

# CHINA FINANCE

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### HIGHLIGHT

- Finance Minister Liu Kun: strengthening coordination of macroeconomic policies and enhancing international cooperation in pandemic response
- Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors' Meeting via video link
- State-owned Assets Supervision and Administration Commission and MOF published the *Administrative Measures for the Formulation of the Articles of Association of State-owned Enterprises*
- Four ministries jointly published the *Circular on Doing a Thorough and Solid Job on Microcredit for People Just Lifted out of Poverty in the Transitional Period*
- Expenditure budget of MOF in 2021 reaches 9.4650789 billion RMB

## Brief Introduction to IEFI

Founded in 2007, the International Economics and Finance Institute (IEFI) is affiliated to the Ministry of Finance of China, specializing in international economic and financial studies. Its main functions include macroeconomic research on advanced economies such as U.S., Europe and Japan, and on emerging economies such as BRICS countries; research on global and regional economic and financial cooperation, global governance reform and international development cooperation; participation in bilateral and multilateral financial dialogues; and exchanges with think tanks and government agencies around the world.

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Website:<http://iefi.mof.gov.cn>

# Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ASEAN+3	Association of Southeast Asian Nations, China, Korea and Japan
BEPS	Base Erosion and Profit Shifting
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CAAC	Civil Aviation Administration, China
CAC	Cyberspace Administration, China
CAFS	Chinese Academy of Fiscal Sciences
CAREC	Central Asia Regional Economic Cooperation
CASS	Chinese Academy of Social Sciences
CBIRC	China Banking and Insurance Regulatory Commission
CEPA	Closer Economic Partnership Arrangement
CMIM	Chiang Mai Initiative Multilateralization
CPA	Certified Public Accountant
CPC	Communist Party of China
CPI	Consumer Price Index
CPPCC	Chinese People's Political Consultative Conference
CSRC	China Securities Regulatory Commission
FDA	Food and Drug Administration
GAC	General Administration of Customs, China
GAMS	General Administration of Market Supervision, China
GAS	General Administration of Sport, China
GDP	Gross Domestic Product
IEFI	International Economics and Finance Institute, Ministry of Finance, China
IMF	International Monetary Fund
IPI	Industrial Production Index
IPR	Intellectual Property Rights
LICs	Low-Income Countries
MCA	Ministry of Civil Affairs, China
MCT	Ministry of Culture and Tourism, China
MEE	Ministry of Ecology and Environment, China
MIIT	Ministry of Industry and Information Technology, China
MNR	Ministry of Natural Resources, China
MOA	Ministry of Agriculture and Rural Affairs, China
MOE	Ministry of Education, China
MOF	Ministry of Finance, China
MOFCOM	Ministry of Commerce, China

MOHRSS	Ministry of Human Resources and Social Security, China
MOHURD	Ministry of Housing and Urban-Rural Development, China
MPS	Ministry of Public Security, China
MOST	Ministry of Science and Technology, China
MOT	Ministry of Transport, China
MVA	Ministry of Veteran Affairs, China
MWR	Ministry of Water Resource, China
NAO	National Audit Office, China
NBS	National Bureau of Statistics, China
NCP	New coronavirus pneumonia
NDB	New Development Bank
NDRC	National Development and Reform Commission, China
NEA	National Energy Administration, China
NFGA	National Forestry and Grassland Administration, China
NFSRA	National Food and Strategic Reserves Administration, China
NHC	National Health Commission of the People's Republic of China
NHSA	National Healthcare Security Administration, China
NMPA	National Medical Products Administration, China
NPC	National People's Congress, China
NRTA	National Radio and Television Administration, China
OECD	Organization for Economic Co-operation and Development
PBoC	People's Bank of China
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PPP	Public-Private Partnership
QE	Quantitative Easing
QQE	Qualitative and Quantitative Ease
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
SAFE	State Administration of Foreign Exchange, China
SAMR	State Administration of Market Regulation, China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council, China
SAT	State Administration of Taxation, China
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
VAT	Value-added Tax
WTO	World Trade Organization

## I. Policy Update

### **1. State-owned Assets Supervision and Administration Commission and MOF published the *Administrative Measures for the Formulation of the Articles of Association of State-owned Enterprises***

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On March 1, the State-owned Assets Supervision and Administration Commission and MOF jointly published the *Administrative Measures for the Formulation of the Articles of Association of State-owned Enterprises*, which provided the following. First, the institutions that perform the responsibilities of capital contributors refer to the state-owned assets supervision and administration institutions established by the state-owned assets supervision and administration authorities of the State Council and the local people's government in accordance with the regulations of the State Council, as well as other departments and institutions authorized by the State Council and local people's governments to represent the people's governments at the corresponding level in performing the responsibilities of capital contributors in state-owned enterprises. Second, the articles of association of wholly state-owned enterprises shall be formulated by the institution of capital contributors, or be formulated by the board of directors with the approval of the institution of capital contributors. The institution of capital contributors may authorize other decision-making institutions such as the preparatory institutions for newly established, reorganized and restructured enterprises to formulate the draft articles of association and submit them to the institution of capital contributors for approval. Third, the formulation of the articles of association of state-owned enterprises should adhere to the principle of consistency between rights and responsibilities, effectively regulate corporate governance, uphold corporate property rights and operational autonomy, improve the supervision of state-owned enterprises, and ensure that the value of state-owned assets is maintained and increased.

### **2. Three ministries published a circular on organizing the application for the central fiscal support for the project of integrated protection and restoration of**

## **mountains, rivers, forests, farmland, lakes, grassland and desert**

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On March 2, MOF, the Ministry of Natural Resources, and the Ministry of Ecology and Environment jointly published a circular on organizing the application for the central fiscal support for the project of integrated protection and restoration of mountains, rivers, forests, farmland, lakes, grassland and desert, which provided the following. First, the central fiscal support shall mainly target such sectors of joint central and local fiscal mandates as the ecological protection, restoration and governance of key areas critical for ecological safety and with a wide range of ecological benefits. In 2021, the central government will focus on supporting the “three regions and four belts” and other key ecological areas to carry out integrated protection and restoration of mountains, rivers, forests, farmland, lakes, grassland and desert, in order to provide ecological support for major national strategies and improve the quality and stability of the ecosystem. Second, the central government supported projects shall be publicly selected and determined on a merit basis through competitive review method. With no more than 2 billion RMB for each project, the central fiscal rewards and subsidies will be mainly used to support ecological protection and restoration of key ecological areas that fall within the joint fiscal mandates of central and local governments. Third, local governments should give full play to the guiding role of fiscal funds, establish and improve a diversified investment mechanism; and at the same time, fully consider the availability of financial resources to avoid excessive restoration and buildup of hidden debts of local governments.

## **3. Ministry of Agriculture and Rural Affairs and MOF jointly published a circular on organizing the application of integrated agricultural industry development projects in 2021**

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On March 8, the Ministry of Agriculture and Rural Affairs and MOF jointly published a circular on organizing the application of integrated agricultural industry development projects in 2021, which provided the following. First, the central government will provide fiscal support for the creation of 50 new national modern agricultural industrial parks, 50 advantageous industrial clusters with local characteristics and 300 strong agricultural industrial towns in 2021, so as to promote

more advanced and optimized layout of rural industries. Second, the central government will provide rewards and subsidies of various categories for national modern agricultural industrial parks, advantageous industrial clusters with local characteristics and strong agricultural industrial towns that have been approved for construction or are already under construction. Third, the central government will leverage its fiscal support to mobilize increased inputs from local governments as well as financial capital and private investment for their participation in the afore-mentioned construction, and the measures adopted in accordance with actual conditions include direct subsidies, government purchase of services, result-based subsidies, rewards in place of subsidies and so on.

#### **4. Three ministries jointly published a circular on strengthening inter-provincial access to government services involving collection and administration of government non-tax revenues**

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On March 9, MOF, the Ministry of Human Resources and Social Security, and the Ministry of Natural Resources jointly published a circular on strengthening inter-provincial access to government services involving collection and administration of government non-tax revenues, which provided the following. First, standardize collection management, rationalize business processing and fee-payment procedures, collect government non-tax revenues in accordance with laws and regulations, and regulate collection behavior. Second, improve payment model, accelerate the comprehensive connection and in-depth integration of the government non-tax revenue collection system with the relevant business systems and service platforms for inter-provincial access to government services, establish sound offline inter-provincial payment channels, and facilitate the inter-provincial access to the dedicated fee-payment window. Third, strengthen organization and guidance, and require relevant departments at all levels and localities across the country to further refine their tasks and formulate work plans and schedules, in order to ensure that the reform involving inter-provincial access to government services should be well implemented.

## **5. The State Council allocated key tasks laid out in the *Government Work Report***

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On March 15, Premier Li Keqiang of the State Council presided over an executive meeting of the State Council, which required all efforts to implement the tasks laid out in the *Government Work Report* and to keep economy running in appropriate range, which provided the following. First, we should closely follow changes in the world economy and its impact on China, grasp the year-on-year and quarter-on-quarter trends of domestic economy, and carry out preemptive adjustment and fine-tuning of policies in a timely manner. Second, we should speed up the implementation of pre-determined fiscal, financial, employment and other macro policies, accelerate the disbursement of the expanded fiscal funds directly allocated from the central government to the grass-roots level, and focus on ensuring employment, people's livelihood and operation of market entities. Third, we should break down and refine key tasks, speed up the allocation and use of central budgetary funds, transfer payments, and local government special debts, and strengthen support for compulsory education, basic medical care and other fields to make up for shortcomings. Fourth, departments and regions should strengthen supervision and inspection over progress of implementation, and enhance coordination and cooperation to sustain steady and healthy economic development.

## **6. Four ministries jointly published the *Circular on Doing a Thorough and Solid Job on Microcredit for People Just Lifted out of Poverty in the Transitional Period***

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On March 17, the China Banking and Insurance Regulatory Commission, MOF, the People's Bank of China and the National Administration for Rural Revitalization jointly published the *Circular on Doing a Thorough and Solid Job on Microcredit for the People Just Lifted out of Poverty in the Transitional Period*, which provided the following. First, the people eligible for support are those previously registered as poor people and just lifted out of poverty, and the loans will be lent out on a household basis. Second, active efforts should be made to provide loans, strengthen loan renewal and extension management, add and increase loans where appropriate, innovate approaches to credit services, and effectively meet the credit needs of people just lifted out of poverty. Third, efforts should be made to improve the credit management mechanism

of banking institutions, promote the construction of credit system in areas just lifted out of poverty, adhere to the contract responsibility system, and continue to facilitate the linkage between the bank's primary institutions and primary Party organizations. Fourth, institutions concerned should put in place differentiated regulatory policies, make good use of monetary policy tools, strengthen the leveraging role of fiscal funds, step up the work of poverty alleviation (rural revitalization) departments, and continuously improve support policies.

### **7. The State Council issued the *Regulations on State-owned Assets of Administrative and Public Institutions***

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On March 18, the State Council published the *Regulations on State-owned Assets of Administrative and Public Institutions*, which provided the following. First, state-owned assets of administrative and public institutions refer to the assets formed by administrative units and public institutions through the use of fiscal funds, the assets formed by the acceptance of allocation, transfer or replacement, the assets formed by the acceptance of donations and verified as state-owned assets, and other state-owned assets. Second, the state-owned assets of all departments and their affiliated administrative and public institutions should be administered in a way that realizes the unification between physical management and value management, and the integration between asset management, budget management, and financial management. Third, the finance authorities are responsible for formulating rules and regulations for the administration of the state-owned assets of administrative and public institutions and for organizing implementation, supervision and inspection, and should take the lead in compiling reports on the administration of the state-owned assets of administrative and public institutions.

### **8. The State Council made decisions to raise the ratio of extra tax deduction on the R&D expenses of manufacturing companies**

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On March 24, Premier Li Keqiang of the State Council presided over an executive meeting of the State Council to plan the implementation of policies such as raising the ratio of extra tax deduction on the R&D expenses of manufacturing companies, which

provided the following. First, starting from January 1 this year, the ratio of extra tax deduction on the R&D expenses of manufacturing companies will be increased from 75% to 100%, which is equivalent to deducting 2 million RMB from taxable income for every 1 million RMB invested in R&D expenses. The implementation of this policy is expected to reduce taxes by an additional 80 billion RMB for enterprises this year on top of over 360 billion RMB in tax cut last year. Second, efforts will be made to reform the deduction methodology for R&D expenses, allowing enterprises to enjoy the preferential treatment on semi-annual basis, with their R&D spending in the first half of the year to be deducted before paying corporate income taxes in October, rather than during its settlement next year, so that enterprises can benefit early. Meanwhile, the meeting also decided to mull over tax incentive policies for enterprises engaged in providing R&D services and for business startup and innovation.

### **9. MOF published an announcement on the cancellation of port construction fees and adjustments to the relevant policies of the Civil Aviation Development Fund Contributions**

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On March 24, MOF published an announcement on the cancellation of port construction fees and adjustments to the relevant policies of the Civil Aviation Development Fund Contributions, which provided the following. First, starting from January 1, 2021, no more port construction fees will be collected. And the collection entities concerned must collect and promptly settle in full the arrears in previous years and hand over the entire amount to the state treasury through channels specified by the finance authorities. Second, starting from April 1, 2021, civil aviation development fund contributions from airlines will be further cut by 20% on top of a 50% reduction that has been implemented in accordance with the *Circular of the Ministry of Finance on Policies of Adjusting Some Governmental Funds*.

### **10. MOF and the China National Intellectual Property Administration published a circular on implementing a special plan for patent application to boost the innovation and development of SMEs**

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On March 25, MOF and the China National Intellectual Property Administration published a circular on implementing a special plan for patent application to boost the innovation and development of SMEs, which provided the following. First, efforts will be made to broaden the supply channels of patented technology, promote the match between supply and demand of patented technology, improve supporting policies and services, and adjust and optimize patent subsidy and reward policies in line with the implementation of the special plan for patent application. Second, the central government will support the further opening of data, provide green channels, grant financial rewards and subsidies, focus on matching supply and demand of patented technology as well as commercialization and application of patented technology, and encourage approaches including rewards for subsidies, purchase of services, equity investment, loan interest subsidies, etc. Third, the working procedures include plan formulation, plan filing, and determination of regions eligible for rewards and subsidies. From 2021 to 2023, China National Intellectual Property Administration and MOF will select and determine the recipients of rewards and subsidies among a number of provinces with strong measures and significant policy effects in accordance with agreed performance evaluation indicators. After three years, an overall evaluation on the performance of implementation will be carried out and the evaluation results will serve as the main basis for the adjustment and improvement of the reward and subsidy policy.

## II. Facts & Figures

### **1. China's manufacturing PMI in February was 50.6%**

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The data published by the National Bureau of Statistics on February 28 showed that China's manufacturing PMI in February was 50.6%, a decrease of 0.7 percentage points from the previous month, and stayed above the critical point for 12 consecutive months. By the scale of enterprises, PMI of large-sized enterprises was 52.2%, an increase of 0.1 percentage point month on month; PMI of small and medium-sized enterprises was 49.6% and 48.3% respectively, down by 1.8 and 1.1 percentage point month on month, and both were below the critical point. By the classified indexes, the production index and the new order index were all above the critical point, and the raw material inventory index, the employee index and the supplier delivery time index were all below the critical point.

### **2. China's CPI in February fell by 0.2% year on year**

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The data published by the National Bureau of Statistics on March 10 showed that China's CPI in February fell by 0.2% year on year. Among them, prices in urban areas fell by 0.2% and prices in rural areas fell by 0.1%; food prices fell by 0.2%, and non-food prices fell by 0.2%; consumer goods prices fell by 0.3%, and service prices fell by 0.1%. CPI in February rose by 0.6% month on month. Among them, prices in urban areas rose by 0.6% and prices in rural areas rose by 0.4%; food prices rose by 1.6%, and non-food prices rose by 0.4%; consumer goods prices rose by 0.7%, and service prices rose by 0.4%.

### **3. China's PPI in February rose by 1.7% year on year**

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The data published by the National Bureau of Statistics on March 10 showed that China's PPI in February rose by 1.7% year on year. Among them, prices of extractive industries increased by 6.8%, prices of raw material industries increased by 2.9%, and prices of processing industries increased by 1.7%.

#### **4. China's cumulative general public budget revenue from January to February reached 4.1805 trillion RMB**

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The data published by MOF on March 18 showed that China's cumulative general public budget revenue from January to February reached 4.1805 trillion RMB, a year-on-year increase of 18.7%. Among them, the central-level general public budget revenue was 2.0458 trillion RMB, a year-on-year increase of 18.7%; the local-level general public budget revenue was 2.1347 trillion RMB, a year-on-year increase of 18.7%. Nation-wide tax revenue was 3.7064 trillion RMB, a year-on-year increase of 18.9%; non-tax revenue was 474.1 billion RMB, a year-on-year increase of 16.8%.

#### **5. China's cumulative general public budget expenditure from January to February reached 3.5733 trillion RMB**

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The data published by MOF on March 18 showed that China's cumulative general public budget expenditure from January to February reached 3.5733 trillion RMB, a year-on-year increase of 10.5%. Among them, the central-level general public budget expenditure was 383.2 billion RMB, a year-on-year decrease of 10.2%; the local-level general public budget expenditure was 3.1901 trillion RMB, a year-on-year increase of 13.6%.

#### **6. Revenue budget of MOF in 2021 reaches 10.2423312 billion RMB**

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The data published by MOF on March 25 showed that revenue budget of MOF in 2021 is 10.2423312 billion RMB. Among them, 1.930417 billion RMB is carried over from the previous year, accounting for 18.85%; revenue from general public budget appropriation is 6.8679744 billion RMB, accounting for 67.05%; business revenue is 1.0346652 billion RMB, accounting for 10.10%; operating revenue of affiliated public institutions is 21.633 million RMB, accounting for 0.21%; other revenue is 185.1311 million RMB, accounting for 1.81%; the balance of non-fiscal appropriations is 202.5105 million RMB, accounting for 1.98%.

## **7. Expenditure budget of MOF in 2021 reaches 9.4650789 billion RMB**

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The data published by MOF on March 25 showed that expenditure budget of MOF in 2021 is 9.4650789 billion RMB. Among them, basic expenditure is 2.3530884 billion RMB, accounting for 24.86%; project expenditure is 7.0965415 billion RMB, accounting for 74.98%; operating expenditure of affiliated public institutions is 15.449 million RMB, accounting for 0.16%.

### III. MOF Events

1. On February 24, Vice Finance Minister Zou Jiayi attended and addressed the BRICS Finance and Central Bank Deputies' Meeting via video link. The meeting discussed global economic situation and pandemic response, infrastructure investment, New Development Bank, scope of use for tax information exchange, customs cooperation and other issues related to the ministry of finance, as well as central bank related issues such as financial service cooperation, information security and contingency reserve arrangements.
2. On February 26, Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors' Meeting via video link. Vice Finance Minister Zou Jiayi also attended the meeting.

## IV. Local Finance

### **1. Shandong Finance: focusing on four priority areas to address the difficulties in budget performance management**

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According to the news released by the Finance Department of Shandong Province on March 3, the Bureau of Finance of Yantai City has accelerated the establishment of an “all-round, full-process, and full-coverage” budget performance management system, and made a series of exploration and innovation to provide templates for reform. First, they have fully standardized the ex-ante assessment process, established an early warning and correction mechanism, set up a “three-level” mechanism for unit self-evaluation, departmental evaluation and fiscal regulatory evaluation, earnestly applied the results of evaluation, and worked to resolve the problem of the weak role of performance evaluation in providing incentives and constraints. Second, they have developed an innovative model of “finance +” led by the finance authorities and supported by the third parties, experts and other departments, i.e., “finance authorities + third parties”, “finance authorities + experts + third parties”, “finance authorities + departments + third parties”, in order to address the problem of low specialization. Third, they organized expert review meetings to resolve the problem of low quality in performance evaluation reports. Fourth, they also worked to achieve “full coverage” of departmental performance management and “full coverage” of performance assessment to resolve the problem of uneven work advancement.

### **2. Hunan Finance: working on four fronts to secure a good beginning in rural revitalization**

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According to the news released by the Finance Department of Hunan Province on March 3, the Finance Bureau of Hengyang City has earnestly performed its fiscal responsibilities and made every effort to help effectively synergize poverty alleviation with rural revitalization. First, they built a sound organizational framework and planning system, improved and kept the mechanisms stable, and endeavored to advance strategic planning. Second, they worked to support the development of local

industries, promoted the sustainable and healthy development of rural areas, stepped up efforts to ensure the safety of the agricultural products supply chain, created an industrial chain with local advantages and characteristics, stabilized the new business entities, and extended the value chain of brand marketing. Third, they supported efforts to improve living environment, promote ecological and environmental protection, infrastructure construction and provision of services in rural areas. Fourth, they also provided support for the full completion of the goals and tasks of poverty alleviation, maintained stable fiscal input, took stock of valuable experience in poverty alleviation, and aimed at achieving practical results in supporting poverty alleviation.

### **3. Gansu Finance: strengthening work on six fronts to deepen budget performance management**

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According to the news released by the Finance Department of Gansu Province on March 9, Jinchang City has accelerated the construction of an “all-round, full-process and full-coverage” budget performance management system in order to improve the efficiency and effectiveness of the allocation of fiscal resources. The first step was to speed up the construction of budget performance management system, and standardize performance targets, performance monitoring, performance evaluation, results application and other administrative procedures. The second step was to strengthen budget performance target management and regulate fund performance management at the source. The third step was to carry out performance operation monitoring to dynamically understand and grasp the implementation of projects invested with budgetary funds. The fourth step was to steadily conduct performance evaluation and strengthen the performance awareness of departments in using fiscal funds. The fifth step was to enhance disclosure of performance information to increase the transparency of budget performance management. The sixth step was to strengthen appraisal over budget performance management and establish a performance management appraisal system.

### **4. Zhejiang Finance: promoting precise and efficient implementation of the**

## **two-direct policy**

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According to the news released by the Finance Department of Zhejiang Province on March 10, Wenzhou City has ensured the precise and efficient implementation of the policy of directly allocating funds to prefecture and county level governments and directly bringing benefits to people and enterprises (two-direct policy) with the fastest payment speed in the province, turning the dividends of the proactive fiscal policy into a powerful driving force for the development of the city. Their first measure was to strengthen systematic mindset, develop innovative approaches to facilitate the implementation of the two-direct policy, promote the vertical linkage with systematic thinking, strengthen the coordination between departments with a systematic method, and encourage performance competition with systematic evaluation. The second measure was to strengthen service upgrades and effectively build a mechanism for the implementation of the two-direct policy, including the establishment of a leadership-in-command mechanism, a special service mechanism, and a project linkage mechanism. The third measure was to strengthen digital empowerment, step up “precise support” with data sharing, and prevent “mismatch risk” with data comparison to accurately resolve the difficulties in the implementation of the two-direct policy. The fourth measure was to build up the capacity for pandemic response, energize enterprises and retain job posts, and improve people’s livelihood and well-being with a people first approach, in order to amplify continuously the benefits of the implementation of the two-direct policy.

## **5. Guangdong Finance: vigorously advancing the reform in electronic fiscal invoice management to complete fee payment and invoice processing via apps**

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According to the news released by the Finance Department of Guangdong Province on March 17, the finance authorities of Guangdong, in response to the need for “reducing in-person encounters” and “zero contact” for pandemic prevention and control, have accelerated the reform of the management of electronic fiscal invoices. First, efforts were made to strengthen top-level design, formulate the overall framework and plan for reform, ensure effective coordination within the province, and make overall plans to advance the reform. Second, they took advantage of technology

application to promote the integration of business and technology, and focused on digital empowerment to accelerate digitalization. Third, they gave close attention to the concerns over people's livelihood and managed to establish a new supervisory system for electronic fiscal invoices covering all links and with unified standards.

## **6. Ningxia Finance: active plans designed to take the fiscal work in 2021 to a new level**

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According to the news released by the Finance Department of Ningxia Hui Autonomous Region on March 18, the Finance Bureau of Yinchuan City has vigorously built up financial resources and accelerated the reform of the fiscal system. First, they actively gave play to the guiding role of fiscal and tax policies and funds, step up support and guidance for enterprises in emerging industries or industries with local advantages and characteristics as well as SMEs, and fostered diversified growth driver for taxation. Second, they stepped up efforts to fully implement the responsibilities for fiscal funding, prioritize and fully ensure mandatory expenditures on items such as the “three priorities”, strengthen budgetary constraints, and build a fiscal expenditure system compatible with modern public finance. Third, Yinchuan City has concentrated its financial resources on supporting the implementation of major policies, major reforms and major projects at all levels, and maintained a moderate increase in fiscal expenditures. Fourth, the City continued to strengthen fiscal support, consolidate the foundation for poverty alleviation, and effectively align the efforts with the rural revitalization strategy. Fifth, they made active and steady efforts to resolve government debts, and particularly to achieve concrete results from the work on addressing hidden government debts. Sixth, the City continued to deepen the reform of fiscal system, strengthen the management of fiscal funds, and establish an “all-round, full-process and full-coverage” budget performance management system.

## **7. Henan Finance: providing active fiscal support for rural revitalization**

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According to the news released by the Finance Department of Henan Province on March 22, the Finance Bureau of Jiaozuo City has actively consolidated

agriculture-related funds and concentrated resources on supporting comprehensive advancement of rural revitalization. First, the Finance Bureau supported the alignment of efforts to consolidate and expand the achievements in poverty alleviation with efforts to promote rural revitalization, made budgetary funds available to enhance the level of agricultural industrialization, provided assistance to the needy population, and spared no efforts to study, optimize and adjust policies. Second, the Finance Bureau supported the work on promoting agricultural modernization and developing the core areas of grain production, and increased subsidies for the purchase of agricultural machinery to upgrade agricultural machinery and equipments. Third, the Finance Bureau also provided support for rural development, including construction of rural public infrastructure and improvement of rural infrastructure facilities. Fourth, they made similar efforts to support effective and innovative rural governance.

## **8. Xinjiang Finance: providing solid support for spring farming**

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According to the news released by the Finance Department of Xinjiang Uygur Autonomous Region on March 23, the finance authorities in Xinjiang have further improved the agricultural subsidy policies and fully unleashed the policy effects to guarantee the basic income of farmers in grain farming. First, the finance authorities maintained their focus on agriculture and rural areas in fiscal funding and budgetary arrangements, ensured that the new funds be tilted to agricultural industries, and enhanced their efforts to improve the effectiveness of agricultural subsidy policies and strengthen the weak links in agricultural infrastructure. Second, the finance authorities fully unleashed the effects of subsidy policies, continued to incentivize farmers for spring farming, and made available more subsidy funds for the conservation of arable land fertility in the functional areas of grain production, so as to offer cost-effective subsidies for high-quality grains to be sold at a better price. Third, the finance authorities strongly supported the implementation of policies and measures in areas such as ecological protection, conservation of arable land fertility, purchase of agricultural machinery, and agricultural supply-side reforms, so as to promote the construction of an agricultural subsidy policy system and incentive and restraint mechanism for the rational use of agricultural resources and ecological and environmental protection, and continuously make agricultural subsidy policies more

targeted and effective.

## V. Remarks & Opinions

### **1. Liu Kun: strengthening coordination of macroeconomic policies and enhancing international cooperation in pandemic response**

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On February 26, Finance Minister Liu Kun attended the G20 Finance Ministers and Central Bank Governors' Meeting via video link. The virtual meeting focused the discussion on the world economic situation, policy actions for a transformative and equitable recovery, and financial sector issues.

Liu Kun said that the world economy is gradually recovering, but the recovery is uneven and highly uncertain. In his speech at the World Economic Forum, President Xi Jinping pointed out that the way out of these problems is through upholding and practicing multilateralism and building a community with a shared future for mankind. To this end, first, we need to enhance international cooperation in the fight against the pandemic and make vaccines a truly global public good. Multilateral development banks should adjust the current vaccine procurement standards to provide more support to developing countries. Second, we need to strengthen macroeconomic policy coordination, make an overall plan on both pandemic control and economic recovery, and avoid premature withdrawal of economic support measures. In 2021, China will continue to implement proactive fiscal policy and prudent monetary policy, and maintain necessary support for economic recovery. Third, we need to promote the digital economy and green transformation. It is necessary to create an open, fair, just and non-discriminatory environment for the development of digital economy, and China supports the efforts to reach a multilateral consensus-based solution for taxation of digital economy by mid-2021 and the elimination of unilateral measures. Countries should follow the principle of common but differentiated responsibilities and strengthen actions to address climate change. China will actively implement the goals announced by President Xi Jinping on carbon peaking and carbon neutrality. Fourth, China will work with other parties to steadily advance the extension of the DSSI and the implementation of the *Common Framework* to support vulnerable countries in responding to the challenges of the pandemic.

## **2. Liu Kun: proactive fiscal policy must improve its quality and efficiency and be more sustainable**

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On March 5, Finance Minister Liu Kun took the first “Ministerial Channel” interview of the 4th Session of the 13th National People’s Congress.

Regarding the implementation of the fiscal policy in 2021, Liu Kun pointed out that proactive fiscal policy must improve its quality and efficiency and be more sustainable. Efforts must be made on four fronts. First, we must collect revenues in accordance with laws and regulations, strictly forbid “excessive taxes and fees” and attempts to inflate fiscal revenues, and avoid the increase of burdens on people and enterprises in violation of laws and regulations while tackling fiscal deficit. Second, we must improve the efficiency of expenditures, optimize the structure and strengthen the management of expenditures, expedite the direct allocation of funds, and improve the efficiency of fund usage. Third, we must prevent extravagance and waste, continue to work hard, practice fiscal frugality in the interest of people, and spend money on the areas that count the most. Fourth, we must strengthen performance management, see that performance management cover all fiscal funds, and ensure effective accountability for the performance of funds. The budgetary arrangements will show three features. (1) The fiscal policy should remain basically stable and there should be no sharp turns. (2) The fiscal policy of this year should be coordinated with that of the coming years and leave some room for future policy maneuver. (3) Efforts should be made to resolutely defuse hidden fiscal risks, persistently resolve hidden debt risks of local governments, firmly prevent expenditure risks to safeguard the “three priorities” at the primary government level, and ensure the steady and sustainable operation of public finance and economy.

Regarding tax and fee cut, Liu Kun pointed out that we will resolutely implement the decisions and plans of the CPC Central Committee and the State Council, and strive to improve relevant policies so that enterprises have more sense of gain. First, the institutionalized tax and fee cut policies will continue to be implemented. We will continue to implement the VAT reform, the special additional deduction of personal income tax and other institutionalized tax and fee cut policies introduced in recent years to further unleash the policy effects and markedly lighten the burdens of people and enterprises. Second, the temporary tax and fee cut policies will be phased out in

due course. For the temporary tax and fee cut policies introduced in 2020, some will be extended as appropriate, whereas some will be phased out, rather than suddenly suspended, upon their expiry on the basis of sound study and research. Third, the tax incentives for micro and small enterprises will be intensified. While implementing the inclusive tax and fee cut policies for micro and small enterprises, we will further step up tax and fee cut for micro and small enterprises as well as self-employed individuals, so as to consolidate and expand the effectiveness of the policies and bolster the vitality and momentum of micro and small enterprises. Fourth, tough steps will be taken to end arbitrary charges, fines and quotas and to step up the rectification of various types of charges levied on enterprises inconsistent with regulations.

### **3. Bai Chongen: creating high-quality jobs -- the key to expanding the size of middle-income group**

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On March 11, Bai Chongen, Dean of the School of Economics and Management of Tsinghua University, stated in an exclusive interview that the key to or the fundamental solution for expanding the middle-income group is to provide more people with higher-quality employment and to help them get higher income through higher-quality employment. There are three priorities thereof: first, create more employment opportunities; second, improve the skill level of workers; and third, ensure better match between skills and employment. In addition, the problem of income redistribution lies in how to design the tax system. The personal income tax is a major tax that can adjust income distribution, and a well-designed real estate tax is another instrument that can be deployed to adjust income distribution. In the long run, the uneven distribution of property is largely related to the disparity in housing ownership.

### **4. Liu Shangxi: the focus of fiscal policies during the 14th Five-Year Plan period**

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On March 21, speaking in an exclusive interview, Liu Shangxi, President of the Chinese Academy of Fiscal Sciences, pointed out that during the 14th Five-Year Plan period, the fiscal and tax policies should be pivoted toward the following priorities.

First, to cultivate a comprehensive domestic demand system and expand domestic demand is a strategic task in the stage of high-quality development of China, and it is important to take forward reforms of the fiscal and tax system and deploy fiscal policies to expand the middle-income group, so as to achieve the strategic goal of expanding domestic demand. Second, we must keep with the general trend of digitalization. Taxation of digital economy is a taxation measure to safeguard the sovereign tax interests of the state and should be considered in a forward-looking manner. Third, we must continue to push forward reform of the fiscal and tax system. The reform of the fiscal and tax system contains three key pillars: the budget system, the tax system, and the fiscal relationship between the central and local governments. On the budget system reform, vast resources in China are concentrated in the public domain, and these resources need to be allocated by the budget system through adoption of zero-based budgeting and a risk-oriented approach for allocating public funds. On the tax system reform, it is crucial to improve the tax environment related to the business climate, move faster to enact taxes on digital economy, including collection and management of such taxes, in order to better match the tax revenue system, the tax collection and management system with the trend of digital transformation of the economy. On the reform of fiscal relationship between the central and local governments, it is crucial to ensure better match of mandates, fiscal powers and fiscal resources between the central and local governments and to create an equitable mechanism for burden sharing of the costs of urbanization of rural population between the central and local governments and between different regions.

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**Mailing Address:** IEFI, Ministry of Finance, China, 100820

**Telephone:** 86-10-68141100

**Fax:** 86-10-68527620

**E-mail:** [iefi@iefi.org.cn](mailto:iefi@iefi.org.cn)

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