

REPORT ON THE IMPLEMENTATION OF CHINA'S FISCAL POLICY IN THE FIRST HALF OF 2023

Overview

The year 2023 is the first year for the implementation of the guiding principles of the 20th National Congress of the Communist Party of China (CPC), and an important year for getting off to a good start in the drive to build China into a modern socialist country in all respects. Since the beginning of this year, faced with a complex and grim international environment and arduous tasks of pursuing domestic reform, development and stability, and under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, all regions and government departments across the country have made all-out efforts to fully implement the guiding principles of the 20th CPC National Congress, follow the arrangements of the Central Economic Work Conference, adhere to the general principle of seeking progress while maintaining stability, fully, accurately and comprehensively implement the new development philosophy, accelerate the fostering of a new development paradigm with a focus on high-quality development, better balance domestic and international imperatives, better coordinate COVID-19 prevention and control with economic and social development, and better coordinate development and security. The national economy continued to recover with an upward momentum, solid progress was made in high-quality development and industrial upgrading, food and energy security was effectively guaranteed, and overall social stability was maintained, laying a

good foundation for achieving the year's economic and social development targets.

Finance departments at all levels have followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, implemented the decisions and plans of the CPC Central Committee and the State Council, intensified efforts to implement the proactive fiscal policy with higher efficiency, and improved supportive tax and fee policies with a highlight on accuracy and effectiveness. They have also greatly optimized the expenditure structure with a focus on enhancing the efficiency of fund utilization, reinforced support for major national strategies and people's livelihoods projects, and steadily advanced work related to fiscal reform and development. In the first half of 2023, revenue in the national general public budget totaled 11.9203 trillion yuan, an increase of 13.3 percent year-on-year, and revenue in all 31 provincial-level regions registered positive year-on-year growth. Expenditures in the national general public budget totaled 13.3893 trillion yuan, an increase of 3.9 percent year-on-year, with the structure of expenditures continuously optimized and spending in key areas such as people's livelihoods, rural revitalization, major regional strategies, education, and major sci-tech breakthrough projects fully ensured.

1.We supported the healthy development of business entities. We reinforced fiscal and tax policy implementation and continued and optimized some tax and fee measures. The first half of the year saw 927.9

billion yuan in tax and fee reductions, tax refunds, and fee deferrals, which have effectively relieved the difficulties of business entities, especially small and micro enterprises and individual-owned businesses, and provided support for their development. We guided and led government-backed financing guarantee institutions at all levels to increase credit and financing support for small and micro enterprises as well as entities related to agriculture, rural areas and farmers. As of the end of June, the National Financing Guarantee Fund had added 796.5 billion yuan to its re-guarantee portfolio, an increase of 33.6 percent year-on-year.

2.We continued to restore effective domestic demand. We extended and optimized the new energy vehicle purchase tax exemption policy, which resulted in a significant increase of 44.1 percent in new energy vehicle sales in the first half of the year. Preferential tax and fee policies were introduced to support production and consumer service industries and the development of the country's film industry, which facilitated quick recovery of consumption in the service industry in the first half of the year. Efforts were made to build a circulation network connecting key cities and a rural commercial and trade circulation system, and to further reinforce national comprehensive freight hubs while shoring up their weak links. We accelerated the issuance and use of local government special bonds. In the first half of this year, 2.17 trillion yuan of new special bonds were issued by local governments for project construction, funding nearly 20,000 projects and boosting effective investment.

3. We accelerated the development of a modern industrial system. We continued to increase support for basic research and improve the funding system of the National Natural Science Foundation. We supported the construction and operation of national laboratories, accelerated the building of a national laboratory system with Chinese characteristics, and supported the fostering of high-caliber scientific and technological personnel. We increased the pre-tax deduction rate for research and development expenses of enterprises in eligible industries from 75 percent to 100 percent, and kept it as a long-term institutional arrangement to encourage manufacturing and other enterprises to increase investment in research and development. We launched pilot projects in cities for the digital transformation of small and medium-sized enterprises, continued to carry out financial rewards and subsidies for small and medium-sized enterprises specialized in key areas and emerging industries, gave better play to the role of government investment funds, and continuously strengthened the innovation and development momentum of enterprises.

4. We continued efforts to safeguard people's livelihoods. We continued policies to lower the rates of unemployment insurance and work-related injury insurance, optimized and adjusted the policy of unemployment insurance refunds for efforts to stabilize employment, and increased one-time subsidies for enterprises that offer jobs. We improved the supportive financing mechanism for compulsory education, piloted a differentiated allocation system for vocational education funding on a per-student basis, and continued to implement the policy of interest

exemption and principal repayment deferral for student loans. We raised the per capita fiscal subsidy for basic public health services to 89 yuan, which brought the per capita fiscal subsidy for basic medical insurance for urban and rural residents to 640 yuan per year. We prudently implemented national pooling of enterprise employees' basic pension insurance, and allocated 154.7 billion yuan in assistance funds for people in difficulty, further consolidating and ensuring people's social security.

5. We steadily advanced rural revitalization and green transformation.

We stepped up efforts to ensure stable production and supply of grain and other major agricultural products, supported the cultivation and upgrading of high-standard farmland, provided a one-time subsidy of 10 billion yuan to crop-growing farmers, improved the subsidy policy for corn and soybean producers, steadily implemented the grain subsidy policy, increased incentives for major grain-producing counties, and expanded the coverage of comprehensive cost insurance and planting income insurance for the three major crops (rice, corn and wheat) to all major grain-producing counties nationwide. We maintained overall stability of fiscal assistance policies, supported the consolidation and expansion of poverty alleviation achievements, and helped people who have been lifted out of poverty to continue to increase their incomes. We carried out demonstrations of concentrated and interconnected protection and utilization of traditional villages and further advanced comprehensive rural reform. We strengthened efforts to support prevention and control of environmental pollution, enhance governance and protection of ecosystems, and further advance

green transformation and low-carbon development.

For the next step, finance departments at all levels will fully implement the guiding principles of the 20th CPC National Congress, adhere to the principle of maintaining stability while seeking progress, and insist on "three better coordinations" (better coordination between domestic and international situations, between pandemic prevention and control and socioeconomic development, and between development and security). With a focus on the primary task of high-quality development and the strategic task of building a new development paradigm, we will make good use of the toolbox of macro policies, expanding domestic demand, reform and innovation, and risk prevention and resolution. In addition, we will ensure successful implementation of proactive fiscal policies, push for continuous economic recovery with good momentum, and achieve effective quality improvement and reasonable quantity increase in terms of economic development.

I.The overall fiscal operation was steady, with sound budget implementation.

In the first half of the year, fiscal revenue increased by 13.3 percent year-on-year. Expenditures in major areas, such as people's livelihoods, rural revitalization, major regional strategies, education, and key sci-tech breakthrough projects, were fully ensured. Budget implementation generally performed well.

1. Affected by factors such as the recovery of economic growth and a lowered revenue basis due to large-scale value-added tax (VAT) credit refunds in the same period last year, our national fiscal revenue grew at a relatively high rate.

In the first half of 2023, revenue in the national general public budget totaled 11.9203 trillion yuan, an increase of 13.3 percent year-on-year. Apart from economic recovery, the increase in fiscal revenue was mainly attributed to the fact that the implementation of the large-scale VAT credit refund policy since April of last year caused massive tax refunds within a concentrated period and lowered the comparable revenue basis, while the related tax refund practice has returned to a normal level this year. As a result, tax revenue, especially from domestic VAT, saw a substantial growth, leading to a corresponding increase in fiscal revenue. Revenue in the central government's general public budget amounted to 5.3884 trillion yuan, up 13.1 percent year-on-year. Revenue in the local governments' general public budget stood at 6.5319 trillion yuan, an increase of 13.5 percent year-on-year. In terms of regions, revenue in the eastern, central, western and northeastern regions increased by 12.8 percent, 10.7 percent, 17.5 percent and 17.5 percent, respectively. All 31 provincial-level regions registered positive year-on-year revenue growth.

In the first half of 2023, national tax revenue totaled 9.9661 trillion yuan, a year-on-year increase of 16.5 percent. Domestic VAT revenue increased by 96 percent, mainly due to the high amount of tax refunds and a low basis in

the same period last year. The domestic consumption tax revenue decreased by 13.4 percent, and that of the VAT and consumption tax on imported goods fell by 9.5 percent, mainly because some turnover at the end of 2021 was registered in the first quarter of 2022, which inflated the basis. In the first quarter of this year, revenue from domestic consumption tax and VAT and consumption tax on imported goods decreased by 22.2 percent and 14.4 percent respectively. In the second quarter, domestic consumption tax revenue rebounded, and the decline in VAT and consumption tax on imported goods narrowed significantly. Corporate income tax revenue decreased by 5.4 percent, which was mainly attributed to, among other factors, a decline in corporate profits. Individual income tax decreased by 0.6 percent, mainly due to constant effects from the special additional deductions policy and the year-on-year increase in tax refunds from final settlement of comprehensive individual income tax, causing a decrease in the growth rate. As for revenues from real estate-related taxes, deed tax and property tax increased by 5.1 percent and 3.9 percent respectively, while urban land use tax, land VAT and farmland occupation tax decreased by 4.9 percent, 18.2 percent and 20.4 percent respectively.

In the first half of 2023, national non-tax revenue totaled 1.9542 trillion yuan, a year-on-year decrease of 0.6 percent. Revenue from the compensated use of State-owned resources (assets) increased by 10.7 percent, mainly due to local efforts to utilize idle assets through various means. Revenue from national administrative fees decreased by 12.5 percent, and that from fines and confiscation decreased by 16.2 percent.

2.We greatly optimized expenditure structure and effectively ensured funds for key areas.

Finance departments at all levels strengthened coordination of fiscal resources, maintained necessary spending intensity, and continued to increase investment in weak links and key areas of socioeconomic development. Expenditure in key areas, such as people's livelihoods, rural revitalization, major regional strategies, education, and key sci-tech breakthrough projects, was effectively ensured. In the first half of 2023, national general public budget expenditure totaled 13.3893 trillion yuan, an increase of 3.9 percent year-on-year. Social security and employment expenditure increased by 7.9 percent; education expenditure increased by 5 percent; healthcare expenditure increased by 6.9 percent; expenditure in agriculture, forestry, and water increased by 3.7 percent; science and technology expenditure increased by 2.5 percent; and housing security expenditure increased by 8.5 percent.

3.We reinforced budget implementation management and accelerated the implementation of proactive fiscal policy.

Upon approval of the budget by the National People's Congress, the central government promptly approved departmental budgets, and acted quickly to complete the transfer payments to local governments at the same time, urging local governments and departments to make detailed distribution plans for funding eligible projects. We made full use of the direct fund

allocation mechanism to include 4 trillion yuan in the scope of direct allocation. By the end of June, the central government had allocated 3.71 trillion yuan of direct funds. Apart from funds used by local governments for tax refunds, as well as tax and fee reduction, local governments spent 1.95 trillion yuan of the funds, accounting for 58.9 percent of the total. We paid more attention to the coordinated implementation with monetary, industrial, science and technology and social policies in order to give better play to the role of proactive fiscal policies in a more direct and effective manner.

4. We lived on tight budgets while adhering to the practices of frugality and made good use of fiscal resources where they were most needed.

Central government departments took the lead in living on tight budgets with strict expenditure management. General expenditures were controlled in a strict manner. In 2022, the budget arrangement of central government departments was down by 2.1 percent, with actual budgetary funds put into use falling by 3.5 percent. On the basis of continuous budget cuts over the past years, we arranged the central government department expenditures for 2023 on the same level with that of the previous year. We strengthened budget implementation with strict management, and the newly-unveiled policies on increasing expenditures and additional budget spending proposals were coordinately addressed in accordance with relevant provisions in the budget law. We tapped the full potential of existing funds of central government departments in a coordinated manner. The surplus

funds and the carry-forward funds that have not been used up for two consecutive years were withdrawn according to relevant regulations. We established a long-term mechanism of living on tight budgets and evaluated its implementation in central government departments on a quarterly basis, so as to promote the practices of carefully arranging budgets and exercising frugality among departments.

II. We beefed up efforts to ensure that the proactive fiscal policies were better targeted and more effective, and the vitality of business entities was effectively stimulated.

Business entities are an important force in driving economic development. Finance departments resolutely implemented decisions and plans made by the Central Committee of the Communist Party of China and the State Council and ensured that policies were implemented in a consistent and steady manner. Preferential tax and fee policies were improved based on the requirement of "extending and improving policies when needed". In the meanwhile, measures were taken to strengthen institutional framework and policy guidance to assist business entities in addressing difficulties and continuously promote economic recovery. In the first half of this year, the total amount of tax and fee reductions and tax refunds and fee deferrals nationwide added up to 927.9 billion yuan. The overall relief of financial burden for business entities throughout the year is expected to reach over 1.8 trillion yuan.

1. We continuously improved policies for easing difficulties of enterprises.

First, we maintained connection and coordination of preferential tax and fee policies. We extended and improved some preferential tax and fee policies that expired at the end of last year and in March and April this year. We provided support for micro and small enterprises as well as self-employed individuals. The tax rate for sales income of small-scale VAT taxpayers was reduced from 3 percent to 1 percent, and small-scale taxpayers with monthly turnover of 100,000 yuan or less were exempted from the VAT. In the first half of this year, those two policies expanded tax and fee reductions by 82.2 billion yuan and 214.8 billion yuan, respectively. The weighted 5-percent and 10-percent VAT deduction policies were applied to taxpayers engaged in production and consumer service industries respectively, and income tax at reduced rates was applied for micro and small businesses and self-employed individuals. We halved the urban land use tax for commodity storage facilities that were owned or leased by logistics enterprises. We extended the period of preferential policies on reducing employment funds for the disabled by five years to the end of 2027 in a bid to maintain employment and improve people's livelihoods.

Second, we extended and improved the tax exemption and reduction policy for purchasing new energy vehicles. We collaborated with relevant departments to extend the validity period of the tax policy to December 31, 2027, which is originally expected to end this year. The tax thereof will be

waived in 2024 and 2025, and will be halved in 2026 and 2027. In the meantime, we will set a quota for the exempted and reduced tax on purchasing new-energy passenger vehicles. To be specific, a quota of 30,000 yuan will be arranged for new-energy passenger vehicles purchased from 2024 to 2025 that are eligible for full tax exemption, and a quota of 15,000 yuan will be arranged for new-energy passenger vehicles purchased from 2026 to 2027 that are eligible for halved tax, so as to consolidate and expand the development advantages of the new energy vehicle industry. Based on preliminary estimates, thanks to the extension policy, the total amount of tax exemption and reduction thereof is expected to reach 520 billion yuan between 2024 and 2027.

Third, special funds for development of the national film industry were temporarily exempted. From May 1, 2023 to October 31, 2023, the special fund for national film industry development will be exempted, so as to provide support for the development of the industry. The exemption policy will be available during China's three major holiday seasons of the May Day holiday, summer vacation and the National Day holiday. Efforts have been made to coordinate the enterprise demands and the funding needs of major film projects. The efforts will assist enterprises in addressing difficulties, boost industry confidence and facilitate consumption recovery.

2. We intensified efforts to help enterprises reduce burdens and maintain employment.

First, financial guarantees were constantly enhanced. We enhanced the guidance on prioritizing employment. In 2023, the central finance authorities budgeted 66.76 billion yuan for employment subsidies, an increase of 5 billion yuan from last year, to assist local governments in implementing the employment and entrepreneurship support policies. In the meantime, we guided local governments in making full coordinated use of employment subsidy funds and unemployment insurance funds, helping different groups to find a job or start their own businesses.

Second, policies on reducing enterprises' burdens and stabilizing employment were upgraded. Temporary policies such as reductions of premiums for unemployment insurance and work-related injury insurance were extended to the end of 2024. In 2023, we also continued the policy of refunding unemployment insurance premiums. For micro, small and medium-sized enterprises, the proportions of the refunds were no more than 60 percent of the unemployment insurance premiums paid by enterprises and their employees in the previous year, and no more than 30 percent for large enterprises.

Third, we effectively supported the employment of key groups. Enterprises that recruit key groups such as fresh college graduates, college graduates who did not find a job within two years after graduation, as well as young people aged 16 to 24 registered as unemployed, received a one-off employment subsidy or a one-off recruitment expansion subsidy in accordance with relevant regulations. For ten key groups in need of

employment such as eligible college graduates (including college graduates working as village officials and overseas returnees), as well as small and micro enterprises that recruited those groups, we implemented the policy of providing interest subsidies for guaranteed loans for startups. In the first half of this year, the balance of guaranteed loans for startups reached 298.1 billion yuan, an increase of 14.6 percent year-on-year.

3. We helped small and medium-sized enterprises increase operation, expand coverage and reduce costs in their financing.

First, we continued the policy of providing rewards and subsidies to reduce financing guaranty fees for small and micro businesses. In the first half of this year, a total of 3 billion yuan was allocated by central finance authorities to guide local governments in expanding scales of financing guaranty businesses for small and micro businesses and reduce their financing guaranty rate. The number of financing guaranty businesses of small and micro enterprises increased 245 percent from that of 2017, while the annualized guaranty amount increased 119 percent and the annualized guaranty rate dropped by 97 basis points. All these helped to make financing more accessible and affordable for small and micro businesses.

Second, we fully leveraged the leading role of the National Financing Guarantee Fund system. With an effort to enhance equity investment, a total of 2.83 billion yuan has been invested so far in the equity of 16

provincial-level re-guarantee agencies. We also expanded the scale of re-guarantee operation and guided government-backed financing guarantee agencies at all levels to increase support for business entities in their financing and credit enhancement. The re-guarantee cooperation of the National Financing Guarantee Fund for the first half of this year reached 796.5 billion yuan, an increase of 33.6 percent year-on-year. The average guarantee rate was 0.65 percent and the overall financing cost was 5.35 percent, a decrease of 0.03 percentage points and 0.42 percentage points respectively. Since its operation in September 2018, the accumulated amount of re-guarantee transactions of the National Financing Guarantee Fund has reached 3.47 trillion yuan.

Third, we further strengthened support for development of inclusive financing. A special fund budget of 10.733 billion yuan for inclusive financing was allocated to improve the capability of financial services to serve the real economy. We provided rewards and subsidies to support the development of demonstration zones for inclusive financing. The central finance authorities allocated a budget of 2.25 billion yuan of rewards and subsidies to support local governments in building inclusive financing demonstration zones with unique features based on their local conditions in a bid to help inclusive financial services expand coverage, increase operation, reduce costs and improve effectiveness.

4. We made government procurement more targeted.

First, we improved relevant policies and systems. We guided all localities and departments in vigorously implementing preferential policies and measures such as procurement allotment and price review, and encouraged large enterprises to team up with small and medium-sized enterprises or reach subcontract agreements with the latter in a bid to expand procurement from small and medium-sized enterprises. The policy of reserving no less than 40 percent of government procurement projects for small and medium-sized enterprises will be expanded to the end of 2023, to further help those enterprises ease their difficulties.

Second, we reduced the cost of participating in procurement. We clarified that small and medium-sized enterprises could choose to pay by submitting deposits in non-cash forms such as checks, bills of exchange, promissory notes and guarantee letters or by security deposit. We provided support for such enterprises in their financing for delivering government procurement projects, and required purchasers to make timely payment for the procurement projects that meet the contract payment conditions to the enterprises within 30 days after receiving an invoice.

Third, we actively advanced government procurement contract financing. We studied and improved relevant functions of China's government procurement website and established channels for the sharing of procurement information between central governments and financial institutions. The move was meant to provide timely procurement information of the central government departments for commercial banks,

bring convenience to small and medium-sized enterprises in financing for delivering government procurement projects, and reduce financing costs for them.

5. We facilitated recovery and expansion of consumption.

Greater efforts were made to support the implementation of commercial construction at the county level. In 2023, the central finance authorities allocated 4.24 billion yuan through the service sector development fund, to support and guide some localities concerned in further expanding the distribution channels downward closer to consumers as the major approach, prioritizing the county-town-village commercial networks and rural logistic distributions, speeding up efforts to shore up weaknesses of commercial facilities in rural areas, improving the logistic distributions at county, township and village levels, and helping establish a county-level commercial system that enables coordination within the county, with counties at the center, towns as the key focus and villages as the foundation, in a bid to smooth the channels of transporting industrial products to rural areas and bringing agricultural products to urban areas. We effectively facilitated the construction of a guarantee and supply system for daily necessities and further implemented policies on reinforcing and upgrading the national comprehensive transportation system.

III. We strengthened innovation-driven development and accelerated the steps to establish a modern industrial system.

We further implemented the strategy of innovation-driven development, continuously enhanced input in science and technology, and innovated and improved relevant policies and mechanisms. We focused on resolving bottlenecks in the industrial chain and removing clogging points in the supply chain, and accelerated the steps to establish a modern industrial system aligned with the requirements of being comprehensive, advanced and secure, thus laying a solid foundation for the new development pattern.

1. We improved efficiency of technology input to enhance self-reliance and strength in science and technology at a high level.

First, we continuously increased funding support for basic research. In 2023, the central finance authorities allocated a budget of 86.287 billion yuan at the central level for basic research, an increase of 6.2 percent year-on-year. We worked to establish and improve relevant institutional mechanisms to better support basic research and original innovation, and guided and encouraged the whole society to increase investment in basic research. Efforts were also made to improve the funding system of the National Natural Science Foundation, and deepen pilot reform programs at basic research institutes under the Chinese Academy of Sciences, to further improve the original innovation capacity.

Second, we accelerated the steps to implement major technological projects. We made efforts to explore a fiscal fund management mechanism suited to the new system for mobilizing the resources nationwide to achieve

breakthroughs in core technologies in key fields and provided strong support for that objective. Following the principle of “launch a project when it is ready”, we pushed for accelerated organization and implementation of the 2030 Sci-Tech Innovation Agenda.

Third, our strategic scientific and technological strength has been continuously growing. We made efforts to ensure the construction and operation of national laboratories, promote the restructuring of key national laboratories, and accelerate the establishment of a national laboratory system with Chinese characteristics. We provided steady support for central-level scientific research institutes to maintain their basic operations, initiate research programs independently, and improve research facilities. We actively guided and supported enterprises in enhancing their core competitiveness and boosting their principal role in scientific and technological innovation.

Fourth, our building of scientific and technological talent pool has reached a new level. Through several initiatives such as scientific and technological talent plans, postdoctoral funds, and the National Natural Science Foundation of China, we comprehensively supported universities, research institutions, and enterprises in cultivating, attracting, and fostering science and technology talents. Further efforts were made to enhance the training and development of young science and technology talents, and engage more young researchers in national research endeavors.

Fifth, we achieved new progress in international scientific and technological innovation cooperation. We intensified support for international cooperation and exchanges in science and technology innovation, supported the implementation of international big science research plans, and strengthened the nation's scientific and technological innovation edge and influence in the world.

2. We stepped up efforts to enhance incentives for corporate innovation and promote the optimization and upgrading of the industrial structure.

First, we improved tax policies to facilitate innovation. For eligible industries and enterprises, we increased the proportion of pre-tax deduction for research and development expenses from 75 percent to 100 percent, and made it as a long-term institutional arrangement. We improved timeline for enjoying additional deduction policy of research and development expenses. On the basis of the existing dates for tax declaration in October and annual settlement, we allowed enterprises to make tax declaration in July, enabling them to benefit from the policy in advance.

Second, we supported and promoted the digital transformation of small and medium-sized enterprises (SMEs). In collaboration with relevant departments, we issued a *Circular on Selecting Cities as Sites to Pilot the Digital Transformation of SMEs*, clearly stating the plan to kick start a trial program of digital transformation of SMEs slated from 2023 to

2025. The central finance authorities will award 100-150 million yuan to each pilot city. This earmarked fund will be used to support local governments in adopting measures to accelerate the digital transformation of SMEs, promote the innovation-driven development of enterprises, shore up weak links in the industrial and supply chains of key industries, and enhance the core competitiveness of SMEs.

Third, we supported the high-quality development of specialized, sophisticated, distinctive, and innovative SMEs ("little giants"). We continued to implement financial reward and subsidy policies for specialized, sophisticated, distinctive, and innovative SMEs, conducted performance evaluation for "little giant" enterprises, and established a dynamic management mechanism that introduces or removes enterprises based on their performance. Since the implementation of these policies, a total of 12,000 national-level "little giants" enterprises and over 90,000 specialized, sophisticated, distinctive, and innovative SMEs at provincial level have been established.

Fourth, we supported the enhancement of basic industrial capacities and industrial chains. With a variety of our policy tools — special funds, government procurement, first-unit (set) insurance compensation, government investment funds, and other instruments — we supported efforts to achieve breakthroughs in strategic and essential products, and solidified industrial foundational capacities. We vigorously developed advanced manufacturing clusters, promoted the transformation and

upgrading of traditional industries, and fostered the growth of strategic emerging industries, such as next-generation information technology, high-end equipment, and new materials.

IV. We continuously increased fiscal input in people's livelihoods, and ensured that the basic living needs of the people are met.

Adhering to a people-centered development philosophy, we aligned the needs of the people with financial capacities, continuously strengthened people's livelihoods to ensure their fundamental, inclusive, and basic needs. Efforts continued to make sure that young children are given proper nurturing care, students are well educated, workers well paid, patients effectively treated, the elderly properly looked after, housing abundantly provided and the weak receive support, so that the well-being of the people continues to improve.

1. We advanced high-quality development of education.

First, input in education grew steadily. In 2023, education expenditure in the national general public budget totaled 4,216.6 billion yuan, an increase of 6.9 percent compared to the previous year. In the first half of the year, over 2 trillion yuan has already been spent, an increase of 5 percent year-on-year. Among these expenditures, funding for basic education continued to grow, with spending on national preschool education reaching 115.5 billion yuan, an increase of 11.7 percent year-on-year, higher than

that of other education stages; national compulsory education expenditure was 932.5 billion yuan, up 5.2 percent year-on-year; spending on vocational education remained relatively stable; and higher education expenditure (excluding vocational education) reached 302.1 billion yuan, 6.6 percent higher than last year.

Second, education equity received strong protection. Efforts were accelerated to promote the high-quality and balanced development of compulsory education and urban-rural integration. We allocated 191.8 billion yuan for urban and rural compulsory education subsidy funds to support the implementation of such policies as "two exemptions and one subsidy." Starting from the spring semester of 2023, the public funding benchmark per student for compulsory education schools has been increased. For primary schools, it has been raised from 650 yuan per student per year to 720 yuan, and for junior high schools, it has been raised from 850 yuan to 940 yuan. We made efforts to improve weak links and enhance capabilities in compulsory education, continually improved the basic conditions for rural schools, and increase secondary education opportunities in cities and towns for rural students. Actively cultivated high-quality teachers, with the implementation of such plans as the national teacher training plan for primary and secondary schools and kindergartens, the talent support plan and special work plan on teachers for remote and poor areas, border areas with large ethnic minority populations and old revolutionary base areas, as well as the silver age lecturer plan. These initiatives aim to enhance the quality of education in rural areas. We

continued the policy of interest-free national student loans and extended repayment of principal, exempting interest on national student loans for the class of 2023 and earlier for the year 2023, with the possibility to apply for a 1-year extension for the repayment of the principal. An estimated 2.325 billion yuan in loan interest will be exempted, and approximately 5.5 billion yuan in principal can be extended for repayment, benefiting around 4 million university graduates.

Third, we accelerated the construction of a high-quality education system. We vigorously promoted the popularization and inclusiveness of preschool education and the education method reform on general high schools. We supported local governments' efforts to increase the supply of inclusive preschool education through multiple avenues, continuously improved the basic conditions for running general high schools in counties, and stepped up efforts to address the shortcomings and weaknesses of preschools and general high schools. We improved the per-student subsidy system for vocational education, promoted pilot projects for differential per-student subsidy systems in six provinces, and deepened the integration between industry and education and cooperation between colleges and enterprises, so as to promote the high-quality development of vocational education. We also promoted the construction of world-class universities with Chinese characteristics and advantageous disciplines, supported central universities to continuously improve their education and basic operating abilities, guided local governments to increase input in higher education, and consolidated and raised the per-student subsidy levels for

local colleges and universities.

2. We provided precise and robust guarantees for health services.

First, we promoted the stable improvement of health service levels. We increased the per capita fiscal subsidy standard for basic public health services to 89 yuan and allocated 72.509 billion yuan for basic public health service subsidies, supporting key population groups such as children aged 0-6, pregnant women, and the elderly in health management, vaccination services, and "two-cancer" checks for women in rural areas. We continued to support the implementation of reforms and high-quality development demonstration projects in public hospitals, incentivized and guided certain regions to replicate the health reform experience of Sanming City. We promoted the comprehensive reform of public hospitals, and supported the training of health personnel and capacity building of medical and health institutions to enhance medical service capabilities. In addition, we allocated 20.88 billion yuan for the prevention and control of major infectious diseases including AIDS and tuberculosis, and expanded the national immunization program, among others. We also promoted the implementation of a basic drug system in primary medical and health institutions and village clinics.

Second, we promoted the high-quality development of healthcare security. The per capita fiscal subsidy standard for basic medical insurance for urban and rural residents has reached 640 yuan per person per year, and

the central finance authorities allocated 351.952 billion yuan in subsidies for basic medical insurance for urban and rural residents. We strengthened medical assistance as a safeguard, allocating 29.651 billion yuan for medical assistance subsidies, supporting eligible groups in need to participate in medical insurance, providing subsidies for basic medical out-of-pocket expenses that are not affordable for them. We also supported the standardization of medical insurance informatization, fund supervision, the reform of medical insurance payment methods, centralized procurement of drugs and consumables, and enhancing health service and support capacity. In addition, we supported the implementation of demonstration projects for the innovation-driven development and inheritance of traditional Chinese medicine (TCM), promoting the revitalization and development of TCM.

3.We ensured steady improvement in social security levels.

First, the level of pension security continued to rise. We worked with relevant departments to implement the adjustment mechanism of the basic pension for retirees from enterprises and public institutions, and made it clear that the basic pension for retirees would increase by 3.8 percent nationwide in 2023. The national unified management of basic old-age insurance funds for enterprise employees is steadily underway. A total of 163 billion yuan as adjustment funds has been allocated and transferred, and the transfer payments of 931.1 billion yuan for basic pensions have been channeled, ensuring a timely and full pensions payment.

Second, we further strengthened efforts to ensure that the basic needs of vulnerable groups are met. We allocated 154.683 billion yuan of relief and assistance funds for people in need, supporting local governments to do a good job in coordinating low-income assistance, assistance and support for those in extreme difficulty, temporary assistance, assistance for vagrants and beggars, and basic living guarantees for orphans. We guided local governments to regularly adjust the mechanism for raising social assistance and benefit payments in step with price rises, alleviating the impact of rising prices on the basic living conditions of vulnerable groups.

Third, we further improved the elderly care service system . An allocation of 2.588 billion yuan from the central lottery public welfare fund was made to support social welfare projects, including the renovation of urban and rural elderly social welfare institutions, community elderly care facilities, and facilities for severely impoverished rural residents, as well as the development of home and community-based elderly care service organizations and institutions. In accordance with laws and rules, these funds were also used for other purposes, such as disability welfare, children's welfare, and social public welfare initiatives. We pushed for the implementation of projects for home-based and community-based basic elderly care service enhancement, supporting 50 newly selected project localities in their initiative to build home-based elderly care beds and provide home-based elderly care services for economically disadvantaged elderly individuals with disabilities or partial disabilities.

Fourth, we effectively enhanced our support for the work on providing assistance for veterans in need and preferential treatment for families of martyrs. The central finance authorities has allocated assistance funds amounting to 59.597 billion yuan, consistently increasing fiscal input in the work on providing assistance for veterans in need and preferential treatment for families of martyrs. We allocated 2.142 billion yuan in medical security funds for preferential treatment, which supported local governments in resolving special medical difficulties faced by entitled groups beyond the scope of their current medical insurance, and allowed medical benefits for those entitled to preferential treatment. We put in place new programs with the support of the central lottery public welfare fund to enhance the capacity of hospitals engaged in providing services for patients entitled to such preferential treatment and assistance, with funds totaling 270 million yuan already allocated for this purpose.

Fifth, we promoted the steady development of welfare programs for people with disabilities. We allocated 3.837 billion yuan as assistance funds for the development of welfare programs for people with disabilities (including funds from the central public welfare lottery fund), supporting local governments in coordinating activities related to the rehabilitation, care, education, culture, sports, and home-based barrier-free facility renovation for people with disabilities, so as to enhance their quality of life.

4. We strengthened concrete efforts to ensure safe production and emergency and disaster relief.

We allocated 2.5 billion yuan of assistance funds for production safety risk prevention and emergency rescue capacity building. We supported 134 chemical industry cluster areas in carrying out major production safety risk prevention of dangerous chemicals, covering 3,864 chemical enterprises and 5,875 major sources of danger, with a focus on the building of a platform for the smart control and management of production safety risks, the provision of monitoring equipment for the management and control of leaks of flammable and combustible, poisonous and harmful gases, and the establishment of a system for the prevention and control of hazardous chemicals, further intensifying efforts to build up capabilities for major safety risk prevention and control in chemical industry cluster areas so as to effectively defuse major safety risks of hazardous chemicals. Funds for natural disaster relief from the central government were allocated in a timely manner. We supported local governments in doing a good job on their emergency relief and rescue work to fight against natural disasters such as floods and waterlogging, snow slides and forest fires.

5. We worked to promote the thriving development of cultural undertakings and related industry.

We supported local governments in implementing the standard of national basic public culture service, and promoted the free opening of public cultural facilities such as museums, memorial halls, public libraries, art galleries, and cultural centers (stations). We supported the implementation of projects for cultural relic protection, grand ruins, world cultural heritages,

valuable movable cultural relic protection, archaeological excavation and so on. We promoted major projects of building and making good use of national cultural parks, implement key projects for the inheritance and development of outstanding traditional Chinese culture, such as the National Ancient Books Protection and Digitization Project, and accelerated the creative transformation and innovative development of traditional Chinese culture. We strengthened literary and artistic creation and promotion in such areas as stage arts, literature, publishing, films and television, and documentaries through national art funds. We supported the development and construction of overseas culture and travel agencies as well as cultural exchanges among governments and along the Belt and Road, strengthening international communication capabilities. We stepped up efforts to promote pilot programs for stimulating cultural and tourism consumption, support central cultural enterprises in deepening reforms and advance the high-quality development of cultural industries. We implemented the national strategy of nationwide fitness, and encouraged public sports venues to open to the public for free or at a low price, improve their public service and increase their facility utilization rate.

V. We fully implemented the rural revitalization strategy and promoted the coordinated development of urban and rural areas.

We actively leveraged the role of finance to fully implement the rural revitalization strategy, comprehensively consolidated the foundation of food security, and supported rural revitalization to take firm steps ahead.

We implemented the country's major regional development strategies, paid attention to addressing the imbalance and inadequacy of development, and promoted regional coordinated development to a higher level with higher quality.

1. We adopted multiple measures to help increase grain yield with bumper harvest.

First, we ensured the stable and safe supply of grains and major agricultural products. With the arrangement of 121.5 billion yuan, we made steady efforts to implement the subsidy policy for protecting farmland productivity. We provided a one-time agricultural financial subsidy of 10 billion yuan in a timely manner to ensure stable gains for grain farmers so as to mobilize their enthusiasm. We improved policies to subsidize corn and soybean producers and steadily implemented subsidy policies for rice growers. We supported the extension of strip intercropping of soybeans and corn with a focus on the provinces in Northwest China, the Huang-Huai-Hai plain in North China, Southwest China and the middle and lower reaches of the Yangtze River, and granted appropriate subsidies from central finance at a standard of 150 yuan per *mu* (666.67 square meters). We supported the practice of using fallow fields during the winter to expand the growing of winter rapeseeds, tapping into the potential of expanding grain plantation through crop rotation of paddies and rapeseed fields. We supported qualified rural collective economic organizations, farmer cooperatives, specialized households of agricultural service, enterprises

related to agricultural production and service, and supply and marketing cooperatives in carrying out agricultural social service, shifting smallholder production toward the development of modern agriculture.

Second, we promoted the implementation of a food crop production strategy based on farmland management. To increase comprehensive grain production capability, we supported nation-wide efforts in newly constructing 45 million *mu* of high-standard farmland, reconstructing and upgrading 35 million *mu* of farmland, and developing 10 million *mu* of farmland with high-efficiency water-saving irrigation system. We supported the concentrated protection and utilization of black soil in Northeast China, the implementation of protective tillage on black soil in Northeast China, and the promotion of a mechanized cultivation area of 90 million *mu* of straw-covered farmland with no or reduced need for ploughing in designated areas of four provincial regions in Northeast China. We promoted the implementation of policies for crop rotation and fallow farmland, and supported the third national soil survey. We supported Jilin and Shandong provinces in carrying out pilot programs of saline-alkali soil use, exploring treatment and technological application measures suitable for different types of saline-alkali soil so as to increase comprehensive agricultural productivity.

Third, we promoted the implementation of a food crop production strategy based on technological application.

We launched pilot programs with a subsidy policy to promote the extension of major breeds such as soybeans and corn to accelerate the upgrading and application of good grain varieties. We provided financial assistance for the application of "one spray and three preventions" for wheat production to ensure large grain ears and increase wheat kernel weight and per unit yield. We promoted action for the green and efficient production of major crops such as grain and oil. We implemented the policy to subsidize the purchase and use of agricultural machinery, launched pilot programs for the integration of research and development, manufacturing, promotion and utilization of agricultural machinery, and strengthened the development and application of large smart machinery as well as small machinery suitable for hilly and mountainous areas. We supported individual farmers as well as agricultural production and management organizations specializing in concentrated rice seedling for constructing concentrated rice seedling nursery facilities in ten provinces that produce double cropping rice, including Zhejiang, Anhui and Fujian. We empowered agricultural production with scientific and technological means.

Fourth, we promoted the construction of infrastructure for agricultural production and water conservancy, and improved the level of agricultural disaster prevention and reduction. We advanced water conservancy projects, improving flood control and drought relief, such as the governance of small and medium-sized rivers, the prevention and control of disasters caused by mountain torrents, and the safe operation of small reservoirs. We supported local governments in constructing small

reservoirs and expanding water sources for farmland irrigation. We supported four provincial regions in Northeast China in the remediation of 2,067 large and medium erosion gullies. We supported nation-wide efforts to carry out construction of water-saving facilities for medium-sized irrigation areas totaling 14 million *mu* to increase water use efficiency for agricultural irrigation. We strengthened financial support for the work on the prevention and control of major crop diseases and insect pests in disaster-affected areas, on the water conservancy projects to safely ride out the flood season, on the efforts to ensure that wheat should be harvested and dried quickly, and on drought relief and grains protection, so as to improve agricultural production and water conservancy disaster prevention and relief.

2. We took firm steps to support strong and comprehensive advances in rural revitalization.

First, we focused our efforts on developing a diversified structure of financial inputs. We insisted on prioritizing rural and agricultural development, took agriculture and rural areas as the priority of the general public budget, and urged and guided local governments to shoulder the responsibility of ensuring financial inputs in agriculture, rural areas and farmers. We cooperated with relevant departments to ensure that the implementation of the policy of supporting farmers with the revenue from land leasing was taken into account when it came to assessing Party committees and governments at the provincial level of their performances

in rural revitalization strategy. We urged and guided local governments to steadily increase the proportion of land leasing revenue used for agriculture and rural areas, making sure that local governments were fully committed of their financial responsibilities.

Second, we worked to consolidate and expand the achievements of poverty alleviation. The central government allocated 175 billion yuan of supporting funds for consolidating and expanding rural revitalization ("supporting funds"), up by 10 billion yuan from the previous year. We continued to give preferential support for key counties that needed help during rural revitalization. We carried out performance assessment on the use of supporting funds in 2022 and strengthened the application of assessment results, so as to increase the effect of the supporting funds.

Third, we steadily promoted rural development and construction. We made it clear that we would implement a new round of policies from 2023 to 2027 to support a new-type collective economy in rural areas. We would help around 100,000 villages to develop a new-type collective economy, including helping 20,000 villages in 2023 develop a collective economy through diversified approaches. We promoted integrated industrial development in rural areas, and supported the building of 50 national modern agricultural industrial parks, 40 advantageous and characteristic industry clusters and 200 advanced agricultural towns. A total of 35 counties (county-level cities, districts and banners) were selected through competitive assessment to carry out demonstration work for the

concentrated protection and development of contiguous traditional villages. We guided local governments to carry out a toilet revolution based on local conditions, continuously improving the living environment of rural areas. We took further steps to advance pilot programs for comprehensive reform in rural areas, and accelerated efforts in shoring up weak links in developing public welfare facilities in rural areas so as to promote the building of villages that are harmonious, livable and suitable for working.

Fourth, we gave full play to the government's role in guiding procurement. We organized central and local budgetary departments to do a good job in preparing and reporting reserved procurement shares as well as in their work on procuring agricultural and sideline products in poverty-alleviated areas in 2023. In the first half of 2023, budgetary departments at all levels purchased a total of 4.1 billion yuan worth of agricultural and sideline products from poverty-alleviated areas through the "832 platform". We worked with relevant departments to hold pairing meetings for the sale and purchase of agricultural and sideline products in poverty-alleviated areas in a bid to demonstrate and recommend those products for budgetary departments. We guided the "832 platform" to cooperate with the governments of Yongshun in Hunan Province and Poyang in Jiangxi Province to promote the pairing mode of sales and purchases between platforms, governments and enterprises.

3. We enhanced efforts to promote more balanced and better coordinated regional development.

First, we further implemented major regional strategies. We took concrete measures to ensure financial safeguards for fulfilling Beijing's capital functions, building the Xiong'an New Area with high standards and quality, and promoting Tianjin's high-quality development so as to comprehensively promote the coordinated development of the Beijing-Tianjin-Hebei region. We fully implemented supportive fiscal and taxation policies in regions such as the Yangtze River Economic Belt and the Yellow River Basin. We earnestly implemented supportive financial policies for promoting the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. We facilitated the efforts of major cooperation platforms such as Hengqin, Nansha, and Qianhai to play their guiding role. Fiscal and taxation policies were specified and implemented to enhance financial support for the efforts of Hainan in comprehensively deepening reforms and opening-up and accelerating construction of its free trade ports.

Second, we improved fiscal safeguard capacity of the special areas. We supported the establishment of incentive and restraint mechanisms for coal production, ensuring energy supply and facilitating stable economic development in relevant areas. We insisted on giving priority to supporting border areas, resource-exhausted cities, key ecological function areas, and old and former central revolutionary bases. We helped to enhance the capacity for providing basic public services in relevant areas and promote balanced regional development.

VI. We worked continuously to help improve the ecological environment and accelerate green and low-carbon transformation.

We thoroughly implemented Xi Jinping Thought on Ecological Civilization, and kept in mind the concept that “lucid waters and lush mountains are invaluable assets”. We gave full play to the combined effect of fiscal and taxation policies on the construction of ecological civilization, and coordinated promotion of carbon and pollution reduction as well as green expansion and economic growth. We made our efforts to promote the harmonious coexistence between man and nature, and continued to accelerate the comprehensive green transformation of economic and social development.

1. We deepened efforts for the prevention and control battle against pollution.

First, we continued to support the defense of blue skies. We allocated a total of 33 billion yuan for the prevention and control of atmospheric pollution, and strengthened work on the fund’s major performance assessment as well as the application of assessment results to increase its utilization efficiency. We focused on major factors and key fields in the treatment of atmospheric pollution, continuously supported the coordinated emission reduction of multiple pollutants such as nitrogen oxide and volatile organic pollutants. We advanced the coordinated treatment of fine particulate matter (PM2.5) and ozone (O3), to promote coordinated

progress of pollutant and carbon reduction. We implemented programs for clean winter heating in northern regions, steadily expanded the scope of support, and specified targeted policies.

Second, we made further efforts to keep water clear. We allocated 25.7 billion yuan for water pollution prevention and control. This funding supported pollution prevention and ecological restoration in key river basins such as the Yangtze River and the Yellow River. We made concerted efforts to improve aquatic environments, water resources, and aquatic ecosystems, and to strengthen ecological conservation of major rivers, lakes, and reservoirs. We deepened our efforts to promote the development of a cross-regional ecological compensation mechanism, with a primary focus on improving cross-basin eco-compensation mechanism, while diversifying forms of compensation with innovative measures. We expanded the scope of the pilot program for the treatment of black, malodorous water bodies in rural areas by including 12 additional regions such as Bozhou in Anhui Province in the second phase of our efforts in a bid to improve the treatment of rural domestic wastewater. In the first half of 2023, the proportion of water sections with good-quality surface water was 87.8 percent, a year-on-year increase of 2.1 percentage points; the proportion of water sections with bad quality surface water below Grade V was 1.0 percent, a year-on-year decrease of 0.1 percentage points.

Third, we made continuous efforts to keep lands pollution-free. A total of 4.4 billion yuan for soil pollution prevention and control was allocated to

support the reduction of historically heavy metal contaminated solid wastes, the safe utilization of agricultural land, and prevention and monitoring of pollution from key industrial enterprises, as well as soil pollution prevention and control on construction land. We intensified guidance and policy promotion at local levels, guiding local authorities to enhance project pipelines in key sectors and to increase investment, and advancing risk management and remediation for agricultural and construction land. This commitment was aimed at effectively safeguarding the quality of agricultural products and the safety of living environments.

2. Work on protection and restoration of important ecosystems was continuously strengthened.

First, the third batch of projects for the integrated protection and restoration of mountains, rivers, forests, fields, lakes, grasslands and sand during the 14th Five-Year Plan (2021-25) period was fully launched. Seven projects, including the Huangshui River basin project in Qinghai Province, were included in the scope of central government funding. This support enabled the respective regions to carry out systematic management in the aforementioned ecological areas, thereby contributing to the continuous improvement of ecosystem diversity, stability and sustainability.

Second, the demonstration projects for ecological restoration of abandoned mines made substantial progress. Following a competitive

review process, we selected and included 18 projects, including the key ecological area along the Yellow River in Linfen, Shanxi Province, in the central government funding to enable local efforts to restore damaged mountainsides and surface vegetation, with a particular emphasis on enhancing the quality of ecosystems and their carbon sink capacity.

Third, the protection and restoration of forest and grassland ecosystems continuously advanced. We promoted the construction of a natural reserve system with national parks as the mainstay and scientifically carried out a large-scale land greening initiative. We implemented an incentive policy for the development of the camellia oleifera industry, strengthened the protection of natural forests and ecological restoration and management of grasslands, and consolidated the return of farmland to forests and grasslands. We implemented policies of forest eco-compensation and forest rangers, and intensified both wetland protection and restoration and the protection of national key wildlife species. We implemented compensation measures for the closed-off protection zones of desertified land, and took measures to prevent forest and grassland fires and pests. Regions that have made significant progress in implementing the forest chief system were rewarded, and powerful guarantees were provided for the ecological conservation and restoration of forests and grasslands.

Fourth, marine ecological protection and restoration projects were vigorously advanced. Through a competitive review process, we selected

16 projects, which included the Putian project in Fujian Province, for central government funding. We supported coastal cities for their efforts to undertake marine ecological conservation and restoration projects covering the entire sea area in a comprehensive and holistic manner and with a systematic and global perspective to enhance the quality of the marine ecological environment and improve the carbon sink capacity of the marine ecosystem.

3. Efforts to achieve carbon peaking and carbon neutrality were steadily advanced.

We implemented the guidelines on *Fiscal Support to the Work on Achieving Carbon Peaking and Carbon Neutrality*, and continuously improved a fiscal and taxation policy system that is conducive to green and low-carbon development. We supported green and low-carbon technological innovation, promoted research and development of major key common technologies and facilitated the transformation of key sectors such as industry, transportation, and construction towards green and low-carbon development. The clean energy support policies were optimized, with emphasis on the development of renewable energy sources. We encouraged increase of unconventional natural gas production and use, and advanced clean and efficient utilization of coal, to promote the building of a new energy system. We refined the policies for green government procurement, and guided government departments to step up procurement of green and low-carbon products. We thoroughly implemented preferential policies

regarding environmental protection taxes, resources taxes, and energy and water conservation as well as comprehensive resource utilization, so as to harness the power of taxation to encourage green and low-carbon development among business entities. Furthermore, we promoted interregional communication and cooperation in a bid to leverage the demonstrative role of pioneering regions and apply innovative experiences and practices in a wider area.

VII. We continuously increased fund allocations to governments at lower levels and supported grassroots governments in securing the bottom line of the "three priorities" of people's basic well-being, payment of salaries and normal government functioning.

We persisted in securing the "three priorities" at the grassroots level, continuously intensified fund allocations to governments at lower levels, and ensured that provincial-level finance authorities fulfill their responsibilities. We provided guidance to local finance departments at all levels on strict management of expenditure budgets and intensified monitoring of fiscal operations in a bid to firmly secure the bottom line of the "three priorities" at the grassroots level and ensure stable fiscal operations at local levels.

1. Transfer payments from central government to local governments were scaled up.

In 2023, the central finance authorities continued to increase transfer payments to local governments. It allocated over 10 trillion yuan in transfer payments to local governments, a 7.9-percent increase after excluding the one-time payments for grassroots tax and fee cuts and special-purpose transfer payments for key livelihoods projects. Meanwhile, we optimized the structure of general transfer payments, with an increase of general transfer payments and support being tilted towards disadvantaged and underdeveloped regions. Transfer payments for equalizing access to basic public services increased by 10.3 percent to 2364.9 billion yuan, and rewards and subsidies to ensure basic funding for county-level governments grew by 8.7 percent to 410.7 billion yuan. Fiscal support to local governments continuously increased. In the first half of the year, 91.1 percent of transfer payments to local governments were delivered, with regions that met the conditions having received all payments, thus providing an effective fiscal guarantee for ensuring the “three priorities” at the grassroots level.

2. We worked to enhance the fiscal system below the provincial-level to strengthen the capacity for providing public services at the grassroots level.

We continued to advance the reform of the fiscal system below the provincial-level, overseeing localities in optimizing the alignment of their power and responsibilities as well as the structure of fiscal strength. We moderately strengthened the fiscal power of provincial-level governments

in certain areas and clearly defined the expenditure responsibilities of governments below provincial-level. We standardized the division of fiscal revenues below provincial-level and properly enhanced the regulatory capacity of provincial-level governments. We refined transfer payment systems below provincial-level to balance fiscal disparities between regions. Meanwhile, we strengthened guidance to provincial-level regions on their reform plans, promoting the establishment of a long-term fiscal guarantee mechanism at the county-level to ensure the “three priorities” at that level.

3.The responsibility chain for securing the “three-priorities” at the grassroots level was further consolidated.

We continued to enhance the mechanism for ensuring basic fiscal support at the county-level. Based on the principle of county-level governments as the mainstays, municipal governments offering assistance, provincial-level governments providing guarantees, and the central government giving incentives, we ensured that fiscal responsibilities are firmly placed on the shoulders of finance authorities at all levels. Provincial-level finance bears the primary responsibility for overseeing the fiscal operations of designated counties and prefecture-level finance bears major responsibilities for the fiscal operations of municipal districts under their direct administration. We strengthened the entire chain of institutional arrangements, including budget formulation and execution, dynamic monitoring and emergency response. For counties and districts where fiscal operations were on a tight balance, we required them to enhance budget review and budget execution

monitoring of expenditures related to the “three priorities” at the grassroots level. This was to promptly identify and address any potential risks and to consistently uphold the responsibilities for ensuring the “three priorities”. While the central government increased its transfer payments, it continuously urged local governments to strengthen budget management. Local governments were required to put the “three priorities” at the top of their budget allocations and take decisive measures to prevent risks associated with the “three priorities” at the grassroots level.

4. Monitoring and early warning of local fiscal operations was strengthened.

We worked to enhance the mechanism for monitoring local fiscal operations. Using the local fiscal operation monitoring system, we dynamically oversaw the local fiscal situation, generated monitoring reports on a regular basis and promptly identified and addressed emerging problems or trends in local fiscal operations. We made full use of the national monitoring and early warning mechanism for key counties and districts to better monitor their treasury fund balances, the consultation mechanism between the MOF’s local regulatory bureaus and provincial-level finance departments, and the liaison system between the MOF’s local regulatory bureaus and key counties and districts under their monitoring to carry out categorized management and prioritization. We studied how to further refine the indicators and early warning system in the local fiscal operation monitoring mechanism through information-based

means such as the integrated budget management system to enhance the timeliness and accuracy of fiscal operation monitoring in local governments.

VIII We strengthened local government debt management to effectively prevent and defuse local government debt risks.

We intensified local government debt management by adhering to the principle of “opening the front door” to further improve local government debt issuance and “blocking the back door” to prevent risks. We consistently issued a significant amount of new local government bonds while establishing a comprehensive institutional framework to prevent and defuse local government debt risks. We resolutely cracked down on all forms of illegal and irregular borrowing activities, to ensure no occurrence of systemic risks.

1. We arranged a reasonable scale of local government bonds.

The quota for general local government bonds was set at 720 billion yuan in 2023, which was the same as that of the previous year. We moderately increased the size of special local government bonds, with an additional quota of 3.8 trillion yuan, 150 billion yuan more than that of the previous year. At the same time, we carried out studies on moderately expanding the scope of sectors where special local government bonds can provide support and be used as project capital to meet the normal financing needs of local

governments and promote the advancement of major projects and key initiatives.

2.The issuance and utilization of local government bonds were accelerated.

In the first half of the year, we guided local governments to issue 434.4 billion yuan of newly-added general bonds, completing 60.3 percent of the annual quota for newly-added general debt. A total of 2172.1 billion yuan of special-purpose bonds for project construction was issued, accounting for 57.2 percent of the annual quota for newly-added special-purpose bonds. Additionally, we guided local governments to issue 1632.8 billion yuan of refinancing bonds.

3.We proactively forestalled and defused local government debt risks.

We worked to improve the management of projects funded by special local government bonds and strictly prohibited use of special-purpose bonds for luxury leisure projects, vanity projects and prestige projects as well as non-public welfare capital expenditures. We rigorously enforced the punishment mechanism for violations in the utilization of special local government bonds and comprehensively consolidated the management responsibilities of competent authorities and project units. Efforts were also made to improve the routine monitoring mechanism. We strengthened information sharing and collaborative supervision among departments to

resolutely curb the growth of hidden debt, defuse existing hidden debt in a prudent and orderly manner, and strictly investigate and punish any illegal borrowing.

IX Fiscal governance was further improved by managing and utilizing fiscal funds in a sound way.

In accordance with the requirements of upholding and improving the socialist system with Chinese characteristics and advancing the modernization of China's governance system and capacity, we persisted in an integrated advancement of strengthened management, deepened reform, and improved institutions. We continued to deepen reforms in the fiscal and taxation systems, intensify fiscal and accounting supervision, and uphold fiscal discipline to further consolidate the foundation of fiscal management, elevate the level of fiscal governance, and better support the high-quality economic and social development of the country.

1. We deepened our efforts to advance reform and innovation so as to comprehensively upgrade the level of fiscal management modernization.

First, we worked to improve the quality and efficiency of budget management. Our efforts to promote the implementation of the *Opinions on Further Deepening the Reform of the Budget Management System* has brought budget management to a new level. We further advanced budget

performance management, explored the evaluation of major policies that were newly introduced or extended upon expiration as well as ex ante project performance assessment, strengthened management of performance objectives, and improved the quality of performance self-assessment . We went on to enhance the quality and effectiveness of key fiscal evaluation, and deepened the application of performance evaluation results. We comprehensively pushed forward integrated budget management and established an improved and unified national system of norms and standards for the integrated budget management. Integrated national budget management now covers more than 20,000 budget units at the central level, and more than 3,700 finance departments and over 600,000 budget units at the local level, which has helped finance departments at all levels with their improvement in the normalized and scientific standardization of budget management. We established a national fiscal operation monitoring center and conducted dynamic monitoring and early risk warning over grassroots fiscal operations based on detailed fiscal data at all levels automatically aggregated by the integrated budget management system.

Second, we carried out tax system reform in an orderly manner. We studied and improved the tax system and implemented the principle of statutory taxation, and actively promoted legislation on VAT, consumption tax, tariff and other taxes.

Third, we made further efforts to deepen fiscal system reform. We continued to implement 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, further determined the expenditure responsibilities between the central and local governments in a reasonable manner, and clarified the scope of responsibilities between the central and local governments. We improved the transfer payment system from the central government to local governments, regulated the management of the utilization of relevant transfer payments, and elevated the efficiency of fund use. We implemented the *Guidelines on Furthering the Reform of the Fiscal System below the Provincial Level*, guiding local governments to improve the fiscal system in relevant ways. These efforts were directed towards establishing a more reasonable division of power and responsibility, a more standardized income distribution system, a relatively balanced distribution of fiscal resources, and a more robust system for safeguarding grassroots interests within the fiscal system below the provincial level.

Fourth, we took proactive actions to enhance fiscal management. We continued to reform the system of centralized treasury payments, and steadily advanced the reform of the general accounting system, implementing the newly revised *General Accounting System for Finance*. We further revised and improved the methods and guidelines for the preparation of government financial reports to provide more comprehensive and accurate information about the government's financial situation. We pushed forward the reform of the government procurement system, and strived to build procurement transaction rules that ensure fair

competition. We also delved into the reform of government procurement of services, strictly regulating its implementation and strengthening quality control. We solidly promoted the digital management of non-tax income collection, and advanced the establishment of a collection service system featuring a paperless process, diversified channels and electronic collection. We successfully completed issuance of government bonds in the first half of the year and managed treasury cash in a scientific manner.

2. We strengthened fiscal and accounting supervision to ensure stable financial and economic order.

First, we intensified the construction of an institutional mechanism for fiscal and accounting supervision. We accelerated the revision of the Accounting Law and the Law on Certified Public Accountants, and mulled over the drafts of the *Measures for Handling Complaints and Reports on Accounting Firms and Certified Public Accountants*. We issued the *Regulations for the Supervision and Inspection on Accounting and Evaluation of the Ministry of Finance (Trial)*, the *Manual for the Practice Quality Inspection of the Certified Public Accountant Industry (2023)*, and the *Manual for the Practice Quality Inspection of the Asset Evaluation Industry (2023)* to effectively improve the normalized, standardized, and programmatic level of accounting and evaluation supervision.

Second, we steadily carried out a special campaign for fiscal and accounting supervision. In alignment with the implementation of major

decisions and plans made by the CPC Central Committee and the State Council, we carried out a special campaign for fiscal and accounting supervision in 20 aspects of three key areas, namely the investigation and punishment of major cases in the financial and economic sector, the rectification of key problems related to financial and economic discipline, and the special supervision of the accounting and evaluation industry.

Third, we reinforced supervision over accounting and evaluation. We carried out special campaigns to crack down on illegal activities such as unlicensed operations and false promises of accounting agencies, as well as the "four categories" of illegal activities of unlicensed operations by accounting firms, behaviors of certified public accountants (CPAs) who were registered but not practicing, online sales of audit reports, and the practices of CPAs beyond their competence. We strictly investigated and punished Deloitte Touche Tohmatsu Ltd and China Huarong Asset Management Co Ltd., where the maximum penalties were imposed on Huarong and its seven subsidiaries and the largest fine in the history of China's CPA industry was imposed on Deloitte Touche Tohmatsu Ltd, whose Beijing office was also suspended from business for three months. According to the results of accounting and supervision inspection in 2022, 32 administrative punishment decisions were issued. We organized 35 regulatory bureaus under the MOF to conduct practice quality inspections of 41 accounting firms and 15 auditing agencies registered to engage in securities services, with the number and scale of the inspection reaching a record high.

Fourth, we deepened the construction of internal control and auditing.

We advanced the special work of internal control inspection, internal control auditing, and internal control evaluation in an innovative way, and promoted deeper integration of internal control and other supervision methods such as internal auditing. A meeting of the MOF's Internal Control Committee was held to advance the internal control auditing of the problems found in the auditing of 2022 and the internal control assessment of the departments under MOF, and to urge rectification thereof. Special inspections of internal control were also carried out on five fund companies under the management of the MOF and on the China Finance & Economy Media Group.

X. Fiscal Policy Outlook

In the second half of 2023, the Ministry of Finance will continue to adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and thoroughly implement the guiding principles of the 20th CPC National Congress. We will continue to adhere to the principle of making progress while maintaining stability, implement the new development philosophy in a full, accurate and comprehensive manner, accelerate efforts to foster a new development paradigm, and comprehensively deepen reform and opening-up. We will intensify macroeconomic policy regulation, expand domestic demand, boost confidence and prevent risks. We will continue to promote sustained

improvement in economic performance, and enhance an endogenous driving force and social expectations while defusing hidden risks, so as to promote economic growth in terms of both effective quality upgrading and reasonable quantity increase.

1. We will exert more effort to effectively implement proactive fiscal policy. We will strengthen monitoring and analysis of economic and fiscal operations, closely track the execution of local and departmental budgets, make good use of the direct fund allocation mechanism, reasonably speed up the process of making budgetary funds available for fiscal expenditures, comprehensively improve the efficiency of fund disbursement, and push forward the effective implementation of fiscal and tax policies. We will extend, optimize and conscientiously implement tax and fee reduction policies, support the development of private enterprises, micro, small and medium-sized enterprises and individual businesses, resolutely solve the problems of arbitrary charges, fines and apportionment and promote the settlement of delinquent payments by government departments to enterprises. We will expedite the issuance and use of special local government bonds, carry out studies on expanding areas eligible for investment and the scope of the projects where the bonds can be used as their capital, continue to get more special bond projects in the pipeline and enhance post-investment management, improve the efficiency of special bond fund use, and guide the efforts to bring in more private investment. We will also strengthen the coordination of fiscal, monetary and other policies, beef up expectation management, and better leverage cooperative

effects.

2. We will support the development and improvement of the real economy. We will ensure that preferential and innovative policies such as additional tax deduction on R&D costs are available to all eligible market players and encourage small and medium-sized enterprises to use special and sophisticated technologies to produce novel and unique products. We will deepen reform of the mechanism for allocating and using fiscal funds for science and technology, and continue to increase the effectiveness of related investments. We will prioritize the high-quality development of the manufacturing industry, promote innovation-driven development, increase support for breakthroughs in core technologies in key fields, and take into consideration relevant policies to support the development of the advanced manufacturing industry and the development of a modern industrial system. We will improve the input mechanism for rural revitalization, take firm actions to ensure food security and prevent a large-scale relapse into poverty, and solidly promote key tasks such as rural development and rural construction. We will implement major regional strategies and enhance the coordination and balance of regional development. We will make good use of policies such as special funds for foreign trade and economic development to keep foreign trade and investment stable.

3. We will effectively guarantee and improve people's livelihoods. We will thoroughly implement the pro-employment strategies, make good use of policies such as social insurance subsidies and vocational training

subsidies as well as guaranteed loans for startups and interest subsidies to promote the employment and entrepreneurship of the youth population including college graduates, and encourage enterprises to create jobs. We will strengthen the fulfilment of responsibilities of finance departments at all levels in securing the "three priorities", guide local governments to coordinate transfer payments with their own financial resources, and make more efforts to optimize the expenditure structure. More fiscal resources will be allocated to the grassroots level, and monitoring and early warning mechanism will be enhanced to guarantee treasury funds. We will provide funding in a timely and appropriate manner to areas in difficulty to ensure fiscal support for the three priorities at the grassroots level. We will continue to safeguard people's livelihoods, including compulsory education, basic medical care, and basic housing, increase basic pensions for urban and rural residents, strengthen assistance to people in need and support flood prevention and drought relief.

4. We will prevent and defuse risks associated with local government debts. We will further specify responsibilities of local governments and related departments, and strictly implement the requirements of Party committees and governments at provincial-level taking overall responsibility, and local Party committees and governments at all levels assuming their respective responsibilities. We will urge local governments to coordinate all types of funds, assets, resources, and supportive policies and measures, focus on cities and counties with enhanced work, properly resolve existing hidden debts, optimize term structures, reduce interest

burdens, and gradually mitigate debt risks. We will enhance cross-departmental joint supervision, always maintain a high-pressure posture, strengthen regular supervision, inspection and evaluation, resolutely investigate and deal with acts of adding new hidden debts, implement the mechanisms of life-long accountability and retroactive investigation of accountability, and prevent the increase of new debts while liquidating existing debts. We will steadily advance the integrated supervision of local government debts, and promote the establishment of a unified long-term regulatory framework.

5. We will strictly enforce fiscal discipline. We will thoroughly implement the *Guidelines on Strengthening Fiscal and Accounting Supervision* issued by the General Office of the CPC Central Committee and the General Office of the State Council, with greater efforts to carry out fiscal and accounting supervision. We will also promote the establishment of a fiscal and accounting supervision system with finance departments as the main supervisory body, and relevant departments as responsible supervisors, ensuring internal supervision within each unit, professional supervision by relevant intermediary agencies, and self-discipline supervision by industry associations. Supervision over the fiscal and accounting activities of State organs, enterprises and institutions, other organizations and individuals will be strengthened in accordance with laws and regulations. We will improve a working mechanism that involves horizontal collaboration among different supervisory entities, vertical interaction between central and local governments, and seamless

coordination and cooperation among fiscal, accounting, and other forms of supervision to form a joint supervisory force with enhanced efficiency. We will steadily promote the special actions of fiscal and accounting supervision. While pushing forward the effective implementation of major decisions and plans made by the CPC Central Committee and the State Council, we will also crack down on all kinds of violations of fiscal and economic discipline, and strengthen publicizing of accountability and punishment to make fiscal discipline a red line that no one is allowed to cross.