

# Report on the Implementation of China's Fiscal Policy in 2021

## Overview

The year 2021 was of milestone significance in the history of the Communist Party of China (CPC) and China. Against the grim situation of major changes combined with a pandemic, both unseen in a century, the CPC Central Committee with Comrade Xi Jinping at its core rallied the whole Party and nation to forge ahead and accomplish the tasks of reform and development. The country won the battle of poverty alleviation as scheduled, achieved full success in building a moderately prosperous society in all respects, and fulfilled the First Centenary Goal. China maintained a leading position in the world in economic development and epidemic control, with progress made in strategic scientific and technological strength, industrial chain resilience, reform and opening-up, people's livelihoods and ecological civilization, and got off to a good start for the 14<sup>th</sup> Five-Year Plan period (2021-25).

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, coordinated epidemic control with economic and social development, and implemented the requirement of enhancing the quality, efficiency, and

sustainability of our proactive fiscal policy. On one hand, we focused our attention on the expenditure scale and policy intensity while taking a balanced approach to both ensuring steady growth and guarding against risks, and we maintained the continuity, stability and sustainability of fiscal policy, avoided sharp turns, set reasonable targets for the fiscal deficit and local government special bond quota, kept expenditures at an appropriate scale and took practical measures to defuse local government debt risks. On the other hand, with a view to optimizing the expenditure structure and enhancing management, we established a system for the regular transfer of fiscal funds directly allocated to grassroots-level governments with a focus on timeliness, precision and efficiency. We improved fiscal expenditure efficiency, implemented the requirement that “all Party and government agencies live on tight budgets”, optimized expenditure structure, guaranteed and improved people’s livelihoods, and enhanced performance and efficiency of fund utilization, making new progress in fostering the new development paradigm and achieving high-quality development.

**The first** measure was to strengthen policy adjustment measures to ensure a necessary fiscal expenditure scale. The deficit in 2021 was 3.57 trillion yuan. MOF added 3.65 trillion yuan in local government special bonds to ensure better support for key national strategic tasks. A pilot program was implemented in Shanghai Municipality and Guangdong

Province to achieve "zero hidden debt" throughout the whole region. A regular transfer system was established to directly allocate budgetary funds to grassroots-level governments, with a wider coverage. Efforts were continued to optimize and implement tax and fee cuts policies, and about 1.1 trillion yuan of taxes and fees was reduced throughout the year.

**The second** measure was to support sci-tech self-reliance and self-strengthening and expand support for basic research. We reformed and improved the management of research funds allocated by the central government, achieved breakthroughs in core technologies in key fields, implemented a reward policy for leading small and medium-sized enterprises that specialize in niche sectors, and optimized and stabilized the industrial and supply chains.

**The third** measure was to expand investment in people's livelihoods. We supported free COVID-19 vaccinations for all, continued to refund unemployment insurance premiums to employers, and did a good job in elderly care, education, social relief and disaster prevention and reduction, effectively safeguarding people's livelihoods.

**The fourth** measure was to propel the coordinated development of urban and rural areas, support the effective alignment of consolidating and expanding poverty alleviation achievements and rural revitalization, as well as the development of the Yangtze River Economic Belt, the

construction of the Hainan Free Trade Port and building Zhejiang Province into a demonstration zone for common prosperity. The development paradigm was further optimized.

**The fifth** measure was to strengthen ecological protection and support efforts to peak carbon emissions and achieve carbon neutrality. We stepped up efforts to fight against air, water and soil pollution, launched an action plan for the horizontal ecological compensation mechanism in the Yangtze River Basin, implemented a new round of subsidy and award policies for grassland ecological conservation efforts and expanded the policy scope. New progress was made in the overall green transition.

**The sixth** measure was to advance the reform of the fiscal and tax systems and budget management, streamline administration and delegate power, improve regulation, upgrade services in the fiscal area, and regulate the financial auditing work. Financial administration and supervision was further strengthened.

**The seventh** measure was to deepen international financial cooperation and exchanges in areas such as COVID-19 response, regional financial and economic cooperation, and holding bilateral dialogues. China's overall tariff rate has been cut to 7.4 percent. We managed to reach a consensus with international partners on a two-pillar solution to address the tax challenges arising from economic digitalization, and opened up

new space for international cooperation.

With the strong support of Party committees and governments at all levels and relevant departments, finance departments proactively took on responsibilities, overcame various difficulties, and delivered good fiscal results, providing a financial guarantee for achieving the annual targets of economic and social development. Government revenue continued to recover in 2021 and met its budgetary target with a surplus. The national general public budget revenue reached 20.25 trillion yuan, breaking the 20-trillion-yuan threshold for the first time. Fiscal expenditures remained at a relatively high level in 2021, with national general public budget expenditures totaling 24.63 trillion yuan, which provided a strong guarantee for work in key areas including the “three priorities” of safeguarding people’s livelihoods, payment of salaries and normal functioning of government at the grassroots level.

In 2022, finance departments will follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully apply the guiding principles of the CPC’s 19th National Congress, the plenary sessions of the 19th CPC Central Committee, and the Central Economic Work Conference, pursue progress while ensuring stability, fully and faithfully implement the new development philosophy, accelerate efforts to foster a new pattern of development, and propel

high-quality development. We will raise the efficiency and efficacy of the proactive fiscal policy with a focus on precision and sustainability, continuously expand support for market entities, and give better play to the role of fiscal policy in stabilizing investment and boosting consumption. We will intensify risk prevention and control, as well as quality supervision on accounting, optimize management of fiscal funds for scientific and technological development, and continue to enhance people's livelihoods. We will prioritize support for the development of agriculture and rural areas, improve the fiscal and tax support policy for ecological civilization, speed up the establishment of a modern fiscal and tax system, and deepen international economic and financial exchanges and cooperation, with concrete efforts to prepare for the successful convening of the 20<sup>th</sup> CPC National Congress.

**I. Execution of government budgets was generally satisfactory with a rising capacity in providing financial support.**

China's economy maintained a steady recovery in 2021, meeting all the main targets. Based on this, fiscal revenue continued to recover and overall budget implementation was sound.

**1. Growth in fiscal revenue recovered and budgetary targets were all met.**

In 2021, revenue in the national general public budget totaled 20.25 trillion yuan, representing an increase of 10.7 percent from 2020 and an increase of 6.4 percent compared with 2019, which means the budgetary target was met with a surplus and the 20-trillion-yuan threshold was broken for the first time. Revenue in the central government's general public budget amounted to 9.15 trillion yuan, a year-on-year increase of 10.5 percent; revenue in the local general public budget was 11.1 trillion yuan, a year-on-year increase of 10.9 percent.

Driven by stable recovery of the economy and rising prices, tax revenue achieved a relatively fast increase as tax and fee cut policies were effectively implemented, totaling 17.27 trillion yuan with a year-on-year increase of 11.9 percent. Domestic value-added tax (VAT), domestic consumption tax and corporate income tax increased by 11.8 percent, 15.4 percent and 15.4 percent respectively. Non-tax revenue totaled 2.98 trillion yuan, a year-on-year increase of 4.2 percent.

**2. Necessary expenditures were maintained and expenditures in key areas were ensured.**

In 2021, expenditures in the national general public budget totaled 24.63 trillion yuan, a year-on-year increase of 0.3 percent, within the budget limit set at the beginning of the year. Expenditure in the central general public budget was 11.73 trillion yuan, a year-on-year decrease of 0.9

percent, primarily due to central departments' efforts to live on tight budgets and channel more financial resources to lower-level governments to ensure their financial operation, and the decrease of actual settlement expenses. Expenditure in the local general public budget totaled 21.13 trillion yuan, a year-on-year increase of 0.3 percent. Fiscal expenditures in general items were cut while those in key areas were guaranteed, and non-urgent and non-essential expenditures were cut as well. Expenditures in “three priorities” and other key areas increased relatively fast so that people’s basic livelihood could be guaranteed. Spending on education, science and technology, and social security and employment increased by 3.5 percent, 7.2 percent and 3.99 percent respectively, all higher than the overall expenditure growth. Expenditures in healthcare services remained relatively high in 2021 and the actual figure was basically the same as that of 2020, which saw a sharp increase of 15.3 percent on the basis of 2019 due to COVID-19 pandemic control efforts.

**3. We fully implemented the requirement of living on tight budgets, and made good use of financial resources where they were most needed.**

Sticking to the practices of hard work and frugality, and following the long-term basic policy of "Party and government organs living on tight budgets", we formulated strict budgets and made rigorous efforts to keep overall expenditures within approved budgetary limits. On one hand, the



central government departments took the lead in living on tight budgets. Central government expenditures in 2021 continued to register a negative growth, with further cuts of spending on non-essential and non-key items as well as public expenditures. Public activities such as meetings, business trips, training, study tours, forums and celebrations were streamlined and budgets for the “three public expenses” of government cars, overseas trips and official receptions were rigorously scrutinized, leading to a decrease of 6 percent in the budget. On the other hand, we intensified our efforts to guide and push local governments to reduce general expenditures. Local governments were urged to practice frugality, formulate strict budgets, cut general expenditures, and strictly follow budgetary limits. Government buildings or vanity projects constructed in violation of regulations were strictly prohibited, so that more fiscal funds could be used to improve people’s livelihoods and support the development of market entities.

**II. Policies of tax and fee cuts were further improved to ease the difficulties of market entities and help them thrive and grow stronger.**

Market entities are an important force for economic and social development. Finance departments innovated macro-control measures, improved and implemented tax cuts and fee reductions, and increased the

scale of inclusive finance, as well as fiscal rewards and subsidies, in order to support the healthy development of market entities and their path to future prosperity.

**1. We improved policies for tax and fee cuts, with tax and fee cuts totaling 1.1 trillion yuan in the whole year.**

We implemented both inclusive and structural tax cuts. Aiming at creating an enabling environment for businesses to grow and gain sustained strength, we carried out targeted policies for tax and fee cuts as a key task in deepening supply-side structural reform, and further alleviating burdens on enterprises.

**First, we carried out systematic tax cut policies.** By putting in place both systematic arrangements and temporary policies, we continued to reduce the value-added tax (VAT) rate, refund overpaid VAT, introduce a special deduction of the individual income tax, offer corporate income tax credits for enterprises engaging in environmental protection and the conservation of energy and water, and lowered the social insurance rate. These policies have brought about favorable outcomes.

**Second, tax preferences for SMEs were strengthened.** While implementing inclusive tax and fee cuts for SMEs, we introduced more tax cut and exemption policies for SMEs and individual businesses. From

April 1, 2021 to Dec 31, 2022, the VAT threshold for small-scale taxpayers will be raised from 100,000 yuan to 150,000 yuan in monthly sales; from Jan 1, 2021 to Dec 31, 2022, we will halve the income tax of SMEs and self-employed individuals on annual taxable income below 1 million yuan. Around 70 percent of market entities were in active operation in 2021.

**Third, financial support for manufacturing and technological innovation was further increased.** The weighted deduction rate for research and development fees of manufacturing enterprises was raised from 75 percent to 100 percent, and settlement and accounting methods were reformed to benefit enterprises. Enterprises engaging in the production of transport equipment, electronic appliance and machinery, instrumentation, pharmaceuticals and chemical fiber were included in the overpaid VAT refund policy for advanced manufacturing enterprises, and the overpaid VAT was fully refunded on a monthly basis. An interim tax deferral policy was applied to micro, small and medium enterprises (MSMEs) in manufacturing to reduce the impact of cost increases.

**Fourth, the interim policies introduced during the COVID-19 pandemic were adjusted or gradually terminated.** Some policies, such as VAT reduction for small-sized taxpayers and registration fee exemptions for pandemic-related pharmaceutical and medical equipment,

stayed in place until the end of 2021 so that adequate support for economic recovery was maintained. Temporary and emergency policies concerning epidemic prevention and control were terminated upon their expiration dates.

**Fifth, tough steps were taken to end arbitrary charges imposed on businesses.** We continued to sort through fee-based funds and abolished port development fees and additional fees for regular passports. Airlines' contributions to the civil aviation development fund were cut by 20 percent on the basis of a previous 50-percent cut. More measures were taken to crack down on arbitrary charges imposed on businesses and unjustified growth in non-tax government revenue was strictly checked to prevent any acts that may undermine the benefit brought by tax and fee cuts.

With joint efforts of various sectors, tax and fee reduction policies were implemented in a robust way. We cut about 1.1 trillion yuan in taxes and fees in 2021, realizing a virtuous circle of creating a good business environment that leads to an increase of healthy enterprises. There are currently 150 million market entities in China, including over 40 million enterprises and more than 100 million individual businesses. The performance of enterprises continued to improve. Industrial firms with an annual business turnover of at least 20 million yuan realized a total profit

of 8.71 trillion yuan, a year-on-year increase of 34.3 percent. The expansion put the average growth for 2020 and 2021 at 18.2 percent.

**2. We increased financial support for MSMEs and their financing difficulties were effectively addressed.**

**First, the role of government financing guarantees was better played.**

The scope of the government financing guarantee was expanded and guarantee fees were reduced significantly. The National Financing Guarantee Fund completed re-guarantee services worth 754.2 billion yuan in 2021, and a total of 1.18 million market entities were covered by the fund with services worth up to 1.46 trillion yuan. The average guarantee fee rate for partner institutions was cut to 0.82 percent, a year-on-year decrease of 0.13 percentage points. This reduced financing costs by over 10 billion yuan for market entities, compared with the 2.5-percent fee rate of commercial guarantee agencies.

**Second, we continued to increase interest subsidies for guaranteed start-up loans.**

We provided interest subsidies for qualified start-up entrepreneurs and SMEs that offer job opportunities to key groups of people. We enlarged the scale of subsidies for a period of time and lowered the requirements for SME registration. The cap on individual loans was raised to further expand coverage of guaranteed start-up loans. In 2021, the central government earmarked a total of 6.336 billion yuan

for interest subsidies and rewards for guaranteed start-up loans, a year-on-year increase of 65.9 percent.

**Third, we made positive progress in exploring an effective way for the finance sector to serve market entities.** We supported comprehensive pilot reform programs of financial services for private businesses and SMEs, covering 179 cities with 7.14 billion yuan in rewards and subsidies allocated in three batches from 2019 to 2021. In order to optimize performance indicators and promote the pilot experience, we upgraded the reward policy for pilot cities to a central government-backed reward policy for demonstration zones of inclusive finance development and established a regular reward mechanism. Starting from 2022, the central government will allocate 2.25 billion yuan each year to support the demonstration zones.

**3. We implemented financial reward and subsidy policies and supported the high-quality development of leading small and medium-sized enterprises that specialize in niche sectors.**

We published a notice on supporting the high-quality development of SMEs specializing in niche sectors and launched reward and subsidy policies for them. In 2021, the central government allocated 3.5 billion yuan in rewards and subsidies for 1,379 “little giant” enterprises, leading SMEs that specialize in niche sectors, in two batches to increase their

public service level. Thanks to the support and guidance of the central government, a total of 4,762 national-level “little giant” SMEs have been set up across the country. Among them, over 300 were listed companies and their average growth rates for revenue and net profits were both over 25 percent for the past two years, twice the average of all listed companies in China.

**III. We made it a regular practice to directly allocate funds to lower level governments, with 2.8 trillion yuan allocated to benefit businesses and individuals.**

Based on the practice in 2020, we established a regular transfer system to directly allocate budgetary funds to grassroots-level governments, with more funds placed under this mechanism. We improved the allocation process, strengthened supervision of funds, maintained the significant advantages of the direct fund allocation mechanism in terms of its well-established system and operational flexibility, as well as its unique characteristics of “promptness, precision and strictness”, which in turn boosted both management efficiency and fund performance.

**1. The execution of direct allocation of funds was generally satisfactory.**

**First, the scope of funds was gradually expanded.**The incremental

funds were replaced by the existing funds as the major resources to be included in the direct allocation mechanism, with the total amount exceeding 2.8 trillion yuan, which has basically covered the full funding of financial assistance for people's livelihood.

**Second, funds were allocated ahead of time and with high efficiency.**

In October 2020, about 85 percent of the funds were allocated to local governments ahead of schedule. Within one month after the budget was approved by the National People's Congress, all the funds were allocated to local governments, except for few projects to be settled after completion, leaving local governments enough time to make project arrangements. The increased fund was allocated more to cities and counties at the primary level, and local governments were authorized to make necessary adjustments to the allocation to ensure scientific allocation and project quality.

**Third, a mechanism for directly allocated funds was basically established.** Focusing on fund allocation, spending, disbursement, and supervision, we printed and issued a *Notice of the Ministry of Finance on Doing a Good Job in the Direct Allocation of Fiscal Funds in 2021* as well as other policy documents, stressing the importance of strengthening institutional regulation and enforcement to make sure that the funds were used to benefit businesses and the people.



Directly-allocated funds from the central government have all been channeled to provincial-level governments, where 1 trillion yuan was used by provincial-level governments and 1.8 trillion yuan was allocated to cities and counties. More than 430,000 programs were covered by the directly-allocated funds with total spending of 2.67 trillion yuan, accounting for 95 percent of the total. The process of making budgetary funds available for fiscal expenditures was much faster than general budgetary funds.

**2. With enhanced financial supervision, the directly-allocated funds were better regulated and used with higher efficiency.**

**First, we upgraded the monitoring system for directly-allocated funds.** The system now fully covers budget quotas, cash flow and disbursement information, so that the whole process of fund allocation and spending was under close watch. We worked closely and shared information with the National Audit Office, People's Bank of China and other departments to track the allocation and spending of funds, and identify and solve problems in a timely manner.

**Second, we stepped up monitoring of directly-allocated funds.** Local regulatory bureaus under the MOF played their part in monitoring the funds and carried out on-site checks of suspected cases, realizing whole-process monitoring of units involved in fund allocation, spending

and project implementation. We established a mechanism for openly criticizing or holding regulatory talks with entities for major violations, and held the violators accountable, to make sure that all wrongdoings were seriously dealt with and the funds were used securely and efficiently.

**Third, we intensified our efforts to guide and push local governments in this regard.** We urged provincial-level governments to allocate more funds to cities and counties, and guided them to expand the scale of directly-allocated funds from their own budgetary resources based on local specific conditions, in addition to the funds directly allocated from the central government, so as to amplify the impact of the direct fund allocation mechanism.

**3. We improved the spending mix and focused on key areas, and directly-allocated funds brought about remarkable outcomes.**

In their efforts to thoroughly implement the major decisions and plans made by the CPC Central Committee and the State Council, all localities continued to improve the spending mix and focus on key areas, making sure that the funds were channeled to sectors where they were most needed and would bring about more favourable outcomes, so as to provide a solid foundation for local governments to implement policies that benefit enterprises and people, and to fulfill the tasks of ensuring

"stability on six fronts" and maintaining "security in six areas". Statistics show that over 51 billion yuan in funds was directly used for employment; funds used in areas such as elderly care, compulsory education, basic healthcare, and basic housing needs amounted to more than 1.92 trillion yuan, accounting for 72 percent of the total spending; more than 600 billion yuan was used to directly benefit over 1.66 million market entities, with more than 2 million applications approved; nearly 3,000 projects were backed by funds of more than 100 million yuan each, with the total allocation surpassing 1.3 trillion yuan. Major projects such as farmland irrigation and water conservation, transportation infrastructure, and affordable housing were carried out, with effective results in promoting investment and shoring up weak links.

#### **IV. Government debt management was continuously strengthened and solid progress was made in reducing debt risks**

MOF kept "opening the front door" to expand the investment and "blocking the back door" to prevent the risks, improved and formalized the government debt financing mechanism according to law, tentatively established an institutional system to fend off and defuse local government debt risks, and achieved positive results in defusing debt risks.

##### **1. Management level of treasury bonds gradually improved.**

**First, we successfully completed the task of the issuance of treasury bonds in 2021.** Throughout the year, the actual issuance of domestic bonds was 6.79 trillion yuan, a year-on-year decrease of 4.2 percent, including 6.49 trillion yuan in book-entry treasury bonds and 306.8 billion yuan in savings bonds, providing a solid guarantee for meeting the financing needs of the central government.

**Second, we kept the treasury bonds issuance within a reasonable range.** We moderately reduced the financing costs of treasury bonds, further strengthened coordination of treasury bonds issuance, budget implementation and treasury management, improved the bidding rules for book-entry treasury bonds issuance, timely adjusted the issuing rate of savings bonds, and actively carried out the pilot work of selling digital savings bonds via mobile banking in a proper manner.

**Third, we took further steps to open up the government bond market.** With official announcement to include China in FTSE World Government Bond Index, China government bonds were thus included in all the three major global bond indexes, which would push forward the sustainable and healthy development of the government bond market. By the end of 2021, the scale of China's treasury bonds held by overseas institutions had reached 2.45 trillion yuan, accounting for more than 11 percent of the balance of book-entry treasury bonds.

## **2. Local government special bonds significantly drove the expansion of effective investment.**

In 2021, the National People's Congress approved the 3.65 trillion yuan quota for the newly-added special-purpose local government bonds, including 3.5 trillion yuan for project construction. To give better play to the positive role of special bonds in stimulating effective investment and stabilizing economic growth, MOF stepped up its efforts in working with relevant departments to strengthen the management of special bonds.

**First, we reasonably determined the newly-added quota.** We made good efforts to balance the relationship between maintaining growth and preventing risks, taking into account various factors such as the fiscal strength and debt risk level of each region, and scientifically distributed the quota of special bonds by region. We managed to control the scale of newly-increased local government debts in high-risk regions to avoid the continuous accumulation of risks.

**Second, we kept a close eye on how the fiscal funds were used.** MOF has worked with the National Development and Reform Commission to guide the local governments to prepare more projects ready for implementation, strengthen the negative-list-based management of investment fields of special bonds, and prohibit the use of special bonds for all kinds of government buildings, vanity projects, and various

non-public welfare projects. We guided local authorities to follow the principle of “funding follows specific projects”, increased support for the key projects under the nation’s major regional development strategies and the 14th Five-Year Plan (2021-25), and would never spread the funds too thin.

**Third, the daily supervision and management were enhanced.** We carried out through-and-through monitoring of special bonds projects so as to put the funds into practical use with tangible results. We carried out performance-based management through the whole process to consolidate the management responsibilities of incumbent departments and project units. We regularly organized local regulatory bureaus of MOF to carry out reviews over the use and management of special bonds, covering all the new special bonds projects. We established a punishment mechanism for the illegal use of special bonds to strengthen the hard constraints on violations.

In 2021, a total of 3.43 trillion yuan of newly-added local government special bonds were issued, accounting for 98 percent of the assigned quota. The issuance work for the year was basically accomplished. The funds were used for key areas identified by the CPC Central Committee and the State Council, about 50 percent of which were invested in transportation infrastructure and infrastructure for public works and

industrial parks; around 30 percent of which were invested in government-subsidized affordable housing projects and social undertakings such as health, education, elderly care, culture and tourism; about 20 percent of which were invested in agriculture, forestry, water conservation, energy, urban and rural cold chain logistics, which met the reasonable financing needs of local governments and gave full play to the leveraging role of special bonds.

**V. We guaranteed that financial resources reached local levels and adequately protected the “three priorities” of people’s basic well-being, payment of salaries and normal government functioning.**

For local governments to ensure people’s basic well-being, payment of salaries and normal government functioning is not only a requisite for safeguarding the vital interests of the people, but also a starting point for the government to perform their duties and carry out various policies. MOF continued to take its commitment to the “three priorities” as an indispensable task in its fiscal work, diverted more financial resources to local levels, and strengthened supervision and accountability, in order to enhance the local capacity for “three priorities” and ensure that the fiscal operation at the grassroots level go on smoothly.

**1. The central government increased the scale of transfer payments to local governments.**

While the actual growth in new financial resources was limited, the central government increased its transfer payment efforts to localities by optimizing the expenditure structure. Specifically, the general transfer payments reached 7.49 trillion yuan, an increase of 7.8 percent; the equalization transfer payments reached 1.89 trillion yuan, a year-on-year increase of 10.1 percent; the funds for county-level basic financial guarantee mechanism reached 337.3 billion yuan, rising by 13.2 percent year-on-year; the transfer payments to old revolutionary base areas, ethnic minority areas, border areas and poor areas reached 302.7 billion yuan, up 8.5 percent from the previous year.

## **2. Local capability to guarantee “three priorities” was strengthened.**

The central government continuously stepped up efforts to ensure that financial resources reach local levels, tilted transfer payment funds towards areas with weak financial capacity, helped local governments increase their fiscal strength, and made sure that their spending needs on the “three priorities” were met. On the principle that “county-level governments take the lead, municipal-level governments offer assistance and provincial-level governments hold the bottom line”, the provincial financial departments were responsible for the review of the budgetary planning for “three priorities” at the county level, earnestly shouldered the responsibility of promoting the equalization of fiscal strength below



the provincial level, and provided more support to areas with weak financial capacity. The county-level financial departments listed in their budget the full amount expenditure of “three priorities” item by item, kept prioritizing the “three priorities” expenditures, and spared no efforts to ensure the availability of funds required for the “three priorities” at the grassroots level. Meanwhile, we continuously reinforced the incentive and constraint mechanism, and in the process of fund allocation, we rewarded provinces that had achieved remarkable results in ensuring the minimum funding needs of poor counties, and increasing both fiscal capacity and financial equalization at the county level.

### **3. We strengthened supervision and guidance, and actively fended off and defused primary-level finance operation risks.**

**First, we explored to establish a monitoring mechanism for the operation of local finance.** We carried out coordinated monitoring and dynamic early warning of the budget arrangement and implementation of local “three priorities” expenditures, debt service of local governments, temporary payments, and treasury funds. Local financial departments were required to focus on monitoring counties and districts with prominent revenue-expenditure gaps, high debt risks, large scale of temporary payments and continuous low level of treasury funds protection. For the problems found in audit supervision and daily

monitoring that individual counties and districts failed to fix in time and in full, we timely urged them to make adjustments.

**Second, we gave full play to the advantage of geographical proximity of MOF's local regulatory bureaus.** The local regulatory bureaus paid close attention to the important matters affecting the operation of local finance, such as local expenditures to support the “three priorities”, the overall risk of local government debt, expenditure policies beyond financial affordability and pension gap, and made early detection and report of major violations of discipline, and emerging risks and problems in the local areas.

**VI. We supported self-reliance and self-improvement in science and technology, and the industrial and supply chains were continuously optimized and stabilized.**

We upheld self-reliance and self-improvement in science and technology as the strategic support for national development, continued to increase investment in science and technology, innovated and improved policy mechanism, deepened management reform, supported the battle of developing key and core technologies, strengthened the nation's strategic forces for science and technology, and effectively improved independence, controllability, security and stability of the industrial and supply chains.

**1. We gave high priority to science and technology expenditure, providing strong support for scientific research innovation and creative activities.**

**First, we continued to prioritize science and technology in fiscal expenditure.** While central government spending continued to register negative growth, MOF allocated 320.554 billion yuan of science and technology expenditures at the central level, giving high priorities to ensuring science and technology expenditures. At the same time, we optimized the expenditure structure and increased support for basic research, tackling key and core technologies and building nation's strategic forces for science and technology. The central-level expenditure on basic research reached 72.091 billion yuan, up 15.3 percent year-on-year.

**Second, we implemented and improved tax policies favorable for scientific and technological innovation.** We continued to implement the policy of granting an extra tax deduction of 75 percent for the R&D costs of enterprises and raised it to 100 percent for manufacturing enterprises, and allowed enterprises to enjoy preferential policies in advance either in the first half of the year or the first three quarters. Throughout the year, a total of 320,000 enterprises nationwide enjoyed the additional tax deduction for R&D expenses ahead of time. The total tax reduction

reached 333.3 billion yuan. The tax reduction for 186,000 manufacturing enterprises reached 225.9 billion yuan.

**Third, we reformed and perfected the management of scientific research funds from the central government.** We introduced 25 policies and measures in seven aspects to expand the autonomy of funds management of scientific research projects and give researchers more freedom, further promoting innovation and creation. Among them, the budget items were cut from over nine to merely three, namely equipment costs, business expenses and service fees; the proportion of indirect costs was significantly increased, and the expenditure on“people” in the research funds reached more than 50 percent.

**2. We supported the battle of developing key and core technologies and significantly improved the overall effectiveness of the innovation chain.**

**First, we strove to overcome technological bottlenecks.** MOF focused on the key links, key fields and key products of the industrial and supply chains, mapped out an innovation chain that improves weak links as much as it builds up strengths, brought into full play the advantages of the new nationwide system under the socialist market economy, and gathered strength to win the battle of developing key and core technologies.

**Second, we continued to enhance the nation's strategic forces for scientific and technological development.** We carried forward the construction of national laboratories, encouraged the reform and development of scientific research institutes, and promoted the construction of high-level research-oriented universities. We supported all kinds of innovation entities to cultivate, introduce and employ science and technology talents, and to accelerate the construction of an important talent center and innovation highland in the world.

**Third, we guided and supported the transfer and commercialization of key and core technological achievements.** We guided local governments and financial capital to increase investment in the transfer and commercialization of scientific and technological achievements by implementing national guidance funds for the transfer and commercialization of scientific and technological achievements and setting up venture capital sub-funds. We promoted the funding mode which allows the projects to go ahead first before the appropriation of funds, in order to guide enterprises to ramp up investment in research and development and strengthen the connection of basic research, application development, transfer and commercialization of achievements and industrial development.

**Fourth, we gave full play to enterprises' principal role in scientific**

**and technological innovation.** We promoted the agglomeration of various innovation elements to enterprises, supported enterprises to take the lead in establishing innovation consortiums and undertaking major national science and technology projects, and advanced the construction of national science and technology innovation bases such as national technological innovation centers in leading tech companies, so as to improve the independent innovation capability of key and core technologies.

**3. We sped up the optimization and upgrading of industrial and supply chains, and saw steady improvement in quality and efficiency of the economy.**

We focused on the key industrial chains of manufacturing, centered upon the problems of blocking and breaking points, supported collaborative innovation of the industrial chain and construction of a public service platform, and promoted the modernization level of the industrial and supply chains. We optimized the pilot policies for the insurance compensation of the first (set of) major technological equipment, enhanced the applicability of the catalogue of the first (set of) major technological equipment, simplified the fund declaration procedures, encouraged local governments to introduce incentives for application of the first (set of) major technological equipment, and backed up

popularization and application of innovative products. We gave full play to the government investment funds in the manufacturing sector, guided private capital to increase investment in the key areas, and ensured safety of the industrial and supply chains.

## **VII. Investment has been intensified to guarantee people's livelihoods forcefully and effectively**

Improving people's well-being is the fundamental purpose of development. Finance authorities have firmly kept in mind a people-centered development philosophy and tried within the national fiscal capacity as best as they can to ensure people's basic living needs were met and people's livelihood security strengthened. Efforts were continued to make sure that young children were given proper nurturing care, students well educated, workers well paid, patients effectively treated, the elderly properly looked after, housing abundantly provided and the weak helped in time, so that people would feel more satisfied, happy and secure.

### **1. Employment-first policy was deeply implemented to safeguard people's livelihood.**

**First, fiscal policy was set in line with employment policy.** We adhered to the employment-oriented approach for economic development, fully

considered the macroeconomic policies' impact on employment and further enhanced the role of key policies, major projects and crucial productivity distribution in creating jobs. We took large-scale tax and fee reductions as a critical macro regulation measure to support the upgrading of the manufacturing industry, as well as numerous small and medium-sized enterprises (SMEs) and individual entrepreneurs which are widely located and have a large capacity for employment.

**Second, efforts to secure the availability of employment funds were further strengthened.** In 2021, the central finance authorities released 56.59 billion yuan as employment subsidies to support local governments in implementing employment and entrepreneurship support policies. More than 100 billion yuan in vocational skill improvement funds was extracted from the unemployment insurance fund to finance vocational training. We also beefed up the role of unemployment insurance in protecting people's livelihoods, stabilizing jobs and promoting employment, and supported policy implementation for employment and vocational training.

**Third, more actions were taken to further upgrade vocational skills.** We strove to train as many people as possible and provide training subsidies as needed. Vocational skill training was vigorously carried out and its scale has now expanded to include workers in all types of



enterprises. New-hire training, on-the-job training, job skills improvement training, job transfer training and off-the-job training were all included. The coverage of specific funds for vocational skill promotion was properly extended. Eligibility for subsidized training was expanded to include fresh graduates from universities, secondary and higher vocational colleges (technical colleges included).

**Fourth, effective policies were launched to assist enterprises and stabilize jobs.** On top of conventional support for stable employment in 2020, the policy of training while working was extended to the end of 2021. SMEs and industrial enterprises heavily hit by the COVID-19 pandemic were provided with training subsidies. We continued to carry out, adjust and optimize the inclusive unemployment insurance premium rebate policy for stabilized job positions until the end of 2021, and the rebate ratio was adjusted from 50 percent to 30 percent for large enterprises and 60percent for SMEs, so as to increase the scope of beneficiaries. We will continue to implement the periodical policies of reducing the unemployment insurance premium rate and industrial injury insurance premium rate until April 30, 2022.

**Fifth, solid work was done to facilitate employment and entrepreneurship among key groups.** The employment support system for key groups such as people with employment difficulties, college

graduates and migrant workers was improved. For people with employment difficulties and unemployed college graduates within two years after leaving school who paid social insurance premiums after flexible employment, we continued to provide social insurance subsidies according to regulations. For key groups who started their own businesses or were employed by employers, we provided tax reductions and exemptions, guaranteed loans for startups and interest subsidies, social insurance subsidies, vocational training subsidies, and entrepreneurship subsidies according to regulations. We made good use of public welfare positions and provided employment assistance to qualified people with employment difficulties.

In 2021, the employment situation in China was generally stable. In the whole year, 12.69 million new urban jobs were created, an increase of 830,000 over the previous year, exceeding the annual target of 11 million. The average urban unemployment rate was 5.1percent, 0.5 percentage points lower than the previous year and below the annual target of around 5.5 percent.

## **2. Priority was given to the development of education to promote more equitable education with higher quality.**

**First, education investment enjoyed a stable increase.** We conscientiously implemented the requirement that national fiscal

expenditures on education should be no less than 4 percent of GDP and that both education expenditures in the general public budget and per-student education expenditures in the general public budget should keep increasing. In 2021, education expenditures in the national general public budget totaled 3.76 trillion yuan, up by 3.5 percent year on year. The distribution of funds was tilted to compulsory education, central and western regions and people, with an eye on making up for shortcomings and weaknesses in the education field. Among them, 56 percent of central transfer payments to local education was used for compulsory education and 83 percent for the central and western regions. 63 percent of the national fiscal education funds were used for teachers' salaries and student assistance.

**Second, efforts to promote education equity continued steadily.** The central fiscal budget allocated 19.84 billion yuan as support funds for the development of pre-school education, up 5.3 percent year on year, supporting local governments to expand the supply of inclusive pre-school education resources. We allocated 29.85 billion yuan in subsidy funds to improve weak links in compulsory education and enhance capacity. Local governments were supported in efforts to continuously improve the basic conditions of rural schools and increase secondary education opportunities in cities and towns for rural students. The education assistance policy for veterans and the national student loan

policy were improved, while the maximum limit for national student loans was increased by 4,000 yuan. We allocated 176.96 billion yuan in subsidy funds for urban and rural compulsory education, up 4.3 percent year on year, and consolidated and improved the guarantee mechanism of compulsory education funds that coordinated urban and rural areas, yet with emphasis on rural areas. The national basic standard of free textbooks in primary schools was raised from 90 yuan per student per year to 105 yuan. Starting from the autumn semester, the national basic standard of dietary subsidies for rural students receiving compulsory education was raised from 4 yuan to 5 yuan per student per day. About 156 million students receiving compulsory education in both urban and rural China were exempted from tuition and miscellaneous fees and got free textbooks. About 14 million children of migrant workers in cities received the benchmark quota on the per-student basis for public funds and can use the “two exemptions and one subsidy” funds wherever they study.

**Third, we further promoted the high-quality development of education.** We allocated 27.7 billion yuan as funds for the program of improving the quality of modern vocational education, up 7.7 percent year on year, to support the improvement of school conditions, increase the per-student subsidy level of vocational education, promote the development of college-level vocational schools and disciplines with

Chinese characteristics, and complete the three-year task of enrollment expansion at college-level vocational schools. We improved the per-student quota subsidy standard for students in mathematics, physics and chemistry at central universities, as well as doctoral students in clinical medicine and other disciplines, enhanced the cultivation of basic discipline talents and urgently needed high-level talents, and promoted the connotative development of higher education. We further promoted the construction of “double first-class” universities with support to their reform and development. We facilitated the establishment of distinctive and high-level universities in the central and western regions. We also provided support for the development of young scientific and technological talents, and the proportion of basic scientific research expenses for young scientific researchers was generally no less than 50 percent of the annual budget.

**3. The social security system has been established and improved to continuously elevate the level of social security management services.**

**First, the pension scheme was further improved.** The central adjustment ratio of the pension fund was increased to 4.5 percent, with a focus on supporting provinces with prominent pension funding gaps. The rebate to provinces with pension fund shortfalls was increased to ensure the pensions were paid on time and in full. In 2021, the total size of the

central adjustment fund of the pension fund reached over 930 billion yuan, while provinces in the central and western regions, as well as old industrial bases, received over 210 billion yuan. The basic pension level of retirees was adjusted by about 4.5 percent and the bookkeeping interest rate of personal accounts of basic old-age insurance for urban and rural residents was standardized. We actively promoted the national coordination of the basic old-age insurance for enterprise employees and facilitated safe operation, preservation and appreciation in the old-age insurance fund.

**Second, efforts were further enhanced to ensure basic living standards for people in difficulty.** We consolidated and expanded the achievements of poverty alleviation as well as the efforts to ensure people's needs were met. While out of extreme poverty, there are still people who have completely or partially lost their ability to work and can't obtain stable income through industrial employment. We included them in programs such as subsistence allowances, assistance and support for extremely poor people, or temporary assistance. In 2021, a total of 147.321 billion yuan was allocated from the central budget as assistance funds for people in need. The rural dilapidated housing renovation policy was optimized. The beneficiaries of the safe housing policy were adjusted from four categories, such as registered poor households during the 13th Five-Year Plan period, to six categories that include rural low-income

groups. We provided support for localities in their efforts to carry out rehabilitation, foster care, educational assistance, cultural learning and household barrier-free facility program for the disabled. We also promoted the project of improving basic old-age care service upgrading and strengthened the construction of the basic old-age care service system.

**Third, special care and resettlement work was carried out in an orderly manner.** The standard of pension and living allowance for entitled groups and other personnel was raised by about 10 percent. In 2021, the central fiscal budget allocated 51.5 billion yuan in pension and living allowance funds, of which 2.04 billion yuan was devoted to subsidy raises, benefiting 8.24 million people. On the occasion of the centenary of the founding of the Communist Party of China, 34,000 veteran Party members were each given a one-time living allowance of 5,000 yuan, which fully reflected the political preferential treatment and care for old members who joined the Party before the founding of the People's Republic of China. We allocated 2.38 billion yuan to local governments to fund medical insurance for entitled groups. These funds provided additional reimbursement for key groups on top of the existing medical insurance to effectively guarantee their medical treatment. We supported the renovation project of memorial facilities for heroes and martyrs in areas below the county level and improved the environment of

540,000 martyrs' tombs and 20,000 other memorial facilities for martyrs.

**4. The Healthy China Action was implemented in an all-around way and the capacity to ensure medical security was continuously enhanced.**

**First, the costs of COVID-19 vaccines and vaccination were effectively funded.** Financial authorities at all levels gave appropriate subsidies to cover the COVID-19 vaccine and vaccination costs borne by the medical insurance fund. The central budget granted subsidies for the eastern, central and western regions at proportions of 30 percent, 40 percent and 50 percent respectively and the accounts of the subsidy funds were settled every half year during the current round of vaccination. In December 2021, the central budget allocated 10.38 billion yuan in subsidies to cover COVID-19 vaccine and vaccination costs in the first half of 2021. According to statistics from relevant departments, the full vaccination coverage rate of COVID-19 in China exceeded 80 percent by the end of 2021.

**Second, the health service level was effectively improved.** We allocated 65.6 billion yuan in assistance funds to support basic public health services to provide residents with free basic public health services such as health education, vaccination and health management of key groups. The fiscal subsidy for basic public health service expenditures



was raised from 74 yuan to 79 yuan per person per year. A total of 19.3 billion yuan was allocated to support the prevention and control of major infectious diseases. A national immunization program was implemented and the prevention and control of major infectious diseases such as AIDS and tuberculosis were carried out. We allocated 9.1 billion yuan in national essential drug system assistance funds to support grassroots medical institutions to implement the national essential drug system and deepen the comprehensive reform of the grassroots medical institution system and mechanism. More funds were appropriately allocated to village clinics. Another 30.7 billion yuan in subsidy funds was allocated to improve medical services and logistic capability, and to promote comprehensive reform of public hospitals, training of health personnel and capacity building of medical and health institutions. A total of 13.3 billion yuan was allocated to ensure the provision of family planning services.

**Third, efforts were made to promote steady progress in the provision of medical care services.** To properly improve the financing standard of medical insurance for urban and rural residents, 359.387 billion yuan was allocated as subsidy funds for medical insurance for urban and rural residents. The basic medical insurance subsidy for urban and rural residents was increased by 30 yuan per person on average, now standing at no less than 580 yuan per person per year. We made sure that medical

assistance will be there as a guarantee to help people in difficulty. About 30.427 billion yuan was allocated as subsidy funds for medical assistance to subsidize eligible people in difficulty for their insurance and provide emergency assistance for medical treatment. We promoted the reform of the medical security system, and established and improved the mutual security mechanism of medical insurance and outpatient services for employees. We promoted the normalization and institutionalization of centralized drug procurement, and accelerated the inter-provincial direct settlement of outpatient expenses.

**5. Public cultural services were vigorously developed, and intellectual and cultural activities for the public were enriched.**

In 2021, a total of 23.03 billion yuan was allocated from the central budget to build and maintain the system of public cultural services, improve performance-based management, and increase the coverage and effectiveness of cultural projects benefiting the public. Basic public cultural services were fully supported. Over 50,000 public libraries, art galleries, cultural centers (stations), museums and memorial halls in China were open for free to the public, and basic public cultural services such as lectures and exhibitions for public welfare were provided. Support was given to local governments to implement national standards for basic public cultural services, promote projects such as smart libraries,

a public cultural cloud system, national public cultural service demonstration zones and folk festival celebrations such as square dancing performances and rural evening galas to effectively ensure people's cultural rights and interests. We provided support to the areas that have been lifted out of poverty, border areas, ethnic minority areas and old revolutionary base areas for their efforts in training and appointing 19,000 cultural workers to enhance the development of talented personnel engaging in grassroots public cultural services. Efforts were also made to promote fitness-for-all activities, support preparations for the Beijing 2022 Winter Olympics and Paralympics, and accelerate the endeavor of building China into a country strong in sports.

**VIII. Coordinated urban-rural development was actively advanced, and the development paradigm was optimized continuously.**

Coordinated development is both a means and an end, and it is also a standard and yardstick for evaluating development. Finance authorities firmly stuck to the new development philosophy, gave full play to the role of fiscal functions, consolidated the achievements of the battle against poverty, implemented a rural revitalization strategy across the country and put into effect major strategies for regional development, addressed imbalance and inadequacies in development, and ushered in a new stage in advancing coordinated urban-rural development.

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

**First, the fiscal support policies in general remained unchanged during the transition period.** We aligned efforts to consolidate and expand the achievements in poverty alleviation with efforts to promote rural revitalization, ensured the continuity of fiscal support policies during the transition period, and decided on the scale of fiscal input appropriately, optimized the structure of fiscal expenditures and adjusted spending priorities in light of actual needs and fiscal resources.

**Second, the supporting funds were scaled up for rural revitalization.**

MOF optimally turned the original central fiscal funds dedicated to poverty relief into the supporting funds for advancing rural revitalization. The allocation of funds was tilted toward areas with heavy tasks and weaknesses in consolidating the achievements of poverty alleviation and implementing rural vitalization. A total of 156.1 billion yuan supporting funds was allocated in 2021, an increase of 10 billion yuan over 2020, and the funds were mainly used to enhance continuous monitoring and assistance mechanisms to prevent populations from falling back into poverty, provide follow-up support for those who have been relocated from inhospitable areas, cultivate the industries with distinctive local features and advantages in underdeveloped areas, address the weaknesses

of improving the rural living environment and building small public-interest infrastructure.

**Third, relevant transfer payments were prioritized in key areas.** The transfer payments, which had been prioritized in the country's 832 poverty-stricken counties, especially the areas suffering from extreme poverty such as the Tibet Autonomous Region, the Tibetan-inhabited areas in Qinghai, Sichuan, Gansu and Yunnan provinces, the four regions in southern Xinjiang Uygur Autonomous Region, and the Liangshan Yi autonomous prefecture in Sichuan, Nujiang Lisu autonomous prefecture in Yunnan and Linxia Hui autonomous prefecture in Gansu, during the poverty alleviation period, continued to appropriately prioritize areas that have been lifted out of poverty such as the key counties receiving assistance for rural revitalization during the transition period.

**Fourth, policies were continued for the coordinated use of agriculture-related funds in counties that have been lifted out of poverty.** We worked with relevant departments to issue *the Circular on Further Supporting Out-of-poverty Counties in the Coordinated Use of Agriculture-related Fiscal Funds*, continued and optimized major institutional arrangements implemented during the poverty alleviation period, kept the scope of the coordinated funds unchanged, and made clear that the pilot policy on the coordinated use of agriculture-related

fiscal funds in out-of-poverty counties would be continued in the period from 2021 to 2023 and that the policy would be expanded to key counties receiving assistance for rural revitalization during the period from 2024 to 2025 to ensure stable transition.

**Fifth, full play was given to the role of government procurement.**

Government procurement policies were adjusted and optimized to continuously support industrial development in areas that have been lifted out of poverty, and all budget units at different levels were required to reserve at least 10 percent of the procurement share of canteen food and procure agricultural products from out-of-poverty areas through “the 832 poverty relief online platform”. In 2021, business turnover of the platform exceeded 10 billion yuan, contributing to steady income increasing of rural households in out-of-poverty areas.

**2. Rural revitalization forged ahead steadily.**

**First, efforts were made to ensure national food security and effective supply of major agricultural products.**To keep grain farmers fully motivated, we allocated a total of 120.485 billion yuan in assistance funds for arable land conservation, and provided a one-off subsidy of 20 billion yuan for grain farmers who were actually working on the cropland. Efforts were stepped up to promote vitalization of the seed industry, providing support to build 10 new national modern seed industrial parks.

In our efforts to implement the strategy for safeguarding grain production based on sustainable farmland use and agricultural technology, we worked with relevant departments to promote the nation-wide construction of high-standard farmland of 100-million *mu* (6.67 million hectares), and enhance assistance for the preservation of black-soil farming areas in Northeast China. Subsidies for purchasing agricultural machinery were launched. Support was given to agricultural production and water conservancy relief, with greater efforts to ensure adequate funding for accelerated implementation of upgrading projects for flood control and drought relief. We expanded the insurance coverage for full production costs and revenue protection of three major grain crops (rice, wheat, and corn), revised measures for the management of subsidies for agricultural insurance premiums, improved the policy of replacing subsidies with rewards for local agricultural products with distinctive features and advantages, and made constant efforts to expand agricultural insurance with increased products and higher standards. In 2021, the central government allocated 33.345 billion yuan in subsidies for agricultural insurance premiums, with an increase of 16.8 percent year on year and provided 4.78 trillion yuan of risk coverage for 188 million rural households. Support was given to the effective supply of “vegetable basket” products, a counter-cyclical control mechanism for hog production was established, actions to improve the quantity and quality of

beef cattle and sheep, and vitalization of the dairy industry were carried out, and there was great success in animal epidemic prevention. In 2021, China brought total grain output to a new high with 682.85 million tons, and pork production reached 52.96 million tons, basically returning to historically normal levels.

**Second, strong support was provided for green and high-quality development of agriculture.** We supported the new establishment of 50 national modern agricultural industrial parks, 50 competitive and characteristic industrial clusters and 298 major agricultural industrial towns, accelerating the integrated development of agricultural industries. We comprehensively promoted the construction of refrigeration and preservation facilities for agricultural products to enhance the supply resilience of agricultural production and capacity to resist risks. We implemented a new round of fishery support policies to facilitate the high-quality development of the fishing industry. We improved the national agricultural credit guarantee policy system to offer easy access to financial services and lower the cost of borrowing. The rotation of arable land lying fallow was improved and support was given to green development of agriculture and technology services. We launched the pilot projects on green planting and breeding and circular agriculture, the multi-purpose utilization of crop straw was advanced, support was given to the fishing ban along the Yangtze River basin, and a full range of



measures were taken to cope with groundwater over-exploitation. All these efforts contributed to the green and sustainable development of modern agriculture.

**Third, livable villages that are also suitable for economic development were continuously built.** We followed the policy of promoting financial awards and subsidies for the whole village in the rural toilet revolution, encouraged localities to press ahead with toilet improvement in rural areas in accordance with local conditions. We further promoted the pilot work of water system connectivity and rural construction with clean water. Support was given to rural environmental governance and protection that prioritized improving rural sewage and garbage treatment. We supported the construction of 400 beautiful villages featuring red tourism, where visitors can see revolutionary sites, hear revolutionary stories and learn the revolutionary spirit. We implemented the policies of financial rewards and subsidies for rural public welfare undertakings and supported and strengthened the village-level collective economy. We further advanced the pilot practice of comprehensive rural reform and the pilot project of State-level rural complex construction, while also encouraging local governments to explore demonstration models of comprehensive rural vitalization based on local conditions. We increased investment in rural water conservancy infrastructure, offered compensation for the use of national flood storage

and detention areas, and ensured the safety of drinking water in rural areas and agricultural production.

**3. The country's major regional development strategies were steadily carried out.**

**First, we established and refined the long-term mechanism for implementing major regional development strategies.** We issued the *Plan for Fiscal and Tax Supporting Policies for Comprehensively Promoting the Development of the Yangtze River Economic Belt*. We studied and drafted fiscal and tax supporting policies for promoting ecological protection and high-quality development in the Yellow River Basin with central budget. We revised and issued the *Measures for the Management of the Funds for Special Transfer Payment for the Revitalization of Northeast China*, making major headway in revitalizing Northeast China.

**Second, we implemented targeted policies to support high-quality development of key areas.** We stepped up efforts to study and improve the measures on the Chinese capital's fiscal system and tax sharing, and promote the coordinated development of the Beijing-Tianjin-Hebei Region. Support for underdeveloped regions in the Yangtze River Delta was strengthened. We studied and supported the fiscal policy package for the development of the Guangdong-Macao In-depth Cooperation Zone in

Hengqin, Zhuhai City. We encouraged Zhejiang Province to explore an innovative approach to making itself a provincial example of common prosperity through the efforts from the fiscal field. We also provided support to Pudong in Shanghai and Qianhai in Shenzhen for their regional development plans, so as to give full play to the leading role of pioneering regions.

**Third, support was given to special areas in their efforts to strengthen fiscal safeguard capacity.** We increased our support for old revolutionary base areas and the former central Soviet areas. Measures for the management of transfer payment allocation in ethnic minority areas were improved. Transfer payments of border areas were increased, and the coverage of transfer payments to key ecological areas was expanded. The transfer payments of resource-exhausted cities focused more on those that had prominent problems in the balance of revenue and expenditure and independent industrial and mining areas as well as coal mining subsidence areas. Allocation measures of temporary financial assistance were optimized to meet the needs of resources and energy-based areas and poverty-stricken areas in Northeast China, and to ensure that no systemic and regional risks would arise.

**IX. Investment in ecological and environmental protection was increased, with the battle for pollution prevention and control**

**achieving remarkable results.**

Finance authorities were committed to the implementation of Xi Jinping Thought on Ecological Civilization and focused efforts on securing the victory of seven key battles including the battle for blue skies. We maintained our attention to matching financial input with the task of pollution prevention and control, focusing on priorities and mechanism innovation. We continued to push forward with the quality and efficiency improvement of fiscal policies on natural resources and ecological environment, advanced the work on peaking carbon emissions and achieving carbon neutrality in an orderly manner, and provided solid support for accelerating the development of a beautiful China with blue skies, green lands, and lucid waters.

**1. Support for the battle for blue skies, lucid waters and clean lands was ensured.**

**First, we continued working to keep our skies blue.** A total of 27.5 billion yuan was used for air pollution control, an increase of 10 percent year on year. We focused on the conversions of clean energy heating in winter in northern China, and expanded the coverage of clean energy heating to the whole northern China with heating in winter. The key cities for air quality assurance for the Beijing 2022 Winter Olympics were covered, and 20 cities were selected through a competitive review process

to receive support. Clean energy heating rates in the Beijing-Tianjin-Hebei Region and surrounding areas, as well as in the Fenhe-Weihe Plain, were increased substantially. Coal use of 4.2 million rural households was upgraded in the year to become more environmentally-friendly. In 2021, the density of PM 2.5 in cities at prefecture-level and above fell by 9.1 percent year on year, and the proportion of days with good air quality reached 87.5 percent.

**Second, we continued the efforts to keep our waters clean.** A total of 21.7 billion yuan was used for prevention and control of water pollution, an increase of 10 percent year on year. The allocation of funds was tilted towards key river basins like the Yangtze River and the Yellow River to carry out pollution control of river basins, restoration of water ecosystems, protection of centralized drinking water source areas and groundwater ecological environments and the improvement of regulation capacity for prevention and control of water pollution. In 2021, the proportion of sections with good water quality was 84.9 percent, an increase of 1.5 percentage points year on year, and the proportion of surface water with a water quality rating of Grade V was 1.2 percent, falling by 0.6 percentage points year on year.

**Third, we enhanced 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, with strengthened support for the prevention and control of pollution sources and risk management. We intensified our efforts on major performance evaluation and result application to improve the efficiency of special funds. We also stepped up management on the withdrawal and use of funds derived from the dismantlement of facilities and sites for centralized disposal of key hazardous wastes, with a view to preventing and controlling environmental pollution risks posed by such wastes.

## **2. Solid progress was made in major ecosystem protection and restoration projects.**

**First, the integrated protection and restoration of mountains, rivers, forests, fields, lakes, grasslands, deserts and glaciers was steadily advanced.** We allocated 9.9 billion yuan to further carry out pilot projects of ecological protection and restoration of mountains, rivers, forests, fields, lakes and grasslands in Ulansuhai Nur in the Inner Mongolia Autonomous Region and nine other areas. We launched a campaign for integrated protection and restoration of mountains, rivers, forests, fields, lakes, grasslands, deserts and glaciers during the 14th Five-Year Plan period, selected 10 projects with outstanding potential, encouraged local governments to adopt an organized holistic and systematic approach, coordinated systematic, comprehensive and

fundamental treatment, and enhanced the quality and stability of ecosystems.

**Second, biodiversity protection was strengthened.** We moved faster to build a nature reserve system with national parks as the mainstay, considered to set up a financial security system for national parks and other nature reserves, and promoted the establishment of the first five national parks, namely the Three-River-Source National Park, Giant Panda National Park, Northeast China Tiger and Leopard National Park, Hainan Tropical Rainforest National Park and Wuyishan National Park. The protected land area of the national parks covers 230,000 square kilometers where nearly 30 percent of key terrestrial wildlife species live and thrive. We also facilitated the founding of the Kunming Biodiversity Fund and deepened international cooperation in biodiversity.

**Third, ecological protection and restoration of the marine environment was thoroughly implemented.** We selected 15 marine ecosystem protection and restoration projects based on their potential, and supported coastal cities to carry out the Blue Bay Environmental Improvement Initiative, mangrove forest and coastal zone conservation and restoration projects, and marine sewage treatment to improve the marine environment and increase the carbon sink capacity of the marine ecology.

**Fourth, the ecological restoration and treatment of abandoned mines was pushed forward in an orderly manner.** We supported the restoration of damaged mountains and ground vegetation in the Yellow River Basin, the Qinghai-Tibet Plateau and other key ecological areas listed in national strategies. We shored up the building of comprehensive prevention and control system and capacity concerning geological disaster investigation, evaluation, monitoring and early warning so as to improve the quality and services of regional ecosystems.

**Fifth, the protection and restoration of forest and grassland ecosystems was carried out intensively.** We stood for the full coverage of natural forest protection, programs of returning farmlands to forests and grasslands as well as the restoration of the grassland ecosystem, conducted large-scale afforestation, established an ecological forest compensation mechanism, trained forest rangers, intensified the protection and restoration of wetlands, strengthened forest and grassland fire prevention and forest pest control, and stepped up efforts for protection and restoration of forests and grasslands.

**3. The ability to cope with natural disasters and other emergencies was continuously improved.**

**First, natural disaster relief was effectively put into action.** We launched a rapid fund allocation mechanism to support disaster relief and



post-disaster reconstruction following torrential rain in Henan Province, earthquakes in Yangbi Yi Autonomous County in Yunnan Province , Maduo County in Qinghai Province and Luzhou in Sichuan Province , as well as floods in Shaanxi and Shanxi Provinces. We distributed central relief funds in a timely manner to affected people for their basic needs in winter and spring.

**Second, a natural disaster prevention and control system was actively promoted.** We distributed a subsidy of 7.054 billion yuan to construct a natural disaster prevention and control system and helped 17 key provinces and 14 other provinces improve their comprehensive capacity for geological disaster prevention and control. We supported a nationwide comprehensive survey of natural disaster risks and tackled 33 key tasks of technology engineering in six fields related to natural disaster prevention and control, including new emergency command and communication and intelligent unmanned emergency rescue.

**Third, a financial emergency management policy system was gradually consolidated.** We impelled a top-level design for the emergency management policy system, participated in the formulation of the 14th Five-Year Plans for the national emergency response system, emergency supply services and firefighting, and enhanced the modernization of emergency governance system and capacity. We

stepped up efforts to build up a policy system for forest and grassland fire prevention and extinguishing, formulated a scheme to develop forest firefighting aircrafts, made sure that provincial-level governments shoulder their primary responsibilities, and improved aviation firefighting capabilities.

#### **4. Green government procurement policies were constantly enhanced.**

We improved the standards of government procurement, increased the procurement quota of green and low-carbon products, and formulated standards for green procurement of data centers as well as printing and copying consumables, based on the full implementation of mandatory and prioritized procurement of energy-saving and environmentally-friendly products. We actively promoted the utilization of green building materials in public buildings like hospitals and schools, and advocated assembly, intelligent and green buildings. To date, six pilot cities, including Shaoxing, have launched 209 pilot projects with an investment of 102.5 billion yuan.

#### **X. We earnestly performed the duty of fiscal and accounting supervision and financial discipline was strictly and effectively enforced.**

Financial and accounting supervision is an important part of the supervision system of the Party and the country. MOF took the promotion of financial and accounting supervision as a crucial political task, set up and improved relevant systems and mechanisms, focused on key areas, strengthened routine supervision, further tightened financial and economic discipline, earnestly rectified the order of financial audit, and made sure that major central fiscal and taxation policies were implemented.

**1. We established and polished relevant systems and mechanisms to gradually upgrade the financial and accounting supervision system.**

**First, the financial and accounting supervision system was continuously improved.** Apart from drafting the *Guideline on Strengthening Financial and Accounting Supervision*, we issued measures to report suspected leads found during financial and accounting supervision to disciplinary inspection and supervision organs. To build a more complete institutional system for financial and accounting supervision, we promoted revisions of the *Budget Law of the People's Republic of China*, *Accounting Law of the People's Republic of China*, *Law of the People's Republic of China on Certified Public Accountants*, and *Regulation on Penalties and Sanctions against Illegal Fiscal Acts*.

**Second, the working mechanism for financial and accounting**

**supervision was constantly beefed up.** We strengthened cross-departmental coordination and cooperation and formed a normalized and standardized mechanism in information exchange and lead transfer. We launched a pilot project for financial and accounting supervision to explore better ways to perform the role of supervision, particularly on local key enterprises and accounting firms. We formulated and issued *Several Measures for Strengthening the Joint Supervision of the Asset Appraisal Industry*, enhanced the joint supervision mechanism, and realized joint supervision of the certified public accountant (CPA) and asset appraisal industries.

## **2. We fortified supervision to ensure the implementation of major fiscal and taxation policies and measures.**

Focusing on financial work, we earnestly conducted financial and accounting supervision and ensured the effective implementation of the central government's major fiscal and taxation policies. We carried out special inspections on unauthorized construction of government buildings, halls and museums in some areas, and seriously investigated and punished violators using fiscal funds for those construction projects. We implemented special inspections on the disclosure of local budgets and final accounts in 2019 and 2020 and made the disclosure of such information standardized and procedure-based. We organized special

inspections on arbitrary charges imposed on enterprises, resolutely stopped such charges, and created a better business environment for SMEs. We looked into issues concerning management and distribution of subsidies for people's livelihood and farmers in some regions and continued to urge local governments to fulfill their duties in relevant fields. We probed into problems like the misappropriation and diversion of financial funds originally intended for supporting agriculture in some regions to improve the management of such funds.

**3. We earnestly performed the duty of accounting supervision and continued to optimize market order and business environment.**

**First, supervision in key areas was improved.** We paid attention to malpractices in the capital market, and strictly investigated and punished fraudulent conducts like systematic financial fraud.

**Second, the CPA industry was regulated.** Together with relevant institutions, we conducted special campaigns against unlicensed business operations of accounting firms, CPAs who were registered but not practicing, online sales of audit reports and practicing beyond competence.

**Third, inspections on practice quality of asset appraisal institutions were reinforced.** We implemented a full-scale supervision of the CPAs

and asset appraisal industries.

**Fourth, reform of the administrative examination and approval process in the accounting industry was deepened.** We actively boosted the reform of electronic certificates and licenses in the accounting industry and issued such documents in 14 provincial-level regions, including Guangdong and Liaoning. We implemented the *Notice of the State Council on Deepening Reform of Separating Permits from Business Licenses Certificates and Further Increasing the Development Vitality of Market Participants*, cut back on the permits and certificates required once a business license is issued, promoted simplification of the approval process, innovated and strengthened ongoing and ex-post oversight, and optimized the business environment.

**Fifth, information-based supervision and services of the CPA industry were improved.** We pushed the establishment of a single data source system as well as nationwide access (using a security code) to audit reports and curbed enterprises from submitting different financial reports to different departments and institutions, standardizing the order of financial audits. We pushed some listed companies, accounting firms and financial institutions to carry out a pilot program on bank confirmation letters and urged banks to unify their charging standards for this service, in order to serve the development of small and micro-sized

enterprises.

**XI. With coordinated efforts to advance reform of the fiscal and tax system and strengthen oversight of fiscal management, fiscal governance has been steadily improved.**

We continued to follow the guidance of Xi Jinping Thought on the Rule of Law in the development of law-based governance in fiscal affairs, and worked actively to leverage the leading role of fiscal reform in making breakthroughs. Centering on the efforts to modernize China's governance system and capacity, we vigorously accelerated our work and made steady progress in the reform of the fiscal and tax systems, with further steps to intensify fiscal management and supervision measures, and ensure continuous improvement in fiscal governance.

**1. We intensified our efforts to deepen the fiscal and tax reforms, and accelerated the establishment of a modern fiscal system.**

**First, the budget management system was further improved.** We promulgated the *Opinions on Further Deepening Reform of the Budget Management System* to strengthen overall planning of financial resources, regulate the management of budgetary expenditures, ensure strict budget-making, and strengthen budget implementation and performance management. We deepened our efforts in disclosing budget information,

and the budget transparency was further enhanced. We improved the performance management system, and the establishment of a comprehensive and whole-process budget performance management system that covers all sectors was accelerated, with the efficiency of the allocation and use of fiscal resources improved. The process of budget management integration was sped up to provide effective support for deepening the reform of the budget management system.

**Second, reform of the tax system continued to deepen.** We implemented the principle of law-based taxation and promoted the smooth promulgation of the stamp duty law. We made active efforts to promote legislation on VAT, consumption tax, tariff and other taxes. We continuously improved the local tax system and, in conjunction with legislation on consumption tax, studied and advanced reform of moving the collection of consumption tax to a later stage. We further participated in international tax reform to deal with the challenges of taxation amid economic digitalization and actively played a leading role.

**Third, the fiscal system was further enhanced.** We managed to do a good job in implementing the reform plan already introduced for defining fiscal powers and expenditure responsibilities between the central and local governments in sectors such as healthcare, transportation and natural resources, took further steps to clarify the scope of responsibilities



between the central and local governments, worked to improve management measures for transfer payment, and appropriately allocated transfer payment funds. We studied ways to promote fiscal system reform below the provincial level. Meanwhile, in line with the decisions and plans of the CPC Central Committee and the State Council, we normalized the direct fiscal fund allocation mechanism and expanded the coverage of direct fiscal funds.

**Fourth, reforms of State-owned assets (SOA) and SOEs saw steady progress.** We shored up our efforts to deepen the reforms of SOAs and SOEs, carry out the work enumerated in the three-year action plan for SOE reform, improve the system for the management of State assets, and enhance the reporting mechanism for SOA management. We also stepped up our work to deepen the reform in the management of State-owned financial capital and launched a special campaign to register the property rights of State-owned financial capital. We studied and took actions to improve the authorized operation system of State-owned financial institutions and promote the reform of key financial SOEs.

**2. We stepped up efforts to optimize fiscal management, and the capacity of fully performing fiscal functions in accordance with law was improved significantly.**

**First, a sound fiscal legal system was gradually developed.** We printed

and issued the *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 advanced the adoption of the law on stamp duties and the *Regulations on State-owned Assets Management of Administrative and Public Institutions*. We formulated the *Provisional Administrative Measures for Procurement under the Government Procurement Framework Agreement*, revised and promulgated the *Measures for the Management of Social Aid Funds for Road Traffic Accidents*, the *Financial Accounting Rules for Public Institutions* and the *Implementation Measures for Hearings on Administrative Penalties Imposed by Public Finance Organs*, repealed the *Measures for the Administration of Confiscated Property and Recovered Illegally Obtained Property* and three other regulations. We made steady progress in legislation on VAT, consumption tax and tariff. We carried out legislative work on the accounting law (alteration), the *Regulations on the Management of State-owned Financial Capital* and the *Measures on the Management of State-owned Assets Evaluation* (revision) in an orderly manner, while making positive progress in legislative work on government procurement and other areas. We conducted in-depth analytical work on fiscal legislation such as the basic legal system for

public finance, accounting, SOA management, government debt management, international rules for the management of fiscal revenues and expenditures, and the development of legal systems related to the platform economy, as well as post-legislative evaluation of the budget law.

**Second, the transformation of government functions was further advanced.** We continued to deepen reform to streamline administration and delegate power, improve regulations, and upgrade services in the fiscal sector, and reduce the number of items requiring government review and approval. We made steady progress in the reform of separating certificates from licenses and sorting out certification items. Solid progress was also made in compiling the list of powers and responsibilities of the MOF. In line with the principle that “powers are defined by laws and are in reciprocity with duties”, we sorted out item by item the legal basis of the duties, the method of performing these duties and the situations in which violators should be held accountable. We coordinated efforts to improve the business environment and strictly implemented a review system for fair competition.

**Third, law-based administration was effectively advanced.** In our efforts to improve the procedures for formulating major policies and decisions, we revised the *Rules on Legislative Work of the Ministry of*

*Finance.* We examined the legality of all normative documents of the MOF and documents submitted to the State Council to prevent and defuse legal risks in the fiscal work. We sorted out and standardized the process for the drafting and signing of international treaties, studied how to handle arbitration cases involving international investment disputes, and improved the level of legal services related to foreign affairs. We raised the awareness of the rule of law among fiscal cadres and vigorously strengthened the building of the cadre team dedicated to the work of fiscal governance based on laws and regulations.

**Fourth, administrative law enforcement procedures were further standardized.** We strictly implemented relevant provisions of the revised *Law of the People's Republic of China on Administrative Penalty*, revised after study the *Implementation Measures for Hearings on Administrative Penalties Imposed by Public Finance Organs*, conducted online hearings on administrative penalties, and standardized procedures for hearings on fiscal administrative penalties. We continuously pressed ahead with the three rules of publicizing administrative law enforcement, recording the entire process of law enforcement, and reviewing major law enforcement decisions, and spared no efforts to improve procedures and standards for fiscal administration law enforcement.

## **XII. Fiscal Policy Outlook**

In 2022, MOF will adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implement the spirit of the 19th CPC National Congress and its plenary sessions, carry forward the great founding spirit of the Party, adhere to the guideline of making progress while maintaining stability, fully, accurately and comprehensively implement the new development philosophy, accelerate efforts to foster a new development paradigm, and comprehensively deepen reform and opening-up. MOF will uphold innovation-driven development, promote high-quality development, take supply-side structural reform as its main task, coordinate pandemic prevention and control with economic and social development, as well as development with security. MOF will continue to work to ensure “stability on six fronts” and maintain “security in six areas”, and continue to improve people's livelihood, proactively introduce policies conducive to economic stability, and make policies more effective. The ministry will enhance the efficiency of proactive fiscal policies, making them more targeted and sustainable. We will focus on the following six areas.

**First, we will further cut taxes and fees to invigorate market entities.**

Focusing on MSMEs, individual businesses, manufacturing industry and other key sectors, we will make further tax and fee cuts based on interim policies combined with institutional measures, taking into account both

the fiscal capacity and needs of enterprises. At the same time, we will implement and fine-tune all tax reduction, deferral and fee reduction policies that have been introduced and adopt follow-up preferential policies for enterprises upon expiration of existing ones after evaluating their outcomes.

**Second, we will maintain appropriate intensity of spending and make it more targeted.**

We will keep the fiscal deficit at an appropriate level and increase government spending. We will vigorously improve the spending mix, with a focus on supporting key projects in science and technology, environmental protection, people's livelihood, major regional strategies, modern agriculture, and major projects in the 14th Five-Year Plan Period (2021-25). We will further improve the direct fiscal fund allocation mechanism, strengthen the filing and review of distribution plans, improve the monitoring system for the directly allocated funds, and promote the standardized, efficient and safe use of government funds.

**Third, we will make appropriate arrangements for local government special bonds and support the development of key projects.** The size of local government special bonds will be determined in line with the principle of keeping the overall government leverage ratio basically stable. We will make prioritized decisions on where the bonds are used,

avoid “spreading the funds too thin”, and focus on follow-up financing for projects under construction. In line with the principle of “funds following projects”, efforts should be made to have adequate well-prepared projects ready for implementation, speed up the utilization of special bonds in a reasonable way, and ensure that these bonds deliver actual project results as soon as possible, so that they can play a better role in leveraging more investment.

**Fourth, we will continue to increase transfer payments from the central government to local governments, and adequately protect the “three priorities” of people’s basic well-being, payment of salaries and normal government functioning.**

We will significantly increase transfer payments from the central government to local governments, especially general transfer payments, give preference to areas with financial difficulties and less developed areas, and enhance financial safeguards for regions with weak fiscal capacity. Efforts will be made to improve the fiscal system at and below the provincial level, to ensure more financial resources reach local governments at the grassroots level and to adequately protect the “three priorities” of people’s basic well-being, payment of salaries and normal government functioning. We will move faster to narrow the gap in per capita spending between regions, promote coordinated regional

development, and ensure equal access to basic public services.

**Fifth, we will ensure that Party and government organs live on tight budgets, and run all undertakings frugally.**

We will continue to cut outlays on non-essential and non-obligatory items, strictly curtail general expenditures, strengthen budgetary management of spending on official hospitality, official vehicles and official overseas trips, and strive to reduce administrative costs. We will strengthen our efforts to assess the results of budget tightening measures, leaving no chance for spending loopholes. The central government will take the lead and local governments will also tighten their budgets to make more fiscal resources available for improving people's livelihood and supporting the development of market entities.

**Sixth, we will tighten financial discipline and regulate financial order.**

We should always have reverence for financial discipline, strictly implement all financial regulations and institutional rules, act in line with rules and regulations, and resolutely safeguard their authority. We will strengthen financial management, standardize revenue and expenditure operations, strictly control the construction of government buildings, and strictly prohibit any vanity or image projects. We will implement unified



fiscal and tax policies to the letter and ensure that government orders are implemented thoroughly and effectively. We will punish and penalize any violators of financial discipline and make financial discipline a red line that no one is allowed to cross.