payment at the county level. We paid particular attention to high-risk counties and districts and organized other counties and districts to regularly report on the implementation of the "three priorities" budget so as to better promote the local work on "three priorities".

Third, we strengthened supervision and guidance in the work of local "three priorities". To firmly protect the bottom line of "three priorities", MOF issued several documents including *the Notice of the Ministry of Finance on Effective Response to the Impact of COVID-19 and Strengthening Local Fiscal "Three Priorities"* and *the Notice of the Ministry of Finance on Further Improving "Three Priorities"* to guide work on the "three priorities" at the local level and to promote thorough mapping, supervision and monitoring of the "three priorities" by the local

governments and MOF's local regulatory bureaus.

**IV. Government bond funds were properly managed and used to strongly support the tasks of boosting domestic needs and overcoming shortcomings.**

MOF gave full play to the roles of special treasury bonds for the fight against COVID-19 including that of special local government bonds in overcoming shortcomings in the country's key areas, advancing the construction of major projects and programs, and unleashing the potential of the domestic need for economic growth.

**1. Successful issuance of the special treasury bonds for the fight against COVID-19 significantly strengthened the country's fiscal strength at the primary level.**

In line with the overall requirement of the central government, MOF scientifically designed the issuance plan for the special treasury bonds for COVID-19 control, meticulously conducted all the preparatory work in advance, and completed the bond issuance through tender offer in a market-oriented manner.

Within one and a half months, from June 18 to July 30, one trillion yuan worth of the special treasury bonds for COVID-19 control were smoothly issued. The first step was to design a reasonable maturity structure for the bonds. The most representative and popular government bond products with maturity terms of five, seven, and 10 years were selected based on market demand. The second step was to coordinate the issuance of those government bonds for COVID-19 control, general treasury bonds and local government bonds. Local authorities were instructed to accelerate the issuance of local government bonds before June, and suspend the issuance of general treasury bonds of the same maturities, in order to leave room for the issuance of the special treasury bonds. The third step was to gain liquidity support from the People's Bank of China, properly communicate with market institutions and reasonably guide market expectation so as to create a favorable market environment for the issuance of the special treasury bonds. The fourth step was to analyze and study the situations of domestic and foreign government bond markets amid the pandemic, trace the dynamics of the secondary market and any changes in it after the issuance of the special treasury bonds, and submit timely analysis reports in order to maintain steady

operation of the government bond market.

With the acceleration of the use of the funds raised through the issuance of the special treasury bonds for COVID-19 control, positive effects have materialized. The first effect lies in addressing the infrastructure shortage in areas such as public health and environmental protection, actively encouraging public investments, and effectively driving economic growth. The second effect lies in supporting publicly-funded hospitals in their pandemic prevention and control efforts, including conversions and upgrades, purchasing nucleic acid test kits and increasing the volume of emergency materials in storage. The third effect lies in advancing the implementation of such policies as reducing or exempting rents for enterprises, subsidizing the interest on guaranteed loans for business start-ups, helping enterprises stabilize employment, solving difficulties for market entities, and supporting enterprises' work and production resumption. The fourth effect lies in setting aside funds to address special difficulties at the primary level to further reduce revenue and expenditure pressure on local governments and to boost the fiscal strength at the primary level.

## **2. Management of local government debts were strengthened and special bonds were used to boost the economic and social development.**

The first step was to strengthen the support for the country's major regional development strategies and key areas. Under the principle that funding follows specific projects, MOF guided local authorities in directing bond funds to key areas identified by the CPC Central Committee and the State Council so as to provide strong support for the construction of transportation infrastructure including railways and toll highways, agriculture, forestry and water conservancy, and major infrastructure projects including public works and industrial parks. The funds were skewed toward the country's major national development strategies including the coordinated development of the Beijing-Tianjin-Hebei region, the building of the Belt and Road, the development of the Yangtze River Economic Belt, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and the Hainan Free Trade Port. The second step was to let the special bonds play an active guiding role. MOF reasonably expanded the application scope of special funds as capital funds

for qualified major projects, and raised the rates of special bonds as a part of capital funds for local projects from 20 to 25 percent, so as to increase effective investment. The third step was to further improve the issuance of local government bonds. MOF improved the rules and systems for issuance of local government bonds, and clarified the rights and obligations of bond issuers and market institutions. MOF continuously advanced the over-the-counter issuance of local government bonds by commercial banks, guided provinces like Guangdong, Zhejiang, Sichuan and Shaanxi in resuming the over-the-counter issuance of local government bonds since August based on the COVID-19 situation and market demand, with total sales reaching 3.94 billion yuan, which constantly improved the liquidity and influence of local government bonds. MOF voluntarily conducted the issuance of local government bonds on behalf of local governments so as to ensure the smooth issuance of local government bonds amid the pandemic. Meanwhile, MOF urged local authorities to accelerate the issuance and use of local government bonds, strictly implemented the positive and negative lists of projects to be funded by special bonds, periodically reported the progress in issuing and using special bonds, and urged local authorities to

accelerate the use of special bond funds. For projects presently not yet ready for starting construction, MOF allowed local authorities to legally adjust the use of new special bonds so as to put the bonds into practical use with tangible results.

The issuance and use of local government bonds fueled the development of key areas. And solid progress was made in the implementation of a set of “two new and one major” (new infrastructure, new urbanization initiatives and major projects) projects and public health facility programs to boost consumption, benefit the people, facilitate structure adjustment and enhance the sustainability of growth. So far, over 300 billion yuan’s worth of special bonds have been used as capital funds for qualified major projects in such areas as railway, agriculture, forestry, water conservation and environmental protection, giving full play to their leveraging role, increasing effective investment and stabilizing the economic fundamentals.

**V. A direct fiscal fund allocation mechanism was innovatively established with new fiscal funds going straight to prefecture and county governments and benefiting businesses and the people.**



Establishing a direct fiscal fund allocation mechanism, which enables new fiscal funds to go straight to prefecture and county governments and benefiting businesses and the people, was a major decision of the CPC Central Committee and the State Council in response to the impact of COVID-19, and an important step in supporting local efforts to ensure “stability on six fronts” and maintain “security in six areas”, as well as a major innovation in macro fiscal regulation.

### **1. Direct fiscal fund allocation generally operated well.**

The first step was to establish and improve the work mechanism. MOF set up a leading group and a special taskforce to improve top-level design and systemic planning, and to study and determine the general idea and work plan for the management of directly-allocated funds. MOF also established an inter-departmental coordination mechanism for the direct fund allocation mechanism so as to enhance joint efforts.

The second step was to make institutional improvements. MOF issued the *Measures for the Management of the Funds for*

*Special Transfer Payment* and the *Measures for the Management of the Funds Raised through the Issuance of Special Treasury Bonds for the Fight against COVID-19* which specify fund distribution, transfer and use. MOF also issued the *Measures for the Supervision and Management of the Funds under the Special Transfer Payment Mechanism Implemented by the Central Government* and the *Circular on Effectively Monitoring Directly-funneled Funds* which specify fund supervision requirements in detail. MOF has basically established a full-process system covering fund allocation, appropriation, use and supervision.

The third step was to improve the fund allocation workflow. Under the premise of maintaining the current fiscal management system, the current principal responsibility of local governments for safeguarding the funds, and the current authority over the fund distribution, MOF, in compliance with the principle that “the central government divvying up funds and provincial authorities taking charge of specifics with rapid and direct allocation of funds following filing and approval”, improved the relevant fund allocation procedures and strengthened the principal responsibilities of local governments to ensure that the

funds go directly to prefecture and county governments and directly benefit businesses and the people. It took MOF only 20 days to allocate 95 percent of directly-allocated funds to cities and counties while the provincial-level authorities spent only one week on average in detailing the allocation procedures, a pace that was unprecedented.

So far, MOF has completed the direct allocation of the budgeted funds, 1.56 trillion yuan of which have been put into use. The budget implementation generally performed well, with the expenditure in key areas guaranteed and the funds used effectively.

## **2. Supervision was normalized to standardize the fund use.**

The first step was to establish a monitoring system for directly-allocated funds. It took MOF less than one month to establish a monitoring system connecting finance authorities at the central, provincial, city and county levels. The system covered all the funds under the direct allocation mechanism, guaranteeing that supervision synchronizes with fund allocation. MOF also set up a ledger to monitor fund allocation, transfer

and use, ensuring a clear fund flow and a well-maintained track record.

The second step was to establish a regular supervision mechanism. MOF organized all provincial-level finance authorities and MOF's local regulatory bureaus to conduct regular supervision and submit reports periodically. MOF urged provincial-level finance departments to ensure the efficient pass through of funds and take the responsibility of guiding the prefecture and county-level finance departments in developing plans based on local situations, implementing policies with accuracy, allocating funds in a scientific manner, and accelerating the fund use. All local regulatory bureaus took the advantage of geographic proximity for supervision and established mechanisms for periodically meeting and sharing information with provincial-level finance departments, so as to effectively supervise the use and appropriation of the directly-allocated funds.

The third step was to toughen punishments. MOF provided guidance for provincial finance departments and local regulatory bureaus with various measures, including stepping into the

project appraisal in advance, continuously supervising the expenditure, issuing inquiry letters, conducting summonses and issuing warnings, withdrawing funds, making adjustment on projects, and urging relevant units to make rectifications in order to ensure that the direct fund allocation policy was implemented to the letter. MOF established and improved a mechanism for implementing rectifications, showed zero tolerance toward making false claims for, withholding and misappropriating funds, handled every case upon discovery, and held the violators accountable in accordance with laws and regulations.

### **3. Directly-allocated funds yielded remarkable outcomes with local governments and market entities benefiting substantially.**

All localities conscientiously implemented the policy requirements on the management of the directly-allocated central fiscal funds. With coordinated efforts both for pandemic prevention and control and for economic and social development, they continued to increase capital inputs in market entities and people's livelihoods, played an important role in supporting pandemic prevention and control, energized market

entities, safeguarded and improved people's livelihoods and stabilized economic growth. As for supporting resident's employment, they promoted the implementation of the employment-first policy by setting aside funds to provide employment subsidies and launched vocational skill improvement campaigns. In terms of supporting people's livelihoods, based on preliminary calculation they set aside over 960 billion yuan to underpin the livelihood bottom line. To support market entities, on the one hand they set aside 300 billion yuan to support the implementation of the policy of cutting taxes and fees. On the other hand, they arranged funds to subsidize interests on loans to help enterprises stabilize their workforce, and provided subsidies and assistance in order to shore up enterprises and energize the market.

## **VI. We endeavored to win the three critical battles and made decisive progress in major tasks.**

We have taken targeted and focused measures to provide stronger guarantees for the three critical battles (against major risks, poverty and pollution), and obtained decisive progress in "the last mile" in China's drive to build a moderately prosperous society in all respects.

## **1. We ensured support for winning the critical battle against poverty.**

The year 2020 marks the successful completion of building China into a moderately prosperous society in all respects as well as victory in the critical battle against poverty. MOF continued to forge ahead and made every endeavor to ensure that victory.

First, kept scaling up the funds for poverty relief. Last year, MOF earmarked a fund of 146.1 billion yuan for poverty relief, with an annual increase of 20 billion yuan for the fifth straight year. The ministry dedicated a fund of 30 billion yuan as comprehensive subsidies to strengthen weakness in the poverty relief campaign, and set aside a lottery charity fund of 2.06 billion yuan from the central budget to help reduce poverty in old revolutionary base areas. In addition, two special funds totaling 41.7 billion yuan -- a special poverty relief fund and a fund to fix weak links in the battle against poverty -- were allocated with prioritized fiscal support for areas in deep poverty in order to make sure that the most difficult problems could be solved. Agriculture-related funds in poverty-stricken counties

were further integrated, with 298.5 billion yuan of funds at different levels integrated for allocation to 832 poverty-stricken counties.

Second, effectively responded to the pandemic. A special poverty relief fund of 1.4 billion yuan was earmarked to support the regions hardest hit by COVID-19, of which 800 million yuan was allocated to Hubei province. A fund of 400 million yuan was designated for rewards to attract people from poverty-stricken areas to work in other provinces. MOF instructed local governments to prioritize prefectures and counties that were affected by summer floods and other disasters based on their current financing channels and policies. Dedicated sections were set up on “the online 832 poverty relief platform” to ensure steady supply and smooth sales of agricultural products, and encouraged all units with budgetary capacity to procure surplus agricultural products from regions worst-hit by the pandemic, such as Hubei.

Third, rolled out targeted guarantees and insurance backed by government policies. Agricultural insurance played a part in stabilizing income of rural families. In 2020, agricultural



insurance provided over 200 billion yuan of risk assurance for households registered as living under the poverty line and households just lifted out of poverty. Compensation of more than 5 billion yuan was also paid by agricultural insurance to over 7 million disaster-stricken households. MOF, in cooperation with other departments, refined the microfinance policy for poverty relief purposes. The ministry instructed the National Financing Guarantee Fund to increase its risk-sharing ratio of guaranteed loans from 20 percent to 30 percent in the Tibet Autonomous Region, the Xinjiang Uygur Autonomous Region, and parts of Sichuan, Yunnan and Gansu provinces and other areas in deep poverty designated by provinces. It also exempted their re-guarantee fees in an effort to mitigate the financing challenges faced by micro and small enterprises, and those related to “agriculture, rural areas and farmers” in poor areas. Efforts were also made by MOF to assist the paired poverty alleviation program.

Fourth, achieved noticeable progress in fund monitoring and oversight. MOF established a “1 plus 4” mechanism to manage poverty relief funds of all kinds and at all levels, and issued *Guidance of the Ministry of Finance on Further Strengthening*

*Monitoring and Management of Poverty Relief Funds.* All finance departments at the provincial levels were instructed to assess their performance. Random checks of these self-assessments were conducted. Throughout the process of poverty alleviation, MOF rigorously monitored and managed the poverty relief funds, ensuring that all of them were used with precision and flexibility. Thanks to the joint efforts of all parties involved, remarkable progress has been made in that oversight process, and the use of poverty relief funds has become more regulated.

## **2. We met the goals in the battle against pollution as scheduled.**

We remained committed to matching the fund investment with the tasks to tackle pollution. In 2020, a total of 407.3 billion yuan was channeled to support the battle against pollution. The funds were prioritized toward regional industries with heavy tasks in ecological governance, regions undergoing institutional reforms and innovations, and areas with satisfactory results in the fight against pollution. Concentrated efforts were made to tackle the most prominent environmental issues. Key progress

was made in the battle against pollution, and noticeable improvements were achieved in our environmental cause. The battle for blue skies has seen remarkable progress. In 2020, the density of PM 2.5 in 337 prefecture-level and above cities fell by 8.3 percent year on year, and the proportion of days with good air quality in these cities accounted for 87 percent, up 5 percentage points year on year. The battle for clear waters continued to advance. In 2020, the proportion of surface water with a water quality rating of Grade III or higher was 83.4 percent, an increase of 8.5 percentage point year on year; the proportion of water with quality below Grade V was 0.6 percent, a decrease of 2.8 percentage point year on year. The battle for clean lands has been further played out. Stronger guarantees were provided to support the fund dedicated to prevention and control of soil pollution, which has effectively prevented it from worsening in some areas. Combined treatment for the rural environment has seen continued improvement. Efforts were made to improve rural sewage and garbage treatment capacity, to protect drinking water sources, comprehensively utilize crop straw and livestock and poultry manure, and in other applications. Rural living conditions continued to be improved. Key ecological protection and restoration projects were further

implemented. At present, more than 1,700 mines, 1,100 sites prone to geological disasters, and 4,300 kilometers of rivers have been treated and more than 1,600 square kilometers of forest and grass vegetation together with more than 300 square kilometers of farmland ecosystems have been restored. The ecological construction of forestry grassland has reaped solid results. China has obtained forest coverage of 23.04 percent, and a forest stock volume of over 17.5 billion cubic meters, achieving “dual growth” in the above two indicators for 30 consecutive years, the largest growth in forest resources in the world.

### **3. We achieved positive progress in the battle against major risks.**

Local government debt risks were effectively reined in. First, we took tough measures to prevent hidden local government debt from going up. The audit and approval process for local construction projects was tightened, and the "gate" of new project financing was strictly controlled. It was prohibited to raise debt for local governments through illegitimate means or use hidden debts to launch new projects or initiatives. Second,

we made greater efforts to destock hidden debt in a safe and meticulous manner. We remained committed to the principle that “the central government will provide no assistance”, and set up a debt default handling mechanism which is market-oriented and law-based, leaving local governments to be accountable for their own debts. Third, the regular monitoring mechanism was improved. Inter-departmental information sharing and coordinated monitoring were strengthened. We aligned our way of thinking, unified the statistic dimension, carried out an integrated oversight, and strengthened data comparison and verification so as to attain full coverage of monitoring. Fourth, we propelled the transformation of financing platform companies into market entities. Establishment of new financing platform companies was not allowed. Efforts have been made to categorize financing platform companies and turn them into market entities accordingly. Fifth, the supervision and accountability system was further improved. Resolute efforts have been made to investigate and punish illegal acts. Lifelong and top-down accountability mechanisms were implemented, leaving no wrong doing unaccounted for or unpunished. Thus far, the risks of statutory local government debts are controllable in general, and the sprawling expansion of illegal and disorderly

debt-raising activities of local governments is initially curbed, further mitigating debt risks.

Efforts were made to assist in mitigating and defusing financial risks. MOF promoted the advancement of the reform of state-owned capital management, published provisional regulations on the duties of the capital contributor of state-owned capital, launched a campaign to register state-owned financial fund property rights, and revamped the remuneration incentives of state-owned financial enterprises. It revised and refined the financial system of financial enterprises in line with the times and actively cooperated with local financing institutions in handling risks.

## **VII. The rural revitalization strategy was implemented to prioritize agricultural and rural development.**

### **1. Efforts were made to ensure stable production and supply of live pigs.**

We paid close attention to the implementation of support policies including the earlier mandatory culling subsidies for

African swine fever, supporting the implementation of subsidies for superior pig breeds, perfecting the system of temporary subsidized loans for pig breeding farms and intensive pig farms, boosting the incentives for pig supply from major pork production regions, increasing the insurance coverage for pig raising, and strengthening provincial fiscal coordination. On this basis, and in accordance with the instruction of the State Council, the requirement for temporary subsidized loans was relaxed to include farms from at least 5,000 live pigs to 500 live pigs. In 2020, finance departments at all levels allocated a total of about 20 billion yuan, providing strong support for the speedy recovery of pig production capacity.

## **2. High-quality agricultural and rural development was steadily pushed forward.**

We supported the creation of 50 leading and unique industrial clusters with sound structure and complete industrial chains, newly approved the construction of 31 national modern agricultural industrial parks and 259 major agricultural industrial towns, using a combination of maneuvers to accelerate the development of a high-quality agricultural industry. We guided local governments to carry out measures

such as financial rewards and subsidies and loan interest subsidies, and focused on supporting family farms and farmer cooperatives to build storage and preservation facilities for agricultural products, solving “the first mile” problems for farmers to move their products from farms to cities. We ensured that the Modern Seeds Development Funds play an active and guiding role in supporting the development of seed enterprises and in promoting the expansion and strengthening of China's national seed industry. We carried out upgrading projects for flood control and drought relief and addressed weak links in rural water conservancy.

### **3. Green development of agriculture and rural areas was continuously fortified.**

New steps have been taken in agricultural green development. We carried out experiments on replacing chemical fertilizers with organic fertilizers, provided subsidies to promote advanced methods for seeding and farming, helped farmers to grow high-quality key crops with green and efficient techniques and supported dry land farming. We enhanced our work to support the preservation of black soil in Northeast China, pilot projects on crop rotation and fallow land, quality protection and



improvement of cultivated land, and constant increase on the protection level of cultivated land resources. We allocated 15.561 billion yuan to help carry out the grazing ban and restriction, restore the grassland's ecological environment, and promote a transformation from traditional pasture animal husbandry to modern animal husbandry. About 400 million yuan was allocated to support artificial reproduction and release in key waters to further restore fishery resources. We allocated 9.4 billion yuan to support the optimized utilization of livestock and poultry waste and the multi-purpose utilization of crop straw, and enhanced the resource utilization capacity for agricultural waste. The rural living environment continues to improve. We allocated 7.4 billion yuan to encourage and initiate toilet modernization in rural areas in accordance with local conditions. We implemented incentive measures for counties to improve the rural living environment, and awarded 20 million yuan to each of 20 counties (cities, districts) that had achieved remarkable results in rural living environment renovation.

#### **4. The modernization of rural governance continued to improve.**

We ensured adequate funding for the operation of village-level

organizations, increased the basic remuneration of village officials and the office expenses of village-level organizations from no less than 90,000 yuan per village per year to no less than 110,000 yuan per village per year, to incentivize grassroots officials. We allocated 7.5 billion yuan to support the development and expansion of the collective economy in 21,000 administrative villages across the country, and continuously strengthened the political function and organizing capacity of CPC organizations at the primary level. We supported the efforts to build ecologically livable and beautiful villages, promoted rural public welfare undertakings, and continued to facilitate the improvement of basic production and living conditions in rural areas. We steadily carried forward pilot experiments related to comprehensive rural reforms, actively explored effective ways to transform clean water and lush mountains into invaluable assets, pushed forward the construction of rural governance systems, and continued to explore demonstration models for rural revitalization.

**VIII. Full support was provided for the fight against the COVID-19 pandemic and safeguarding people's lives and health.**

Adhering to the principle that life comes first and acting on the requirements of staying confident, coming together in solidarity, adopting a science-based approach and taking targeted measures, we ensured financial support for pandemic prevention and control, developed fiscal and tax policies in response to COVID-19, and gave full support to winning the fight against the pandemic.

**1. We made every effort to ensure timely and effective funding for COVID-19 prevention and control.**

In accordance with the principles of handling special cases with special methods and urgent cases with emergency methods, the allocation of funds for COVID-19 prevention and control was accelerated, allowing the funding mechanism to achieve extra speed. The first emergency funding of 1 billion yuan for COVID-19 prevention and control in Hubei province – from forming the motion and asking for approval to the successful allocation – was completed within about 10 hours. The "Two Guarantees" policy was clearly put forward immediately to ensure that people would seek medical treatment without worrying about fees and to ensure that local medical treatment and COVID-19 prevention and control were not affected by

funding problems. This fully reflected the concept of people first, effectively lessened anxiety of both hospitals and patients during the COVID-19 pandemic and played a vital role in supporting and guaranteeing the implementation of “early detection, prompt reporting, swift isolation, and timely treatment”. Since the COVID-19 outbreak, funding for pandemic prevention and control from finance authorities at all levels has exceeded 400 billion yuan.

## **2. Fiscal and tax policies in response to COVID-19 outbreak were implemented accurately and effectively.**

Highlighting the principle of "Fastness, Accuracy, Effectiveness", a series of fiscal and tax policies were introduced to deal with treatment costs, provide medical staff incentives, protect medical material logistics and fully support the prevention and control of COVID-19.

First, Financial support for patient treatment and care was ensured. Free treatment was provided to COVID-19 patients, and the central government subsidized local governments for 60 percent of the actual expenses incurred. Confirmed cases of COVID-19 who were treated outside their household register locations were treated first and medical fees were settled

afterwards; the reimbursement was not affected by the proportional deduction policy for such cross-regional medical treatment. With full financial guarantees and joint efforts of relevant parties, all patients were hospitalized with proper medical care, regardless of their gender, age, financial status, or disease severity, to save lives at all costs.

Second, Incentives for medical staff was enhanced. We established a comprehensive salary and benefit system. Medical personnel and related workers enjoyed work-related injury insurance in accordance with the law. For COVID-19 medical personnel and related workers, the central government subsidized 300 yuan and 200 yuan per person per day based on their risk levels and other factors; the subsidy for frontline medical staff in Hubei province (including medical teams sent to Hubei) was doubled. We increased the total amount of one-time performance wages for medical and health institutions that undertook heavy COVID-19 prevention and control tasks and those involving high-level risks, and gave temporary subsidies to workers in COVID-19 prevention and control. Bonuses were exempted from individual income tax, and subsidies for COVID-19 prevention and control personnel were raised.

Third, medical material logistics and scientific research enjoyed

support. In close communication with localities and departments, a series of fiscal and taxation policies were researched and introduced in a timely manner. These included support for the logistics and storage of COVID-19 prevention and control medicines, urgently-needed medical supplies, "Green Channels" for government procurement, and added-value tax exemptions for taxpayers' gain from transporting key medical materials. Also included was support for scientific research on COVID-19 prevention and control, especially the research and development of drugs and vaccines, and for the construction of local emergency logistic systems to ensure that the supply of COVID-19 prevention and control materials met the needs of related scientific research.

Fourth, accurate support was provided for the resumption of work and production. To strengthen financial support for key enterprises in COVID-19 prevention and control, the central government granted a 50 percent interest subsidy on special renewed debt financing. A total of 6,606 companies received 239.6 billion yuan in concessional loans, with a weighted average interest rate of 2.46 percent. The real interest rate after receiving the central government's subsidy was about 1.23 percent. By relaxing the conditions and return ratios for micro, small and medium-sized enterprises to enjoy benefits from the

unemployment insurance stabilization refund policy, and adopting methods such as reduction or exemption and deferred payment of social insurance premiums, targeted support was provided to assist enterprises in stabilizing their jobs and expanding employment. Meanwhile, special arrangements were made for the General Administration of Customs' anti-pandemic work funds to vigorously support the Customs and Immigration Bureau's efforts to prevent overseas COVID-19 cases from entering China. We specifically increased the funding for anti-pandemic inspection projects of the Medical Products Administration to conduct emergency inspections of drugs and medical devices related to COVID-19 prevention and control, to build COVID-19 inspection platforms, and to develop appropriate standard procedures.

**IX. With coordinated efforts to deepen reforms and strengthen management, fiscal governance has been steadily improved.**

In accordance with the regulatory guidelines of upholding and improving the system of socialism with Chinese characteristics and advancing the modernization of China's system and capacity for governance, we solidified the foundation, leveraged our

strengths, make up for the weakness and tackled areas of weaknesses. Based on the established modern fiscal framework, we continued to deepen reform of the fiscal and tax system, further consolidated the foundation of fiscal management, and continuously improved the level of fiscal governance.

**1. We intensified our efforts to deepen the reform of the fiscal and tax system, and establish a basic framework for a modern fiscal system.**

Steady progress was made to advance the budget management system. We further deepened the reform of the budget management system, fully implemented performance-based budget management, and worked faster to establish a performance-based budget management system that covers the whole budgetary process including all sectors, projects, and budget types. We promoted the in-depth integration of performance-based management and budget-based management, consolidated the responsibilities of performance-based management, strengthened the use of evaluation results, and improved the efficiency of fiscal resource allocation. We further promoted the public release of budgets and final accounts, and on the basis of the preliminary work increased public release of the government's performance in tightening its belt to reduce



expenditures. We released to the public the central government's budget for 2020 and its final accounts for 2019, improved the fiscal and treasury management system and government procurement system, and accelerated the integration of budget management.

The reform of tax system continued to move ahead. We implemented the principle of law-based taxation, promoted the smooth promulgation of deed tax and urban construction and maintenance tax laws, and accelerated legislative work on land appreciation tax, VAT, excise tax, tariff, and other taxes. We promoted the collection of excise tax during a further downstream stage of the production-to-consumption process. We implemented tax rebate policies for ports of departure in nine cities in the Pearl River Delta economic hub, set up a special tax system in the Hainan Free Trade Port, and launched a pilot program of preferential tax policies for technology transfer income tax and corporate venture capital income tax in Zhongguancun, Beijing. We promulgated tax policies to support innovation-driven development, increased tax incentives for the integrated circuit and software industries, and gave tax preferences to enterprises engaged in the production and R&D of core links in key areas such as artificial intelligence and

biomedicine in the Lingang area of the Shanghai pilot free trade zone. We continuously improved the tariff system in line with the level of the country's economic development.

The fiscal system continued to improve. We introduced reform plans for the environment, emergency rescue, natural resources, and public culture to divide fiscal authority and spending responsibilities between the central and local governments on a sector-by-sector basis. We established and improved the system of central government transfer payments to local governments.

The state-owned asset management was strengthened. The transfer of state-owned capital from qualified centrally-administered enterprises and financial institutions was fully completed. A total of 1.68 trillion yuan of state-owned capital from 93 such enterprises and institutions was transferred.

**2. We stepped up efforts to optimize fiscal management, and improve the level of legal and scientific presence in fiscal management.**

Top-level design was further optimized. We issued *Guiding Opinions of the Ministry of Finance on Further Promoting the Rule of Law in Public Finance* and *Measures Adopted by the*

*Ministry of Finance to Implement the Spirit of the Fifth Plenary Session of the 19th CPC Central Committee and the Spirit of the CPC Central Conference on Work of Overall Law-Based Governance and Acceleration of the Rule of Law in Public Finance.* We put forward general suggestions on advancing the building of a modern fiscal legal system, and made medium and long-term plans and arrangements for the service and guarantee role of fiscal legality in fiscal and tax system reform.

A sound fiscal legal system was established. We promoted the revision, promulgation and formal implementation of the regulations on the implementation of the Budget Law, and advanced the approval of the regulations on state-owned assets management of administrative and public institutions at an executive meeting of the State Council. We actively implemented the principle of law-based taxation and accelerated the smooth introduction of deed tax and urban construction and maintenance tax laws. Up to now, the National People's Congress and its Standing Committee have enacted tax laws for eleven of the current eighteen tax categories. Other tax laws drafted by the Ministry of Finance have been submitted to the State Council. We steadily advanced fiscal legislation work in

key areas such as accounting management and government procurement, and organized the formulation and revision of the *Administrative Measures on Government Procurement Services* and the *Administrative Measures on Fiscal Instruments*. We further improved fiscal management standards in related fields.

The transformation of government functions was further advanced. We continued to reduce the number of items requiring government review and approval. So far, 88 percent of the items that previously required ministry-level administrative approval have been streamlined, and only three items requiring ministry-level administrative review and approval remain. We have fully implemented the tasks related to the reform of separating administrative permits from business licenses, successively cleared up certification matters, and steadily advanced the compilation of the Ministry of Finance's power and responsibility list. We strictly implemented the fair competition review system, and continued to improve the efficiency of fiscal administration.

**3. We pressed ahead with the work on fiscal supervision and actively promoted the implementation of fiscal and tax policies to achieve positive results.**

To consolidate the local government debt management, we shored up our work on accountability investigations into illegal and regulation-breaking borrowing, and firmly uphold the bottom line of no outbreak of systemic or regional risks. We strengthened regular oversight to ensure that funds go straight to their target, and stepped up the management of the "last mile" of funds use. We stressed the supervision of poverty alleviation funds, carried out special inspections on the implementation of water pollution prevention and control policies, and ensured that fiscal and tax policies are in place and fund use and management is safe and efficient. We carried out special inspections and investigations on the fishing ban along the Yangtze River basin, made 2,389 visits to the fishermen, solved 421 complex and thorny issues, and increased 713 million yuan subsidies. We carried out special verification in individual areas suspected of increasing fiscal revenue through arbitrary levies and other methods. We initiated special programs to address the "all-in-one card" problem and effectively enhanced people's sense of fulfillment and happiness.

## **X. Fiscal Policy Outlook.**

The year 2021 is of special importance in China's modernization drive as it marks the beginning of the 14th Five-Year Plan (2021-25) period and a new journey of building a modern socialist country in an all-round way. Therefore it's of great significance to effectively carry out all fiscal and economic work. MOF will earnestly align its thoughts and actions with the decisions and plans of the CPC Central Committee on economic work, and conscientiously implement the requirement of proactive fiscal policy to improve its quality, effectiveness and sustainability. We will give active play to the role of public finance, hold on to the mainline of supply-side structural reform, focus on demand-side management, promote the sustainable and healthy development of the economy and social stability, ensure a good start to the 14th Five-Year Plan period and celebrate the 100th anniversary of the founding of the Communist Party of China with great achievements.

**1. We will implement a proactive fiscal policy in a targeted and effective way and keep the economy running within a reasonable range.**

MOF will strengthen coordination of fiscal resources and

maintain appropriate intensity of expenditures. Meanwhile, we will fully implement the call to tighten our belt and strictly control new expenditures. We will further improve and ensure the sound implementation of the direct fiscal mechanism, expand the scope of direct funding by the central government and improve management of those funds. We will also continue to press ahead with tax and fee reductions, strictly curb any arbitrary charges imposed on businesses and maintain the continuity of policies. Following the principle of “funds go where the project goes”, MOF will ensure that the local authorities should put earmarked money into designated project, make good use of local government special bonds, improve bond funds utilization and avoid “keeping money waiting for the project”.

**2. We will strengthen fiscal and tax policy support and guidance and resolutely implement the strategy of expanding domestic demand.**

We will actively expand the space for investment and adjust the investment structure to rectify and improve drawbacks in fields such as agriculture and rural areas, environmental protection,

material reserves, disaster prevention and mitigation, and safeguarding of people's livelihood, and will also promote the construction of new infrastructure and new urbanization initiatives and major projects supporting transportation and water conservancy. We will leverage the role of government investment, bring out the energy of private investment, and create an endogenous growth mechanism for investment led by the market. We will step up our work to improve the tax, social security and transfer payment systems to raise prosperity of low-income groups, expand the middle-income group, and boost consumer spending. Efforts will be accelerated to strengthen weak links in rural circulation, optimize the structure of import tariffs, and increase imports of quality products. We will also implement the national strategies for major regions and promote people-centered new urbanization initiative.

**3. We will promote innovative development and industrial upgrading and increase economic quality and efficiency as well as its core competitiveness.**

We will continue to place science and technology as priority areas for fiscal expenditure, win the battle of developing key



and core technologies, and provide support to the independent growing of stronger science and technology. We will further deepen the rebuilding of the industrial infrastructure and improve insurance compensation policies for the first (set) major equipment to help upgrade industrial and supply chains. We will promote the development of inclusive finance, give play to the role of governmental financing guarantee institutions, and effectively ease the difficulty and high cost of financing for micro and small businesses to stimulate the vitality of innovation in enterprises.

**4. We will do our best to ensure that people's basic livelihoods are better protected.**

Employment will remain a priority as assistance to key groups will be increased to keep basic employment stable. MOF will promote the high-quality development of education, provide more resources for inclusive pre-school education, further improve school conditions in underdeveloped central and western regions, and support expansion of higher vocational college enrollment. We will steadily raise the social security level and promote unified planning for enterprise employees'

basic pension funds. We will support reform and improvement of the social assistance system and continue to provide assistance to people in need. We will further improve management of social security funds and deepen reform of the management systems and mechanisms for investment and operation. We will redouble our efforts to help build a Healthy China and strengthen our capacity to respond rapidly to outbreaks of major infectious diseases. We will support development of cultural undertakings and industries, improve financial guarantee mechanisms for public cultural services, and increase the coverage and effectiveness of cultural projects benefiting the people.

**5. We will further improve fiscal policies for agriculture, rural areas and farmers, and enhance our efforts to support rural revitalization.**

To ensure national food security, we will vigorously promote the development of high-standard farmland and water conservancy. We will advance the action plan for conservation tillage of black soil in Northeast China, continue to implement incentive policies for major grain-producing regions, support

cultivation of superior agricultural varieties and seed industry development, and optimize the structure of grain reserves. We will help improve the quality and efficiency of agriculture, actively foster diversified new types of agricultural business entities, and further develop national modern agricultural industrial parks and towns with developed agricultural industries, adding industrial clusters with competitive features. We will help deepen comprehensive rural reform, support efforts to improve rural living conditions, and ensure funding for village-level organizations. We will support synchronized efforts to consolidate and expand the achievements of poverty alleviation and to promote rural revitalization. Acting on the requirements for maintaining institutional responsibilities, policy support, financial assistance and performance supervision, MOF will ensure the continuity of fiscal policies and stable allocation of financial resources during the transition period, do a good job on the coordination of fiscal input policies, and carry on the transformation and follow-up work of targeted poverty alleviation.

**6. We will ensure that the financial input is commensurate with the task of pollution prevention and control, and**

**vigorously promote green development.**

We will strengthen the efforts for pollution prevention and control, and consolidate the achievements of the pilot projects for clean heating in northern China. We will promote the establishment of horizontal ecological compensation mechanism for the whole Yangtze River and Yellow River valleys, and strengthen risk control and source prevention and control of soil pollution. We will carry out coordinated efforts of integrated protection and restoration of mountains, rivers, forests, farmland, lakes and grasslands. We will actively support efforts to address climate change, support the optimization of the energy structure, and increase the supply of renewable and clean energy. MOF will continue to support major projects designed to protect natural forests, return farmland to forests or grasslands, and green the country's landscape on a massive scale. We will strengthen the protection, restoration and improvement of forests, grasslands, wetlands and sandy lands, so as to build a system of protected natural areas with national parks as the mainstay to promote significant environmental improvement.

**7. We will guard against and defuse risks in key areas to**

**ensure sound and sustainable fiscal and economic operations.**

We will effectively defuse the hidden debt risks of local governments, and continue to give high priority to expenditures supporting the “three priorities” of safeguarding people’s livelihoods, income and the smooth functioning of institutions. We will strengthen implementation oversight and combine direct fund management with dynamic monitoring of program implementation at the primary level. We will strictly prohibit any diversion of the expenditures earmarked for the “three priorities”. We will ask local governments to make timely adjustments to their budgets to cover areas that do not provide adequate safeguards to the “three priorities”. Necessary backing will be provided by increasing fiscal support and raising the proportion of retained funds to resolutely guard against risks related to the “three priorities” at the grassroots level.

**8. We will accelerate the establishment of an efficient and modern integrated fiscal and taxation system.**

We will further improve the modern tax system, enhance the

local tax and direct tax systems, push forward the reform to shift the collection of the consumption tax to the later stage, and explore improving the individual income tax system that combines comprehensive and classified taxation of income at an appropriate time. We will continue to improve the fiscal system, and press ahead with the reform of the division of fiscal powers and expenditure responsibilities between the central and local governments in intellectual property protection and other areas. We will deepen the reform of the budget management system, formulate guidelines on its further reform, make budgets more binding and strengthen performance management. We will accelerate reform of the government procurement system, strengthen and standardize government purchase of services, and advance the reform of state capital and state-owned enterprises.