

# **REPORT ON THE IMPLEMENTATION OF CHINA'S FISCAL POLICY IN THE FIRST HALF OF 2021**

## **Summary**

The year 2021 marks the beginning of the 14th Five-Year Plan period (2021-25) and a new journey of building a modern socialist country. In the first half of 2021, under the strong leadership of the Communist Party of China (CPC) Central Committee with Comrade Xi Jinping at the core, government departments at all levels across the country earnestly implemented the decisions and plans of the CPC Central Committee and the State Council, continued to consolidate and expand the results of pandemic prevention and control, and economic and social development, did a solid job in ensuring “stability on six fronts” and maintaining “security in six areas”, and carried out macroeconomic policies. China’s economy has been on a steady recovery path and seen continuing improvement. Scientific and technological independence and self-reliance have been actively promoted, reform and opening-up has been stepped up, people’s livelihoods have been effectively guaranteed, high-quality development has gained new ground, and overall social stability has been maintained. In the first half of 2021, China's gross domestic product (GDP) grew by 12.7 percent year-on-year, an average increase of 5.3

percent in the past two years. Major macroeconomic indicators remained within a reasonable range.

Under the strong leadership of the CPC Central Committee, the Ministry of Finance (MOF) has adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, upheld the underlying principle of pursuing progress while ensuring stability, focused on the new development stage, applied the new development philosophy, and fostered a new development paradigm. We have earnestly implemented the requirements of proactive fiscal policy with higher quality, efficiency and sustainability, maintained the continuity and stability of macroeconomic policies, avoided making sharp turns, and ensured necessary support for economic recovery. We have also balanced stable growth and risk prevention, rationally arranged the scales of deficits, debts and expenditures, optimized the expenditure structure with greater efforts, strengthened the coordination of financial resources, enhanced the management of local government debts, and promoted sustainable fiscal development. These efforts will ensure a good start to the 14th Five-Year Plan period.

**1. We maintained appropriate expenditure intensity and enhanced fiscal sustainability.** The fiscal deficit ratio for 2021 was set around 3.2 percent, lower than the previous year. The deficit will total 3.57 trillion

yuan, 190 billion yuan less than in 2020. We coordinated the needs of fiscal macro-regulation and prevention of fiscal risks, improved the cross-cycle adjustment mechanism, effectively delivered the key tasks determined by the CPC Central Committee and the State Council, and prepared for future responses to new risks and challenges. Expenditures in the national general public budget will be more than 25 trillion yuan, up by 1.8 percent year-on-year, to strengthen fiscal guarantee for major national strategic tasks and keep the economy running within a reasonable range. A total of 3.65 trillion yuan will be allocated for new special bonds, 100 billion yuan less than last year, to actively prevent local government debt risks. Special treasury bonds for the fight against COVID-19 were no longer issued, while expenditures for local public health infrastructure construction and for ensuring basic living standards were guaranteed through normal channels.

**2. We further promoted tax cuts and fee reductions to stimulate the vitality of market entities.** MOF continued to carry out institutional tax reduction policies, extended the implementation period of some time-limited measures such as the preferential value-added tax reduction policies for small-scale taxpayers, and launched new structural tax reduction measures. Priority was given to strengthening tax and fee cuts for small and micro-sized enterprises. Apart from the inclusive preferential tax reduction policies, we gave greater tax breaks and

exemptions to small and micro-sized businesses and individual entrepreneurs. Vigorous support was provided for the manufacturing industry, and for scientific and technological innovations to enhance the vitality and sustainability of enterprises. Tax and fee cuts are expected to exceed 700 billion yuan throughout the year to relieve burdens on market entities.

**3. We normalized a direct fiscal fund distribution mechanism to improve funding efficiency.** MOF improved the direct fund distribution system and expanded the scope of direct funding. We included 27 transfer payments in the scope, with a total amount of 2.8 trillion yuan, 1.1 trillion yuan more than last year. We also improved the monitoring system that keeps a close eye on direct fiscal funds distribution, transfer and use, to further increase the performance of fiscal funds. As of the end of June, we have directly distributed 92.5 percent of budgeted funds and all of the qualified funds. Meanwhile, we have facilitated the establishment of a performance-based budget management system that covers the whole budgetary process, including all sectors, projects, and budget types. We promoted the substantive incorporation of performance-based management into the budget management, with an emphasis on applying evaluation results to better use limited fiscal funds.

**4. We intensified transfer payments and adequately safeguarded the "three priorities" of people's basic wellbeing, payment of salaries and normal government functioning.** Despite limited financial resources growth, MOF will arrange total transfer payments of 8.337 trillion yuan from the central government to local governments this year, including 7.5018 trillion yuan for general transfer payments, a year-on-year increase of 7.8 percent, which is significantly higher than the growth rate of the previous year. Efforts were scaled up to ensure that financial resources reach local levels where needed. The central and western regions, and areas in financial difficulties were prioritized in the allocation of funds for transfer payments, to sustain their normal fiscal operations, provision of public services and undertakings of improving people's livelihoods, in order to enhance the local capacities for guaranteeing the "three priorities".

**5. We vigorously supported scientific and technological innovation, and accelerated the development of a modern industrial system.** Efforts were made to improve the quality and efficiency of economic development, and to accelerate the cultivation of a complete domestic demand system. Significance was attached to pushing forward scientific and technological innovation, increasing spending on basic research, and developing core and key technologies. Support was provided to enhance the capacities for independent innovation, drive the

growth of a modern industrial system, and improve the modernization of industrial chains and supply chains. Support was also given to the development of foreign investment and foreign trade.

**6. We did our best to protect and improve people's livelihoods.** MOF formulated policies for people's livelihoods based on the fiscal situation and actual needs, and advanced the checklist-based management of expenditures. We established and improved the incentives and restraint mechanisms to make the expenditure management more scientific. We improved the redistribution mechanism to provide strengthened guarantees for the basic livelihoods of low-income groups. Every effort was made to increase the scale of transfer payments from the central government to local governments, and to shift focus toward underdeveloped regions and regions in financial difficulties, to enhance the capacity of ensuring people's basic livelihoods.

**7. We persisted in living on a tight budget and further optimized the structure of fiscal expenditures.** MOF tightened budget expenditures, strictly reviewed newly added fiscal expenditures, slashed or canceled inefficient and ineffective expenditures, and continued to explore more potential reductions. The central government took the lead in tightening its belt by further cutting non-urgent and non-mandatory expenditures, and further reducing general expenditures, in order to free up more

precious fiscal resources for basic living standards improvement and market entities' growth.

Going forward, MOF will resolutely implement the decisions and plans of the CPC Central Committee and the State Council, and adhere to the underlying principle of pursuing progress while ensuring stability. With the focus on promoting high-quality development as the general aim, deepening supply-side structural reforms as the main task, harnessing reform and innovation as the fundamental driving force, and meeting people's ever-growing needs for a better life as the primary goal, we will implement macroeconomic policies in a systemic and targeted way, and boost the effectiveness of proactive fiscal policies. We will accelerate the allocation of budget expenditures and issuance of local government bonds in the second half of the year, focus on supporting the real economy and promoting employment, and further stimulate the initiative and vitality of market entities. Meanwhile, efforts will be made to improve the cross-cycle adjustment mechanisms, maintain the continuity, stability and sustainability of macroeconomic policies, coordinate the connection of fiscal policies for this year and next, properly respond to possible cyclical risks, and consolidate the momentum of economic stability and growth, in order to accomplish the main targets and tasks for economic and social development throughout the year of 2021.

**I. Budget implementation generally performed well with fiscal ability kept enhancing.**

During the first half of 2021, the national economy had a stable momentum and showed signs of improvement. Based on this, the fiscal revenues restored growth, with expenditures in key areas such as people's livelihoods effectively ensured and budgets soundly implemented.

**1. Growth in fiscal revenue was restored and the quality of the revenue was further improved.**

During the first half, revenue in the national general public budget totaled 11.7116 trillion yuan, a year-on-year increase of 21.8 percent and an increase of 8.6 percent compared with the same period in 2019. Revenues in the central general public budget reached 5.4624 trillion yuan, a year-on-year increase of 23.2 percent and an increase of 5.9 percent compared with the same period in 2019. Revenues in the local general public budget stood at 6.2492 trillion yuan, a year-on-year increase of 20.6 percent and an increase of 11.1 percent compared with the same period in 2019. Fiscal revenue across the country rebounded generally, with the revenues of the eastern, central, western, and northeastern regions increasing by 12.5 percent, 9.1 percent, 10.2 percent and 4.1 percent respectively, compared with the same period in 2019.

The economic recovery led to relatively fast tax revenue growth, with main tax categories and taxes from the majority of industries basically recovering to or noticeably exceeding their levels prior to the pandemic. National tax revenues were 10.0461 trillion yuan, a year-on-year increase of 22.5 percent and an increase of 8.7 percent compared with the same period in 2019. The domestic value-added tax (VAT), domestic consumption tax, corporate income tax and import-related taxes increased by 22.5 percent, 12.8 percent, 17.7 percent and 27.6 percent year on year, and by 5 percent (deducted from such incomparable factors as the reduction in the VAT rate), 2.6 percent, 9.2 percent and 7.1 percent respectively compared with the same period in 2019. We resolutely carried out various fee reduction policies and strictly curbed any arbitrary charges imposed on businesses, ensuring the effective implementation of fee reduction policies.

## **2. We maintained appropriate intensity of expenditures and guaranteed expenditures in key areas.**

During the first half, expenditures in the national general public budget reached 12.1676 trillion yuan, a year-on-year increase of 4.5 percent. Fiscal expenditures were maintained at a relatively high level. The central government took the lead in tightening its belt by slashing non-urgent and non-mandatory expenditures. Expenditures in the central general public

budget were down by 6.9 percent year on year, or by 2.4 percent if the fact that part of the funds was distributed later than last year is taken into account. Expenditures in the local general public budget grew by 6.4 percent from a year earlier.

We reduced general expenditures and guaranteed expenditures in key areas. The national fiscal expenditures grew relatively fast in such key areas as the “three priorities” of people’s basic wellbeing, payment of salaries and normal government functioning, and expenditures in improving people’s basic livelihoods were ensured. Expenditures in education, housing security, social security and employment, and healthcare grew by 10.1 percent, 15.1 percent, 8.2 percent and 3.8 percent respectively. As of July 15, central government budgetary investment totaled 470.5 billion yuan, accounting for 77.1 percent of its total budget. Relevant departments enhanced their coordination in order to achieve material progress in promoting the implementation of the projects involved.

**3. We fully implemented the requirement for the government to live on a tight budget and put financial resources to where they could be better used.**

We continued to take the requirement of leading an austere life as the basic policy in budget-making. Insisting on determining the amount of

fiscal expenditures based on fiscal revenues and making ends meet, the MOF tightened budget expenditures, further significantly cutting non-urgent and non-mandatory expenditures, greatly cut the number of such government activities as meetings, training sessions, forums and ceremonies, and strictly reviewed the expenditure budgets of “three public expenses (referring to official expenses on buying and using cars, overseas travel and hosting meetings)”, so as to set aside precious fiscal resources for such key areas as people’s basic livelihoods improvement. We tightened budget implementation constraints, strictly implemented budgets approved by the National People’s Congress, and forbade appropriation of funds without or over a budget. We strengthened supervision and guidance for local governments in adhering to diligence and thrift, carried out strict budget-making, and strictly abided by standards for budget expenditures. The localities were required to refrain from holding non-essential meetings and training sessions, repurpose projects that could be launched at a later time, and merge funds that could be used together to raise allocation efficiency.

**II. We fully implemented the task of ensuring “security in six areas” and effectively safeguarded the overall situation of economic development and social stability.**

We strengthened pre-research and pre-judgment on the macroeconomic situation, and 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 (jobs, basic living needs, operations of market entities, food and energy, stable industrial and supply chains, and the normal functioning of primary-level government)". We resolutely held the bottom line for the "worst-case scenario", properly conducted cross-cycle and proactive adjustments, consolidated and expanded the achievements made in carrying out pandemic prevention and control and promoting economic and social development, and effectively facilitated steady economic and social recovery and the sustained improvement of people's livelihoods.

**1. We underlined the implementation of the employment-first policy to ensure a healthy and stable job market.**

**First, we enhanced funding for employment security.**In 2021, the central government set aside 56.76 billion yuan as budget for employment subsidies, 2.03 billion yuan more than last year, to support the implementation of employment and entrepreneurship support policies. We used vocational training as a key step in alleviating the structural employment problem, and guided local governments in accelerating their use of the funds for vocational skill improvement campaigns.

**Second, we continuously strove to offer greater assistance to enterprises and to further stabilize jobs.**Continuing the policy of rebating unemployment insurance premiums for stabilized job positions, we distributed 9.52 billion yuan in unemployment insurance refunds to 375,000 enterprises in the first half of this year, benefiting 9.429 million employees. We continued to implement the policy of improving employees' job skills and expanding the scope of subsidies in order to encourage micro-, small- and medium-sized enterprises to hire people from key groups.

**Third, we made steady progress in carrying out the vocational skill improvement campaigns.** We cooperated with relevant departments in formulating and improving policies and measures concerning vocational skill training, adjusted the vocational skill training subsidies, properly expanded the scope of subsidies for launching vocational skill improvement campaigns, and appropriately lowered the requirements for application. We promoted the development of the new enterprise apprenticeship system with Chinese characteristics and provided a vocational training subsidy for enterprises that had launched apprenticeship training. We issued living subsidies (including commuting expenses) to such vocational training participants as those who were just lifted out of poverty, had difficulties in getting employed, or were from families without employed members.

**Fourth, we continued to improve the system supporting the employment of key groups.**We made solid progress in ensuring employment for such key groups as college graduates, migrant workers and veterans. We implemented policies and measures such as tax breaks, guaranteed loans and interest subsidies for entrepreneur ships, and social security subsidies to support key groups in finding jobs and starting businesses and to help the unemployed return to the workforce.

With the support of the above-mentioned policies, China's overall employment situation maintained stability in the first half, with the national surveyed unemployment rate in urban areas averaging 5.2 percent, a year-on-year decrease of 0.6 percentage point, and 6.98 million people in urban areas gaining employment,accomplishing 63.5 percent of the yearly goal.

## **2. Efforts were made to safeguard people's basic wellbeing and steady progress was made in increasing their living standards.**

**First, pension benefits were further improved.**Basic pension for retired people was increased by 4.5 percent. In the first half of the year, the central government allocated over 780 billion yuan in subsidies for the pension fund of enterprise employees, urban and rural residents and government agency staff. The central adjustment ratio of the pension fund for enterprise employees was increased to 4.5 percent, and the central

adjustment fund amounted to over 930 billion yuan, of which the central and western regions as well as the old industrial base provinces received a total amount of 215.2 billion yuan. A long-term mechanism for poverty alleviation through basic pension insurance for urban and rural residents was reinforced. Guidance was rendered to localities to improve and implement the pension insurance payment policy for people with difficulties in urban and rural areas.

**Second, medical care services were steadily improved.**The per capita basic medical insurance subsidy for urban and rural residents was continuously increased to reach no less than 580 yuan per person per year. A total of 367.689 billion yuan was allocated as basic medical insurance subsidies for urban and rural residents in the first half of the year. The role of medical assistance was increased and a 30.69 billion yuan medical assistance subsidy fund was allocated. Support was given to reforms on medical insurance informatization, fund supervision and payment methods. The capacity building of medical insurance services was promoted. A mutual aid mechanism for basic medical insurance outpatient services was improved, a medical insurance checklist mechanism established, and normalization and institutionalization of centralized pharmaceutical procurement carried out.

**Third, COVID-19 vaccine and inoculation expenses were timely and effectively funded.**We continued to work on COVID-19 prevention and control. Free inoculations for residents were provided. Finance departments at all levels provided subsidy funds equal to 30 percent of the actual expenses for COVID-19 vaccines and inoculations covered by medical insurance. For the areas under a unified health insurance plan where the accumulated payable balance of employee or resident medical insurance from the previous year was less than three months, the proportion of financial subsidies could be increased after being reported to the provincial finance and medical insurance departments for approval. The central government granted subsidies to the eastern, central and western regions with respective allocation ratios of 30, 40 and 50 percent. The subsidy funds of the central government were settled every six months during the current phase of inoculations.

**Fourth, basic public health service level was significantly enhanced.**In the first half of the year, the central government allocated 65.394 billion yuan in assistance funds to support local basic public health services in providing medical profile management and health literacy promotion, among other services. The per capita subsidy for basic public health service expenditures was raised to 79 yuan, an increase of 5 yuan from the previous year.

**Fifth, benefits of preferential treatment recipients were fully funded.** Pension and living allowance for preferential treatment recipients increased by 10 percent. In the first half of the year, the central government allocated 51.4 billion yuan in subsidy funds for preferential treatment recipients for 2021, which covered 8.24 million recipients, to make sure their living standards were in line with economic development and that their living conditions were gradually improved. The 2021 medical insurance funds to preferential treatment recipients, a total amount of 2.38 billion yuan, were all allocated, which helped secure recipients' medical benefits and assisted local governments in resolving any other particular difficulties confronted by the recipients beyond the scope of the existing medical insurances.

**Sixth, the basic livelihood of people in need was guaranteed.** The overall stability of the social assistance policy in the transition period of solidifying and expanding the achievements of poverty alleviation and rural revitalization was maintained. Localities were guided to promptly include the people out of poverty who have completely or partially lost their ability to work and could not obtain stable income through industrial employment into such programs as subsistence allowances, assistance and support for extremely poor people. In the first half of the year, the central government allocated a total of 147.621 billion yuan in subsidies for people in need, to support local work on subsistence allowance. The

subsidies also provided assistance and support for people with low income, extremely poor people, vagrants, beggars, orphans and other people in need to secure their basic livelihoods. In the first half of the year, 7.73 million people in urban areas and 35.38 million people in rural areas received subsistence allowances. The national average urban and rural subsistence allowances were 694 yuan per person per month and 513 yuan per person per month, respectively.

**Seventh, supporting policies for the reconstruction of dilapidated buildings in rural areas continued to be optimized.**The target groups were adjusted from four key groups including registered poor households during the 13th Five-Year Plan (2016-20) period into key groups such as the rural low-income group. In the first half of the year, the central government allocated a total of 9.946 billion yuan in subsidies for the reconstruction of dilapidated buildings in rural areas, to support eligible groups in reconstructing their dilapidated buildings and seismic retrofitting of rural houses.

**Eighth, high-quality development of education was accelerated.**The inclusive pre-school education mechanism was improved and education resources expanded. The allocated subsidy funds for 2021 urban and rural compulsory education totaling 177 billion yuan have been used to support solidifying local compulsory education funding mechanism,

implementing the program of special post for teachers in rural compulsory education schools and the nutrition improvement program for students receiving rural compulsory education. About 156 million students receiving urban and rural compulsory education were exempted from tuition and miscellaneous fees, and also received free textbooks. About 25 million students from economically disadvantaged families received living subsidies, and about 32 million rural students benefited from the nutrition improvement program. We continued to improve basic school conditions in rural areas and expanded the supply for academic degrees in cities and towns. The integration of industry and education and school-enterprise cooperation in vocational colleges were deepened. The construction of world-class universities and disciplines was accelerated. We supported the development of higher education in the central and western regions. We improved the student aid policy system and achieved full coverage for students from all academic segments, public and private schools and families with financial difficulties.

**Ninth, we supported the development of cultural undertakings and industries.** We continued to promote the integration of urban and rural public cultural service systems while also improving the coverage and effectiveness of cultural projects to benefit the people. We improved the management mechanism of relevant funds, guided the launch of more high-quality works, and supported the prosperity and development of

socialist literature and art. We strengthened the protection and utilization of cultural relics as well as the protection and inheritance of intangible cultural heritage to carry forward the excellence of traditional Chinese culture. We supported the strengthening of international communication capacity-building to promote Chinese culture internationally. We strengthened supervision and administration of state-owned assets of centrally administered cultural enterprises and promoted healthy and rapid development of the cultural industry. We supported the preparation and hosting of the 2022 Beijing Winter Olympics and Paralympics as well as the preparation of the national team for the games, and made more efforts to speed up the construction of a world sports power.

### **3. We continued to solve problems for market entities, and further strengthened economic fundamentals.**

**First, we extended the reward and subsidy policy of reducing financing guarantee fee for micro and small enterprises (MSEs) to 2023.** Localities reduced the guarantee fee rate for MSEs to 1.5 percent or an even lower percentage to help reduce their general financing costs. The 3 billion yuan used as rewards and subsidies for financing guarantee fee reduction in 2021 had been delivered as of June.

**Second, we accelerated the increase of the interest subsidies for guaranteed loans for startups.** The central government had allocated

6.336 billion yuan to fund interest subsidies as well as relevant rewards and subsidies for guaranteed loans for startups as of May 2021, a year-on-year increase of 65.9 percent. The delivery time was four months earlier than last year. The subsidies were included in the directly distributed funds of the central government, providing swift and targeted support for business startups and employment.

**Third, we continued to expand the coverage and reduce the fee rate of governmental financing guarantees.** MOF made further efforts to improve loan risk sharing mechanism, and encouraged the National Financing Guarantee Fund to expand its business scale and accelerate equity investment. In the first half of 2021, the National Financing Guarantee Fund completed 321.53 billion yuan worth of re-guarantee services and provided re-guarantees for 249,300 accounts, increasing 36.6 percent and 90.3 percent respectively year on year. The scale of cumulative re-guarantee cooperative services exceeded 1 trillion yuan. The average guarantee fee rate for partner institutions dropped to 0.85 percent, a year-on-year decrease of 0.16 percent. MOF promoted the cooperation in batch guarantee business between the National Financing Guarantee Fund and national banks, which has been launched with 11 national banks in 23 provincial regions, with a total business scale of 9.852 billion yuan.

**Fourth, we used government procurement to promote the development of small and medium-sized enterprises (SMEs).** MOF amended and issued the *Measures on Government Purchase of Services to Promote the Development of SMEs*, and clarified and improved preferential measures such as budget allotment and price review. MOF expanded the ratio of the government procurement contracts for SMEs as their support for SMEs' development continued to grow.

#### **4. We strengthened policy support to beef up food and energy security.**

**First, our ability to guarantee food supply was further enhanced.** We improved the food subsidy policy, and implemented the subsidy policy for corn and soybean producers and the minimum purchase price policy for rice and wheat. MOF allocated 120.485 billion yuan in assistance funding for arable land conservation. 20 billion yuan was arranged as subsidy for farmers as incentives to maintain their enthusiasm. The central government allocated 17.98 billion yuan to localities as a food risk fund to support the food reserves and maintain stability of the food market. The scope and standard of agricultural insurance were also increased. The total cost insurance and plant revenue insurance of rice, wheat and corn were expanded, covering all farmers from 500 counties in 13 major grain-producing provinces. To support the strategy of using

sustainable farmland and agricultural technology to safeguard grain production, as well as the campaign of building 100-million mu (6.67 million hectares) of high-standard farmland, the protected black-soil farming area increased from 2.67 million hectares in 2020 to 4.67 million hectares this year. Modern irrigation area with complete facilities, advanced technologies, good ecology and efficient management level was encouraged. Water-conservancy projects were implemented to improve flood and drought control capacity. MOF supported localities in conducting prevention and control of major pests and diseases, fire ants, and flood and drought as well as disaster relief. In 2021, the area cultivated for summer crops was 26.438 million hectares, an increase of 1 percent or 265,500 hectares over 2020, reversing the downward trend in the last five years. The national summer grain production hit 145.82 million tons in 2021, up by 2.1 percent or 2.967 million tons from the previous year.

**Second, our ability to guarantee energy security continued to increase.** We adjusted and improved the supportive policy for the development of new energy vehicles (NEVs), and made sure the decreasing and phasing-out of subsidies would be implemented in a gradual manner both in terms of volume and speed. The subsidy standard for NEVs in 2021 was decreased by 20 percent from 2020 while the technology index system and technology requirement threshold remained

stable. The subsidy policy on renewable power generation was improved, and MOF allocated 89 billion yuan in renewable energy subsidy to support photovoltaic, wind and other types of renewable power generation. We accelerated the authentication of subsidy white listing to help solve the financing problems for renewable energy power generation enterprises. Since the beginning of the year, newly-added projects of centralized photovoltaic power stations, commercial distributed photovoltaic power stations, and onshore wind power stations have all supplied power at market price, ushering in a new stage of wide-scale application of renewable energies. Regulation on rule violations was enhanced. Biomass power stations which fail to meet the emission requirements will have their subsidies suspended or deducted, forcing the power stations to enhance rule compliance and achieve emission goals. Doing so will ensure the subsidies are used safely and effectively. MOF supported unconventional natural gas exploitation, arranged a 6.01 billion yuan budget for a clean energy development special fund in 2021 and rewarded localities and enterprises on a basis of “more production more subsidies, more so during winter” to encourage gas production. In the first half of 2021, China’s renewable energy sectors continued to develop. Installed gross capacity of wind power and solar power increased 34.7 percent and 23.7 percent respectively. Sales of NEVs reached 1.206 million, up by 139 percent year on year. Natural gas production was

increased by 10.9 percent, among which shale gas production increased by 25 percent.

**5. We worked to optimize industrial chains and supply chains, and the economic quality and efficiency as well as its core competitiveness continued to improve.**

**First, we supported the efforts to increase capacity for science and technology innovation.** We continued to prioritize core technology research as the focus of technology investment, and fully ensured the organization and implementation of major technological projects, with concerted efforts to resolve a batch of “bottleneck” problems. We supported the implementation of the National Fund for Technology Transfer and Commercialization, and introduced private capital and financial capital into the innovation field to accelerate technology transfer and commercialization. We supported more qualified enterprises to shoulder national technological research tasks and encouraged them to become the mainstay of technological innovation, research and development investment, research organizations and technology transfer. We increased the investment on a large scale in basic researches mainly through the National Natural Science Foundation, while also supporting technological research institutions, technological innovation bases, and technological research talents in the area of basic research. In the first

half of 2021, China's new source of momentum for economic development grew rapidly. The sales revenue of the country's high-tech industry went up by 33.6 percent year on year, with an average growth rate of 20.4 percent in the past two years, 5.3 percent higher than the national level.

**Second, we accelerated the upgrading of industrial chains.** We focused on the key industrial chain in the manufacturing industry to mitigate bottleneck problems and supported the construction of coordinated innovation and public service platform for industrial chains. Doing so helped us improve the modernization level of industrial chains and supply chains. Implementation of the trial policies of insurance compensation for first major technological equipment was improved. So was the compatibility of the guidance catalogue of first major technological equipment. The financing application process was simplified, and localities were encouraged to issue incentives for the policies' application. We supported the promotion and application of innovative products. We made good use of the government investment fund in the manufacturing industry and encouraged private capital to invest in integrated circuits, new materials and new generations of information technology to guarantee the safety of industrial chains and supply chains.

**Third, we supported the innovative development of micro, small and medium-sized enterprises.** We arranged special rewards and subsidies to support the high-quality development of more than 1,000 national-level outstanding SMEs in different groups with specific features, and fostered a number of SMEs focusing on niche markets with strong innovation capabilities and potential for development. We accelerated the construction of a public service demonstration platform for SMEs and provided fiscal support for inclusive finance development. We also implemented interest subsidies for guaranteed loans for business startups and launched the patent conversion program to meet the technological needs of SMEs while promoting their innovative development.

**6. The scale of transfer payments from the central government to local governments was increased to ensure that the "three priorities" at the grassroots level were fully secured.**

**First, the central government further increased the scale of transfer payments to local governments.** Although newly acquired financial resources were limited, the scale of transfer payments to local governments has been increased, thanks to the efforts to reduce the expenditures at the central level and adjust the structure of its spending. The central government made 8,337 billion yuan of transfer payments to local governments in 2021, a slight increase over 2020. The general

transfer payments increased by 7.8 percent, of this proportion, transfer payments for the expenditure of the shared fiscal powers and responsibilities increased by 6.1 percent , and other general transfer payments grew by 9.2 percent, a significant growth from last year. The transfer payments for equalizing access to basic public services were also increased. MOF arranged 1,908.7 billion yuan for those transfer payments, an increase of 11 percent year-on-year, and arranged award funds of 337.9 billion yuan for the mechanism of safeguarding basic financial strength at the county-level, 13.4 percent more than last year in support of local governments' efforts to ensure people's basic wellbeing, payment of salaries and normal functioning of government, and to raise the level of equalization of basic public services.

**Second, the local governments' capacity for "three priorities" was enhanced.** MOF has increased transfer payments such as those for equal access to public services and grants and subsidies for county-level basic financial guarantee mechanisms. The financial resources have further tilted towards the regions in financial difficulties to increase their disposable financial resources and improve their ability to protect the "three priorities" of people's basic wellbeing, payment of salaries and normal functioning of government at local level. Up to now, a total of 1.8527 trillion yuan has been transferred to localities for equal access to public services, and the grants and subsidies for county-level basic

financial guarantee mechanisms have all been issued. According to monitored data in the first half of the year, the actual disposable financial resources of the counties and districts are sufficient, by the national standards, to meet the needs of the "three priorities", and the progress made so far has indicated a better performance than in the same period of the previous year.

**Third, supervision and guidance of the local "three priorities" work were strengthened.** Since January this year, MOF has been monitoring local financial operations on a monthly basis, with a focus on the work of protecting the "three priorities". Problems and risks found at local levels under the monitoring have been effectively addressed through quick response and guidance from MOF. Furthermore, MOF has constantly improved the monitoring system to ensure accurate and timely collection and analysis of monitored data in a bid to forestall any risks while protecting the "three priorities".

### **III. The policy of tax and fee cuts was optimized and implemented to effectively stimulate the vitality of market entities**

In line with the guiding principles of the Central Economic Work Conference and the arrangement of the government work report, MOF has optimized and implemented the tax and fee cuts policies. Given the need for financial sustainability and to implement policies to ease

enterprises' difficulties, MOF has pledged to make tax and fee cuts to the full extent, effectively reducing the cost of enterprises in the real economy. A better environment for enterprise development was fostered, and the market entities were energized. It is expected that new tax and fee reductions will exceed 700 billion yuan in 2021.

### **1. The institutional policy for tax and fee cuts continued its implement**

MOF has continued to implement institutional tax reduction policies such as reducing the VAT rate, VAT credits, and special additional deductions for personal income tax, as well as the institutional fee reduction policies such as reducing the basic pension insurance rates for employees, resulting in a multiplying effect of policies.

### **2. Policies of time-limited tax and fee cuts by category were adjusted**

The time-limited tax cut and fee reduction policies introduced in 2020 in response to the pandemic have been adjusted accordingly and withdrawn in an orderly way. MOF extended the duration of policies such as VAT reduction for small-scale taxpayers introduced during the pandemic to maintain the necessary support for economic recovery. Temporary contingency policies involving pandemic prevention and control and supply guarantees have been terminated upon expiration. In full view of

the enterprises' appeals, the social security benefits for participants, the supporting capability of funds and other factors, MOF has resumed collection of social insurance premiums while extending the policy of phased reduction of unemployment and workplace injury insurance rates to April 30, 2022. The upper and lower limits of social security benefit contribution bases will, in principle, come back to normal in principle in 2021, with an exception of a two-year deferral period for provinces under financial strain.

### **3. Small and micro enterprises' tax concessions were strengthened**

While implementing the policy of universal tax cuts and fee reductions for small and micro enterprises, MOF has further increased the tax cut for enterprises and self-employed individuals. From Jan 1 this year, income tax has been halved for small and micro enterprises and self-employed individuals with annual taxable income below 1 million yuan on the basis of the existing preferential policies. The VAT threshold for small-scale taxpayers was increased from 100,000 yuan to 150,000 yuan in monthly sales from April 1.

### **4. Support for manufacturing and science and technology innovation was enhanced**

MOF has continued to implement the policy of an additional 75 percent pre-tax deduction for enterprise R&D expenses, increased the additional deduction proportion of R&D expenses of manufacturing enterprises to 100 percent, allowed enterprises to enjoy the policy of additional deductions on a half-yearly basis, and further used tax incentives to motivate enterprises to increase their R&D investment. Starting from April 1 this year, manufacturing enterprises in the industries of transportation equipment, electrical machinery and equipment, instruments and meters, pharmaceuticals and chemical fibers have been included in the scope of the VAT refund policy for advanced manufacturing enterprises to fully refund all due VAT credits on a monthly basis.

#### **5.Arbitrary charges, fines, and quotas were resolutely prevented**

MOF has continued to clean up and standardize load funds, abolish port construction fees, and reduce the levy standards for civil aviation development funds. MOF has carried out a thorough inspection on government-managed funds and administrative fees that were related to pandemic prevention and control at various ports since 2020. Tougher steps have been taken to crack down on illicit fees on enterprises, stop the attempt to collect fees or to raise collection standards or expand collection scope without authorization, and eliminate arbitrary quotas.

MOF has strictly checked the unjustified growth in non-tax government revenue, and kept a close eye on malpractice that could dilute the benefit of policies concerning tax cuts and fee reductions.

Thanks to the joint efforts of all parties, tax cut and fee reduction measures have yielded positive results, helping enterprises tide over difficulties in the first half of this year. The vitality of market entities was effectively enhanced, with the total number of new tax-related market entities reaching 6.243 million, up by 27.3 percent from 2020 and 22.8 percent from 2019. The performance of enterprises generally improved and their profits rose significantly. The nationwide enterprises' sales revenue grew by 34.4 percent year-on-year, averaging 15.1 percent between 2019 and 2020, including total profits of industrial enterprises which were up by 66.9 percent year-on-year. The confidence of market players in future economic growth has continued to mature, with the manufacturing purchasing managers' index (PMI) at 50.9 percent in June and remaining above the prosperity line for 16 consecutive months.

**IV. The direct allocation of Fiscal funds has become a normal practice, and the fiscal resources benefited businesses and the public in a more accurate and effective manner.**

Taking stock of last year's useful experience in implementing the direct fiscal fund distribution mechanism, the MOF continued the practice on a

regular basis, expanding the source of the directly distributed funds, optimizing the distribution procedures and keeping the funds under strict supervision.

In the first half of the year, the normalization of the direct fiscal fund distribution mechanism was promoted in an orderly manner and operated well. Funds went directly to the grassroots governments and units, while expenditures in key areas were effectively guaranteed to accurately put the favorable policies into effect.

**1. The directly allocated fiscal funds exceeded 2.8 trillion yuan, and the system generally operated well.**

**First, efforts were made to expand the source of the directly distributed funds.** The seeking of new source of funding was adjusted from relying on newly added funds to making good use of the existing funds as the main effort, and 27 transfer payments were included into the direct distribution funds. The total funds reached 2.8 trillion yuan, an increase of 1.1 trillion yuan over the previous year, and basically covered the needs of the central government subsidy funds to safeguard people's livelihood.

**Second, the institutional system was improved.** We issued documents, including the *Notice of the Ministry of Finance on Doing a Good Job in*

*Implementing the Mechanism for the direct Distribution of Fiscal Funds in 2021*, to establish a full-process system covering fund distribution, appropriation, use and supervision. We continued to carry out measures such as recording review and real-name systems for beneficiaries, which precisely matched fund supply and demand while contributing to science-based management and the establishment of standards for funds management.

**Third, the distribution procedures were optimized.** Taking into account the actual conditions, provincial-level units were required to strengthen overall planning ability rather than delegate all responsibilities to cities and counties. The local authorities and departments could reasonably determine budget allocation solutions based on relevant financial management regulations, taking into account various factors such as the current fiscal system, project executing entities and beneficiaries, so that more incremental funds could be channeled to the grassroots level.

We issued quotas in advance to give local authorities more time, within 30 days stipulated by the budget law as compared to one week previously, to formulate detailed plans, prepare for and perform approval procedures.

As of the end of June, the central government had directly earmarked 2.59 trillion yuan, reaching 92.5 percent of the total funding. All qualified

funds have been allocated in this way faster than last year's schedule. The remaining funds were mainly actual settlement funds. Local authorities had allocated 2.506 trillion yuan to fund users, accounting for 96.8 percent of the directly distributed funds from the central government.

The expenditures realized in various regions added up to 1.635 trillion yuan, accounting for 63.1 percent of the total funds directly distributed from the central government. Provincial expenditures were 614 billion yuan, making up 37.5 percent of the total expenditures. Spending at the city and county levels reached 1.021 trillion yuan, accounting for 62.5 percent of the total expenditures. We made it a normal practice to directly allocate budgetary funds with emphasis placed on cities and counties at the primary level based on actual conditions.

**2. We strictly enforced supervision to ensure standardized and efficient use of fiscal funds.**

**First, the monitoring system was upgraded** to ensure the full-process management rather than just data tracking, comprehensively covering flows of quotas, cash and information. Funds were dispensed and used under supervision to ensure their source, whereabouts and consistence in a standard and efficient way.

**Second, coordinated supervision was strengthened.** We added members of the special working mechanism based on the expanded fund coverage to improve coordination among departments. We strengthened information sharing, making data of the monitoring system available to auditing, human resources and social security, civil affairs and other departments.

Joint efforts were made to timely find problems in the implementation process, and ensure that the most urgent needs have been met. Governments at all levels were required to take responsibility to intensify supervision, make better use of the funds, and prevent misappropriation and being left unused.

**Third, the MOF toughened the punishment of illegal acts.** Local regulatory bureaus were put in place to conduct on-site inspections on major issues of doubt. Notification and admonition policies on major issues were established and improved to hold accountable those who violated laws and regulations. The malpractices of misrepresentation, fraudulent claims and misappropriation of funds were never tolerated.

**3. Local governments and market entities benefited significantly from the direct fiscal funds.**

All localities resolutely implemented the spirit of the State Council executive meetings and the central government's direct fund management policies, with an eye on optimizing the expenditure structure, highlighting priorities of direct fund use, and pushing the funds to flow into areas that the public and enterprises long for, thus offsetting the impact of some phased-out policies.

Timely and strong fiscal support was provided to local governments to carry out the "six priorities" tasks, especially to maintain security in jobs, basic living needs, operations of market entities, wage payment and the normal functioning of primary-level governments. It laid a good foundation for meeting this year's main economic and social development goals.

Statistics, though incomplete, showed that in the first half of this year more than 70 percent of the direct funds were earmarked for people's basic livelihood such as pension, compulsory education, medical care and housing. In addition, the relevant funds to assist businesses amounted to over 270 billion yuan, benefiting nearly 580,000 market entities of various types.

**V. Continued efforts were made to reinforce debt management by bolstering the government debt-financing mechanism.**

We worked to improve the government debt management mechanism, taking effective measures to prevent and resolve the risk of local government debt and give full play to governmental regulation in driving the smooth operation of the macro economy.

### **1. Treasury bonds were successfully issued.**

In accordance with the decisions and deployment of the CPC Central Committee and the State Council, special treasury bonds for COVID-19 control would no longer be issued in 2021. The MOF made overall plans, keeping the scale and issuance pace of domestic bonds at a reasonable level.

We successfully accomplished the task in the first half of the year, with the overall market performance remaining stable. The issued government bonds in the first half of the year were 2.8169 trillion yuan, an increase of 10.8 percent year-on-year. Book-entry and savings bonds were 2.6882 trillion yuan and 128.7 billion yuan respectively, providing a solid guarantee to meet the central government's financing needs.

### **2. The scale of special-purpose local government bonds moderately decreased.**

In view of the policy effect of special bonds issued last year which would continue in 2021, the quotas of the newly-added special-purpose local

government bonds were lowered to 3.65 trillion yuan, a decrease of 100 billion yuan from 2020.

Taking into account the need for cross-cyclical policy adjustment, we scientifically arranged the quotas and the issuance of the newly-added special-purpose local government bonds based on project preparation, while sustaining support for key projects. In the first half of the year, 1.0143 trillion yuan of special bonds were issued.

According to a preliminary summary, about half of the newly added special bonds were invested in transport infrastructure, municipal administration and industrial parks. Nearly 30 percent were associated with affordable housing, health, education, elderly care, culture and tourism while approximately 20 percent went to the sectors of forestry, water conservancy, energy, and urban-rural cold chain logistics.

The bonds guaranteed local governments' financial needs, helped shore up the weak links in people's livelihoods including medical care and public health, and better served the purpose of national strategies.

### **3. Debt-financing mechanism continued to be improved.**

**First, the mechanism for treasury bond issuance continued to be improved.** We methodologically coordinated the issuance of treasury bonds with the central government budget and treasury management,

taking appropriate steps on the timing of the treasury bond issuance. The rules on bidding and issuance of book-entry treasury bonds were improved along with the optimized renewal mechanism. We actively and carefully launched a trial of selling savings bonds (electronically) by mobile banking to expand sales channels.

**Second, the quota for newly increased debt was reasonably determined.** We submitted to the National People's Congress for its approval of 4.47 trillion yuan as the ceiling for the newly added debt of local governments in 2021, with 260 billion yuan less than that of the previous year. While maintaining proactive fiscal policy support and a basically stable macro leverage ratio, this would also give us more policy space should new risks and challenges arise in the future.

**Third, the management mechanism for Local government debt-financed projects and their funds were strengthened.** Under the principle that funding follows specific projects, efforts were made to improve the project pipeline planning and preliminary preparation for project implementation. We applied information technology to undertake the penetrating supervision work on special bond projects, and strengthened the whole process risk management on a regular basis. The performance management measures on special bond funds were introduced, placing both budget status and performance objectives under

supervision. Project funding will be suspended or canceled if the performance of the project seriously deviates from objectives. For projects failing to land in the short term due to inadequate preparation, we will give provincial governments the power to redirect the use of bonds in a timely fashion as prevention against any risk. Meanwhile, the administration of local government on bond information disclosure was standardized with a view to the further promotion of local government debt information disclosure.

**Fourth, the issuance of local government bonds was further improved.**To ensure a smooth bond issuance and fund raising amid the pandemic, we took the initiative to issue local government bonds on behalf of local governments. We came up with interim measures for the administration of credit ratings of local government bonds, calling for supervision on local government bond credit rating agencies to promote healthy development of the credit rating for local government bonds. By promoting the over-the-counter issuance of local government bonds throughout the country, we encouraged local governments to issue bonds more frequently with larger scale. Under our guidance, a total of 4.36 billion yuan worth of local government bonds have been issued over the counter of commercial banks in seven provinces, including Hebei and Sichuan.

**Fifth, the work on defusing hidden debt risks of local governments was effectively carried out.** We comprehensively strengthened the review on the expenditure budgets and financial capacity demonstration to deliver the project. All financial expenditures have been factored into budget planning according to the law. We improved the structure for allocation to enterprises and institutions from local governments and departments as per law, and prohibited local governments from increasing hidden debts in the form of corporate bonds. A market-oriented and law-based debt default handling mechanism was established to destock hidden debt in a safe and meticulous manner. Inter-departmental information sharing and coordinated monitoring were strengthened, and resolute efforts have been made to investigate and punish illegal acts. Accountability mechanisms were implemented to avoid the hidden debt problems found in auditing, accounting and other industries to stop illegal debts resolutely. We steadily pushed forward the work on replenishing the capital of small and medium-sized banks with special bonds.

**VI. We continued our efforts to prioritize agricultural and rural development, making new strides in promoting rural revitalization comprehensively**

After China secured the victory against poverty, the country will push forward the rural vitalization in an all-around way as a “historic shift” of the focus in its work concerning agriculture, rural areas and farmers. The finance departments resolutely implemented General Secretary Xi Jinping’s important instructions and the decisions and plans made by the CPC Central Committee and the State Council, made timely adjustments to working mechanisms and measures, and effectively promoted works on the consolidation and expansion of poverty alleviation achievements. We supported the full implementation of the rural revitalization strategy, and made every effort to help hundreds of millions of farmers live better lives.

**1. The achievements of poverty alleviation were consolidated and expanded.**

**First, original central fiscal funds for poverty relief were retained, adjusted and optimized.** MOF optimally transferred the original central fiscal funds for poverty relief to the subsidy funds to advance rural revitalization. MOF made it clear that during the transition period, the funds will be directed in favor of the key counties for rural revitalization. A total of 156.1 billion yuan of subsidy funds was allocated in 2021, an increase of 10 billion yuan over 2020, and 70 percent of these funds went

to western provinces, in support of a number of key counties that have risen out of poverty, for rural revitalization.

**Second, relevant transfer payments continued to provide targeted support.**The transfer payments that tilted towards 832 poverty-stricken counties for poverty reduction will remain in place during the transition period. The transfer payments inclined to the areas of extreme poverty for poverty alleviation, including counties of extreme poverty in Tibet autonomous region, the four southern administrative districts of Xinjiang Uygur autonomous region, Tibetan areas of Qinghai, Sichuan, Yunnan and Gansu, Linxia prefecture, Liangshan prefecture and Nujiang prefecture, will be used in key counties for rural revitalization.

**Third, the policy of overall planning and integration of agriculture-related funds for former poverty-stricken counties remained in place.**In coordination with relevant departments, MOF issued the *Notice on Continuing to Support Coordinated and Integrated Use of Fiscal Agriculture-related Funds for Counties Lifted from Poverty*. It states that the main institutional arrangements over the poverty-alleviation period will remain in force and the whole scope of integrated funds will remain unchanged. Some adjustments and improvements were made in the notice to highlight the priority use of integrated funds, the support for counties emerging from poverty, and the

supervision on project funds. MOF effectively supported counties in consolidating and expanding the achievements of poverty alleviation based on local conditions while also promoting rural revitalization.

## **2.The rural revitalization strategy was steadily pushed forward.**

**First, the quality and efficiency of agricultural development were effectively improved.**We supported the protection of livestock and poultry resources as well as the establishment of seed industrial parks. We also explored and promoted the development of large-scale seed enterprises with “integration of breeding, reproduction and promotion”. We planned and supported the establishment of 50 national modern agricultural industrial parks, 50 competitive and characteristic industrial clusters and 298 major agricultural industrial towns, accelerating the vitalization of rural industries. We comprehensively promoted the construction of refrigeration and preservation facilities for agricultural products. We improved the national agricultural credit guarantee policy system to better help the new agricultural business entities with easy access to financial services and lower cost of borrowing.

**Second, support for the steady advancement of sustainable development in agriculture and rural areas was reinforced.**We studied and introduced a new round of fishery subsidy policies during the 14th Five-Year Plan (2021-25) period to facilitate the high-quality

development of the fishing industry. As much as 16.805 billion yuan was earmarked for the ongoing implementation of the third round of grassland ecological award policy. We launched the pilot project on green planting and breeding and circular agriculture, and further promoted the pilot work of water system connectivity and rural construction with clean water. We enacted the five-year action to improve rural living conditions, and followed the policy of promoting financial awards and subsidies for the whole village in the rural toilet revolution. We increased subsidies for maintenance of rural water supply projects and promoted better water security for rural water supply.

**Third, the comprehensive rural reform continued to advance.** We supported the construction of beautiful villages featuring red tourism, from where visitors can see revolutionary sites, hear red stories and learn the red spirit, thus making those villages the field textbooks of appreciating the Party history and its commitment to the original aspiration and mission. We continued to support and strengthen the village-level collective economy, improved the policies of financial rewards and subsidies for rural public welfare undertakings, and promoted the modernization of the rural governance system and governance capacity. We further advanced the pilot experiment of comprehensive rural reform and the pilot project of rural complex construction, while also encouraging local governments to explore

demonstration models of comprehensive rural revitalization based on local conditions.

**Fourth, the government's policy of procuring agricultural products in once poverty-stricken areas was continuously optimized.** We continued to promote government procurement of agricultural products in former poverty-stricken areas, and took advantage of the sustained and stable procurement of agricultural products by units with budgetary capacity. We cultivated a number of rural characteristic industries and competitive brands that can drive long-term stable income increase, thus promoting the revitalization of rural industries and pushing the development of former poverty-stricken areas to a wider field and a higher level.

**VII. The investment in the field of ecological and environmental protection was increased, with the battle for pollution prevention and control achieving remarkable results.**

Guided by the Xi Jinping Thought on Ecological Civilization, we resolutely shouldered the political responsibility of supporting the battle against pollution and promoting the development of ecological civilization. The environmental quality was further improved through institutional innovation, increased investment and priority-oriented approach. In 2021, the central government has allocated 437.4 billion

yuan to support pollution prevention and ecological civilization construction.

**1.Support for the battle for blue skies, clear water and clean lands was ensured.**

**First, we continued working to keep our skies blue.** A total of 27.5 billion yuan for air pollution control was distributed to further support the efforts of improving air quality and reducing carbon emission. We expanded the supporting scope of clean heating in winter in northern China, adding 20 cities including Lanzhou and Jiamusi through a competitive review process, to further promote the green transformation of energy consumption. We continued to carry out in-depth treatment of coal-fired boilers and industrial furnaces in key regions, and supported the coordinated control of PM 2.5 and ozone pollution. From January to June in 2021, the average PM 2.5 concentration in 339 prefecture-level and above cities across the country was 34 microgram/m<sup>3</sup>, a year-on-year decrease of 2.9 percent. Air quality continued to improve.

**Second, we continued the efforts to keep our waters clear.** A total of 21.7 billion yuan for prevention and control of water pollution was allocated to carry out pollution control of river basins, restoration of water ecosystems, and protection of centralized drinking water source areas and groundwater ecological environment. The allocation of funds

was tilted towards key river basins like the Yangtze River and the Yellow River. A total of 3.6 billion yuan has been allocated to improve environmental conditions in rural areas, which, with a focus on the treatment of rural domestic sewage, supported the treatment of black, malodorous water bodies in rural areas, and tackled the key weak points that affect people's living environment in rural areas. From January to June, the proportion of sections with good water quality (Grade I-III) across the country increased by 1.1 percentage points year-on-year, and the proportion of surface water with a water quality rating of Grade V fell by 0.7 percentage point year-on-year.

**Third, we actively supported the endeavors to keep our lands pollution-free.** A total of 4.4 billion yuan was allocated for the prevention and control of soil pollution, and to strengthen the prevention and risk management of polluting sources. Prevention and control in key regions, key industries, and of key pollutants were highlighted. We promoted the safe use of agricultural land to guarantee food security. The *Management Measures for Soil Pollution Prevention and Control Funds* were revised to guide the establishment of soil pollution prevention funds at the provincial level and to promote the establishment of a diversified investment mechanism.

## **2. Major projects of ecological protection and restoration continued to proceed.**

**First, we have achieved solid progress in the systematic treatment of mountains, rivers, forests, farmlands, lakes, grasslands and deserts.**

In 2021, the central government allocated 9.9 billion yuan to continue to carry out pilot projects for ecological protection and restoration of those natural resources in the areas of Wuliangsu Lake in the Inner Mongolia autonomous region and the Three Gorges of the Yangtze River in Hubei province. The first batch of 10 integrated protection and restoration projects of mountains, rivers, forests, farmlands, lakes, grasslands and deserts during the 14th Five-Year Plan period (2021-25), were launched, including the ones in water conservation areas in the Jiulong River Basin in Fujian province and the upper reaches of the Yellow River in Gansu province. The systematic governance, comprehensive and source management of the treatment of mountains, rivers, forests, farmlands, lakes, grasslands and deserts was promoted in a coordinated way and the quality and stability of the ecosystem was effectively improved.

**Second, marine ecological protection and restoration was further carried out.** A total of 4 billion yuan was allocated for marine ecological protection and restoration in 2021; the funds supported local governments

in the overall advancement of the Blue Bay Initiative, mangrove protection and restoration, coastal zone protection and restoration projects, and the treatment of marine pollutants. We enhanced the ecological functions of urban bays and islands, and improved the quality of the marine ecological environment as well as the capacity of ocean carbon sink.

**Third, the ecological protection and restoration for forestry and grasslands continued to advance.** In 2021, transfer payments of 103.9 billion yuan for forestry and grasslands has been channeled to implement the full coverage policy of natural forest protection, support the conversion of farmlands to forests or grasslands and grassland ecological restoration, strengthen the protection and restoration of wetlands, build a natural protected land system with national parks as the mainstay, and promote biodiversity protection. Efforts have been made to support the greening of the country's landscape on a massive scale, improve the ecological ranger policy, carry out the forest ecological benefit compensation, strengthen the protection of wild animals and plants and reinforce forest and grassland fire prevention and forestry pest control.

**Fourth, the environmental restoration and management of abandoned mines progressed in an orderly manner.** In 2021, a total of 2 billion yuan was allocated to support the restoration and management of

such mines in key areas covered by the national strategies such as the Yellow River Basin and the Qinghai-Tibet Plateau. The restoration of damaged mountains and surface vegetation, and the reclamation and utilization of abandoned land were carried out in order to improve regional ecological conditions and living environment and to improve the quality and service functions of the ecosystem.

**3. The ability to respond to emergencies such as natural disasters has been steadily improved.**

**First, the construction of an aviation firefighting force has been actively pushed forward.** In order to support forest and grassland fire prevention work, MOF has formulated and issued the *Interim Regulations on the Management of Central Subsidies for Aircraft Leasing for Local Forest and Grassland Aviation Fire Fighting* to intensify responsibilities of local governments and standardize aircraft rental procedures. We have cooperated with relevant departments to actively study the forest fire protection and aviation force construction plan during the 14th Five-Year Plan (2021-25) period.

**Second, natural disaster relief work was carried out effectively.** A rapid verification and allocation mechanism of central funding of natural disaster relief was launched promptly to support disaster relief and resettlement of disaster-stricken people. Since the beginning of this year,

a total of 4.93 billion yuan has been allocated for flood relief in Henan province, and 10 million yuan has been allocated for earthquake relief in Yunnan and Qinghai provinces.

**Third, the central government has gradually improved the management level of emergency relief supplies.** In coordination with relevant departments, we have drafted a regulation regarding the reserve management of emergency relief materials, and clarified the management regulations for the procurement, storage, transfer, supplement, and write-off of reserve materials and fiscal fund management regulations. We supervised and urged the registration of additional storage materials in 2020 to guarantee that the needs of disaster relief work can be satisfied.

**Fourth, the comprehensive risk survey of natural disasters was carried out in an orderly manner.** A total of 1.48 billion yuan was arranged to actively support the first national comprehensive risk survey of natural disasters, with focus on related expenditures of the central government and expenditures for the cross-provincial (autonomous regions, municipalities) survey work undertaken by the central government, with appropriate subsidies being provided to local governments through transfer payments.

**Fifth, the ability to prevent and control mega-scale geological disasters has been steadily improved.** A total of 5 billion yuan was

earmarked for mega-scale geological disaster prevention and control to support local governments in strengthening the comprehensive management of mega-scale geological disasters, and for the construction of comprehensive prevention and control systems and prevention capabilities such as survey and evaluation, monitoring and early warning of geological disasters in key regions.

### **VIII. The fiscal governance was steadily improved with coordinated efforts to deepen reforms and supervision**

Based on the established modern fiscal framework, we used reform to make breakthroughs and carve new paths, deepened the reform of the fiscal and tax system, strengthened supervision on fiscal management, and further tightened fiscal disciplines. The fiscal governance level was steadily improved.

#### **1. We deepened the reform of the fiscal and tax system, accelerating the establishment of a modern fiscal system**

**First, the budget management system was further improved.** We submitted *Opinions on Further Deepening the Reform on Budget Management System* to the State Council for approval, urging efforts to strengthen fiscal resource coordination, standardize budget revenue and expenditure management, tighten budget control constraints, and

strengthen risk preventing and defusing. We further promoted information disclosure to make the budgets more transparent. We improved the performance-based management system, and accelerated the establishment a performance-based budget management system that covers the entire budgetary process including all sectors, projects and types. The in-depth integration of performance-based management and budget management was promoted, further improving the efficiency of fiscal resource allocation.

**Second, the reform of the tax system continued to forge ahead.**We implemented the principle of law-based taxation, promoted the smooth promulgation of the stamp tax law. We also actively promoted the legislation of value-added tax, consumption tax, tariffs, and other taxes. We advanced efforts to improve local tax system, and studied ways to advance the consumption tax reform in shifting the collection of the tax from the production/import stage to the wholesale/retail stage for certain goods in combination with the legislation of the consumption tax.

**Third, the fiscal system continued to improve.**We implemented reform plans in the fields of education, science and technology, and environment to divide fiscal powers and spending responsibilities between the central and local governments, and further delineated the responsibilities of the central and local governments. We promoted fiscal system

reform below the provincial level. We normalized the implementation of the direct fiscal fund allocation mechanism and expanded the scope of directly allocated funds in accordance with the decision and deployment of the CPC Central Committee and the State Council.

**Fourth, reform of state-owned assets and enterprises were steadily advanced.**We deepened the reform of state-owned assets and enterprises, and implemented related works pertaining to the three-year action for SOE reform. We improved the state-owned asset management system, and facilitated efforts to improve the reporting mechanism for state-owned asset management. A special campaign on property rights registration for state-owned financial capital was launched. We studied measures to optimize the authorized operation mechanism, as well as incentive and constraint mechanism for state-owned financial capital to advance the reform of key state-owned financial enterprises.

## **2. We optimized fiscal management and made notable improvements in comprehensively performing law-based fiscal functions**

**First, the fiscal legal system became more sound.**We issued *Measures Adopted by the Ministry of Finance to Implement the Spirit of the 5th 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* to make full use

of fiscal legality to serve and guarantee fiscal and tax system reform. We revised *Rules of Legislation Works in Ministry of Finance*, *Guidelines to Formulate Administrative Normative Documents for the Ministry of Finance*, making fiscal legislation and policy-making procedures more proper and standardized. We facilitated the promulgation of the *Regulations to Manage Administrative State-owned Assets* and carry it into effect. We also promoted the legislation of *Law of Government Procurement*(amended), *Accounting Law of the People's Republic of China*(amended), *Regulations to Manage State-owned Financial Capital*(formulated), *Regulations to Manage State-owned Asset Evaluation*(amended)and more. We made steady efforts on the formulation and revision of fiscal rules and regulations in areas such as budget review, government procurement, social assistance, and financial management. We conducted timely post-legislation evaluation on budget laws and doubled efforts in legislation research in key fiscal areas to better tap the guiding and facilitating role of legality in fiscal reform.

**Second, further efforts have been made to streamline administration and delegate power, improve regulation and upgrade services in the fiscal sector.**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 continued to improve the efficiency of fiscal administration. In accordance with the principle that "powers and responsibilities should be statutory and reciprocal", we steadily advanced work to develop the list of powers and responsibilities for MOF, sorted out the legal basis, ways to executed duties and circumstances for administrative accountability item by item, laying a foundation for performing full fiscal functions based on laws and regulations. We further standardized the administrative enforcement procedures, experimented with online hearings for administrative penalties, and continued to facilitate within MOF the implementation of three systems, which refer to the disclosure of administrative enforcement, whole-process recording of enforcement, as well as statutory review of major enforcement decisions.

### **3. We pressed ahead with fiscal and accounting supervision, ensuring the continuous improvement of market order**

**First, supervision systems and mechanisms were further improved.** We studied and drafted the *Guidelines on Strengthening Works on Fiscal and Accounting Supervision*, advanced the revision of the accounting law and the law of certified public accountants, identified the responsibilities of all supervision departments, and pushed for an integrated development of fiscal and accounting supervision. With strict adherence to and service for intra-Party supervision, we stepped up

efforts to coordinate and complement fiscal supervision with the supervision of the National People's Congress, audit supervision, and other supervision to create a powerful momentum for conducting supervision.

**Second, supervision efforts continued to intensify.** We strengthened the tracking of policy implementation and performance. In key areas such as the implementation of fiscal and tax policies, the prevention and defusing of local government debt risks, the improvement of fund performance, the public disclosure of government budgets and final accounts, as well as illegal charges levied on enterprises, we flexibly adopted multiple measures, including supervision and review, special campaigns and performance evaluation, to ensure the effective implementation of major central fiscal and tax policies as well as the reforms of a modern fiscal and tax system, preventing fiscal funds from becoming a target of unlawful acts. We thoroughly implemented the requirement for government to live on a tight belt, addressed the illegal practice of using fiscal funds for office buildings as well as all extravagant practices, to make sure that our fiscal disciplines wouldn't be a toothless "scarecrow".

**Third, supervision on accounting and audit was further tightened.** With "zero tolerance" for fiscal fraud, we tightened supervision on accounting firms engaged in securities businesses, improved the

professional level of the accounting industry, and advanced efforts to maintain and regulate the market order.

## **IX. Fiscal Policy Outlook**

MOF will follow the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and implement the guiding principles of the Central Conference on Economic Work and decisions made in the Report on the Work of the Government. We will act on the general principle of pursuing progress while ensuring stability, pursue the full, accurate and comprehensive implementation of the new development philosophy, enhance the quality, efficiency, and sustainability of our proactive fiscal policy, ensure the continuity, consistency, and sustainability of fiscal policies, and coordinate a smooth connection of fiscal policies for 2021 and 2022. These efforts will enable us to improve the effectiveness of policies as well as financial benefits, keep the economy performing within the appropriate range, and fulfill the targets and tasks for economic and social development this year.

**1. We will enhance the quality and efficiency of our proactive fiscal policy, which in turn will play a crucial role in stabilizing the economy.**

MOF will continue to implement the direct allocation of fiscal funds on a regular basis and strengthen monitoring, analysis and review of the system to ensure its smooth and efficient operation. We will speed up the process of making budgetary funds available for fiscal expenditures and ensure spending in key areas to improve the efficiency of the funds. We will also appropriately accelerate issuance and make better use of local government special-purpose bonds, guide local governments to build up a solid pipeline for more bonds-related projects, and push for the materialization of these projects at the end of this year or early next year. We will improve performance management of special-purpose bonds projects as well as efficiency of funds allocation and utilization. We will continue to implement fee and tax reduction policies, strengthen public communication of policies, step up our crackdown on the unauthorized levying of fees on enterprises, and firmly prohibit overtaxing. We will keep track of the fee and tax reduction policy implementation and follow up with analysis and review, to study and address problematic practices faced by market entities in a timely manner.

**2. We will strengthen the integration of financial resources to consolidate financial support for the major strategic tasks of the country.**

MOF will support the expansion of effective investment, make available for the construction of key projects, optimize the allocation of government investment to fuel sustainable investment growth. We will push forward coordinated regional development and people-centered new urbanization, and improve accessibility of basic public services. We will back the strategy of rural revitalization and align efforts to consolidate and expand the achievements in poverty alleviation with efforts to promote rural revitalization. We will strengthen efforts for pollution prevention and control as well as ecological conservation, further protect and restore key ecosystems, and strive toward the goals of achieving peak carbon emissions and carbon neutrality in an orderly manner.

**3. We will strive to guarantee and improve the people's well-being, and make steady progress towards enhancing the people's sense of gain and happiness.**

MOF will make every effort to stabilize and expand employment and increase employment support for key groups. We will do more to meet the people's basic living needs and focus more efforts on addressing the most pressing, real problems of the greatest concern to people, including education, elderly care and healthcare. Financial support for COVID-19 vaccination and pandemic prevention and control will stay in place. We will also follow the principle of tightening our belts in every respect to

ensure continued increases in spending to meet basic living needs. We will step up our efforts to assess the financial sector's capacity to carry out policies concerning the people's well-being, improve standardization and transparency in the expenditure management, and enhance the sustainability of our policies.

**4. We will foster innovation development and industrial upgrades to ensure the stability of industrial supply chain.**

MOF will strive to support scientific and technological self-reliance and self-strengthening, build up the country's strategic scientific and technological strength, invest more in basic research, make major breakthroughs in core technologies in key fields, and boost the commercialization of scientific and technological research achievements. We will endeavor to strengthen the resilience of industrial and supply chains to facilitate high-quality development in the manufacturing sector. We will also ramp up efforts to stimulate the creative energy of enterprises and individuals, support development of inclusive financing, and enhance both incentives and guarantees for innovation.

**5. We will proactively prevent and defuse risks in key sectors to promote fiscal sustainability.**

MOF will strengthen supervision and accountability, and make continued efforts to prevent and defuse the hidden debt risks of local governments. We will guarantee support for the “three priorities” of safeguarding people’s livelihoods, income and the smooth functioning of institutions. The central government’s financial support for local governments will be further expanded while local governments will also shoulder more responsibility, increase funding allocations to governments at lower levels, and provide more assistance for disadvantaged areas. We will make full use of oversight functions of accounting, intensify follow-up and performance review of policy implementation, and impose strict financial rules and regulations, to maintain strong order in the market economy as well as a sound business environment.

**6. We will deepen reforms of the fiscal and tax systems and rev up efforts to build a modern fiscal system.**

MOF will further reform the budget management system, make budgets more binding and strengthen performance management. In addition, the establishment of the expenditure standard system will be accelerated, expenditure management regulated, its structure optimized, and mid-term fiscal planning and management strengthened. We will carry out reform plans on the division of fiscal powers and expenditure responsibilities between the central and local governments, and push forward research on

the reform of fiscal systems below the provincial level. We will implement the principle of law-based taxation and earnestly promote tax legislation on value-added tax (VAT), consumption tax, tariffs, and other taxes. We will continue to improve the modern tax system and the bases of local tax and direct tax, carefully push forward reforms to shift the collection of the consumption tax to the later stage and delegate the power to local governments. We will make coordinated efforts to advance the reform of the administration of non-tax revenues, deepen the reform of state capital and state-owned enterprises, and advance reforms of the country's key financial institutions.