

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: continue to implement various tax and fee cut policies to unleash its effects
- Finance Minister Liu Kun met with Kristalina Georgieva, Managing Director of IMF.
- The State Council adopted the *Implementation Regulations of the Foreign Investment Law of the People's Republic of China (Draft)*
- The State Council Customs Tariff Commission announced not to put increased tariffs on some goods imported from the U.S. for the time being
- China issued 45.789 billion RMB of local government bonds in November

# Brief Introduction to IEFI

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# Acronyms

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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
CAC	Cyberspace Administration of China
CAREC	Central Asia Regional Economic Cooperation
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
GDP	Gross Domestic Product
IEFI	International Economics and Finance Institute
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
MOST	Ministry of Science and Technology, China
MOT	Ministry of Transport, China
MVA	Ministry of Veteran Affairs, China
MWR	Ministry of Water Resources, China
NBS	National Bureau of Statistics, China
NDB	New Development Bank
NDRC	National Development and Reform Commission, China
NEA	National Energy Administration, China
NFSRA	National Food and Strategic Reserves Administration, China
NHSA	National Healthcare Security Administration, China
NMPA	National Medical Products Administration, China
NPC	National People's Congress, 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 Easing
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. The State Council published a circular on strengthening the capital management of fixed assets investment projects

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On November 27, the State Council published a circular on strengthening the capital management of fixed assets investment projects, which provided the following. First, further improve the capital system for investment projects. Clarify the scope and nature of the capital system for investment projects, implement itemized capital accounting management of investment projects, and standardize the determination of capital ratios. Second, appropriately adjust the minimum capital ratio of infrastructure projects. For port, coastal and inland waterway projects, the minimum capital ratio has been adjusted from 25% to 20%. Third, encourage the financing of major investment projects in accordance with laws and regulations. For the infrastructure sector and industries encouraged by the state, project legal persons and project investors are encouraged to finance the investment projects through multiple channels such as the issuance of equity

financial instruments. Fourth, strictly strengthen management to prevent risks. Funds that do not comply with state regulations such as shareholder borrowings and “debts disguised as stocks” shall not be used as capital for investment projects.

### 2. The Executive meeting of the State Council planned to take further measures to stabilize employment

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On December 4, Premier Li Keqiang presided over the executive meeting of the State Council, which planned to take further measures to stabilize employment and called for strong support for flexible employment; decided to improve the employment security system for the disabled, and better promote the employment of the disabled; passed the *Regulations on Ensuring the Payment of Wages for Migrant Workers (Draft)* to address the problem of wage arrears through legal means. The meeting pointed out that more efforts should be made to implement the employment priority policy and further improve the employment promotion measures; promote innovation and entrepreneurship, and lower the conditions for small and micro enterprises when applying for start-up guarantee loans. The local governments may provide one-time funding support for migrant workers who return to their hometown and start business for the first time. The meeting decided to improve the collection of disability benefits and encourage more employers to hire more

people with disabilities. The meeting passed the *Regulations on Ensuring the Payment of Wages for Migrant Workers (Draft)*, which clarified the principal responsibilities of employers, the territorial responsibilities of government, and the supervisory responsibilities of government departments, and required that migrant workers' wages be paid in full and on time as agreed.

### 3. Four ministries published the *Interim Measures for the Management of Credit Rating Industry*

On November 29, PBoC, NDRC, MOF and CSRC jointly published the *Interim Measures for the Management of Credit Rating Industry*, which provided the following. In order to regulate the credit rating business, protect the legal rights and interests of the parties involved, and promote the healthy development of the credit rating industry, these Measures are formulated. These Measures shall apply to the credit rating business within the territory of the People's Republic of China. The National Development and Reform Commission, MOF and the China Securities Regulatory Commission are the regulatory authorities for the credit rating business, and shall supervise and regulate the credit rating business within the scope of their duties. Credit rating agencies engaging in credit rating business shall follow the principles of independence, objectivity, fairness and prudence, operate with integrity, and must not

harm the national interests, public interests, and the legitimate rights and interests of market entities.

### 4. MOF published a circular on matters related to effectively strengthening the implementation of local budgets and the security management of fiscal funds

On December 3, MOF published a circular on matters related to effectively strengthening the implementation of local budgets and the security management of fiscal funds, which provided the following. First, strictly regulate the management of fund payment and clearing. Local finance departments and budget units must strictly implement relevant regulations on budget management and centralized treasury payment management, and shall not pay funds according to contracts or agreements that do not comply with laws and regulations. Second, attach great importance to the security of funds deposited by finance departments. Establish and improve the scientific, standardized, fair and transparent fund deposit management mechanism to effectively prevent security risks and integrity risks of fund deposit. Third, continue to strengthen the risk prevention of local treasury cash management. Provincial finance departments that carry out local treasury cash management should attach great importance to the selection of participating banks in treasury cash management and scientifically

formulate the scoring system.

## **5. MOF arranged a total of 10 billion RMB of central special lottery public welfare funds during the 13th Five-Year Plan period to support poverty reduction in the old revolutionary base areas**

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On December 5, MOF announced that MOF had recently released in advance 2.06 billion RMB of central special lottery public welfare funds to support poverty alleviation in the old revolutionary base areas. The funds are mainly used to support the construction of small productive public welfare facilities in poor villages in the old revolutionary base areas. During the 13th Five-Year Plan period, the central government arranged a total of 10 billion RMB of such funds for all the 397 districts and counties in the old revolutionary base areas, and provided further support towards the extremely poor districts and counties in the old revolutionary base areas.

## **6. Three ministries published a circular on adjusting and improving the local sharing mechanism for the refund of un-deducted input VAT and the matters related to budget management**

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On December 6, MOF, SAT and PBoC published a circular on adjusting and improving the local sharing mechanism for the refund of un-deducted input VAT and the matters related to budget management, which provided the following. Starting from September 1, 2019, the 50% portion and the 15% portion of the local sharing of the refund of un-deducted input VAT would be borne by the localities where enterprises are located, and the 35% would be borne by the localities according to the proportion of VAT in the local tax sharing. The treasury transfer for the refund of un-deducted input VAT would be launched by the provincial finance authorities and MOF regulatory bureaus respectively and be locally administered by the provincial treasury in accordance with rules. The MOF regulatory bureaus would supervise the implementation of the tax refund policy by means of spot checks. The MOF regulatory bureaus shall submit supervision reports to MOF annually.

## **7. MOF published the Administrative Measures for the Release of Government Procurement Information**

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On December 10, MOF published the Administrative Measures for the Release of Government Procurement Information, which provided the following. MOF shall guide and coordinate the release of government procurement information across the country, and supervise and

administer the release of government procurement information of central budgetary units. The local finance authorities shall supervise and administer the release of government procurement information of local budgetary units. MOF shall supervise and administer the China government procurement website. Provincial (autonomous regions, municipalities, and cities with independent planning status) finance authorities shall supervise and administer the provincial branch of the China government procurement website.

#### **8. MOF published a circular on further clarifying the matters related to the capital increase, equity expansion and equity management of state-owned financial enterprises**

On December 12, MOF published a circular on further clarifying the matters related to the capital increase, equity expansion and equity management of state-owned financial enterprises, which provided the following. The central and local finance authorities shall supervise and administer the capital increase activities of state-owned financial enterprises in accordance with the principle of unified policy and tiered management. The capital increase of state-owned financial enterprises shall be in line with the corporate development strategy, be based on sound feasibility study, formulate a

capital increase plan, and clarify the amount and purpose of capital increase as well as the criteria and methods for the selection of investors. The enterprises receiving capital increase shall conduct a qualification review of the intended investors, and the investors shall meet the relevant qualification requirements of shareholders.

#### **9. The State Council adopted the *Implementation Regulations of the Foreign Investment Law of the People's Republic of China (Draft)***

On December 12, Premier Li Keqiang chaired the executive meeting of the State Council and adopted the *Implementation Regulations of the Foreign Investment Law of the People's Republic of China (Draft)*, which laid out concrete measures to promote and protect foreign investment and created a non-discriminatory and fair market environment for Chinese and foreign-funded enterprises, including Hong Kong, Macao and Taiwanese ones. In addition, the meeting planned to further reduce the comprehensive financing costs for small and micro enterprises. The meeting also required that the upper limit of the single-unit loan quota for small and micro enterprise loans to enjoy preferential weight of risk capital be raised from 5 million RMB to 10 million RMB, and the average guarantee fee rate of government financing guarantee and re-guarantee institutions be gradually reduced to less



than 1%, in order to ensure that notable progress be made in addressing the problem of difficult and expensive financing for small and micro enterprises.

#### **10. The State Council Customs Tariff Commission announced not to put increased tariffs on some goods imported from the U.S. for the time being**

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According to the news released by the State Council Customs Tariff Commission on December 15, in order to implement the results of the recent consultations between China and the U.S. on economic and trade issues, the State Council Customs Tariff Commission decided not to put 10% and 5% tariffs on some goods imported from the U.S. which were scheduled to be levied with increased tariffs starting from 12:01 on December 15, and to stop imposing tariffs on automobiles and parts originating from the U.S. Except for the above-mentioned measures, other additional tariffs against the U.S. will remain in accordance with regulations, and the work related to the exclusion of some U.S. products from tariffs will continue.

#### **11. The State Council Customs Tariff Commission published the second exclusion list for the first batch of U.S. goods subject to additional tariffs**

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According to the news released by the State Council Customs Tariff Commission on December 19, in accordance with the *Announcement of the State Council Customs Tariff Commission on the Trial Implementation of Exclusion of U.S. Goods from Additional Tariffs*, with the approval of the State Council, the State Council Customs Tariff Commission published the second exclusion list for the first batch of U.S. goods subject to additional tariffs, and decided that from December 26, 2019 to December 25, 2020, some U.S. goods in the second exclusion list will not be subject to the additional tariffs imposed by China in response to the U.S. measures taken under section 301, and the tariffs already imposed will not be refunded. The rest of the U.S. goods subject to the first batch of additional tariffs will not be excluded for the time being.

#### **12. Two ministries published an announcement on the policy matters related to the calculation and settlement of personal income tax for comprehensive income**

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On December 14, MOF and SAT published an announcement on the policy matters related to the calculation and settlement of personal income tax for comprehensive income, which provided the following. For the comprehensive income obtained by resident individuals from January 1, 2019 to December 31, 2020, if the annual comprehensive income does not exceed 120,000

RMB and is subject to calculation and settlement of tax liability, or if the amount of annual tax liability does not exceed 400 RMB, the resident individuals may be exempted from the calculation and settlement of comprehensive income tax.

### **13. MOF released in advance the 2020 central-to-local equalization transfer payment budget and other budgets**

From December 16 to 19, MOF published a circular on the advance release of budgets. In order to improve budget integrity and speed up expenditures, in accordance with the relevant budget management regulations, the 2020 central-to-local equalization transfer payment budget, the 2020 central-to-local transfer payment budget for resource-depleted cities, the 2020 budget of central special lottery public welfare fund supporting the development of local public welfare undertakings, the 2020 central-to-local transfer payment budget for key ecological function zones, the 2020 expenditure budget for the revenue arrangement from inter-provincial adjustment of land quotas, the 2020 budget for county-level basic financial capacity guarantee mechanism, and the 2020 central-to-local transfer payment budget for the reform of refined oil taxes and fees are now released in advance, and will be disbursed and used in accordance with procedures after the start of the 2020 budget year.

### **14. The CPC Central Committee and State Council published the opinions on creating a better development environment to support the reform and development of private enterprises**

On December 22, the CPC Central Committee and the State Council published the opinions on creating a better development environment to support the reform and development of private enterprises, which provided the following. First, optimize the market environment for fair competition. Further open up market access for private enterprises and implement a fair and unified market supervision system. Second, improve the targeted and effective policy environment. Improve the system of banking financial institutions serving private enterprises, and improve the direct financing support system for private enterprises. Third, improve the legal environment for equal protection. Improve the equal protection mechanism of law enforcement and justice for private enterprises, and protect the legal property of private enterprises and entrepreneurs. Fourth, encourage and guide the reform and innovation of private enterprises. Support private enterprises to strengthen innovation, and encourage private enterprises to transform, upgrade, optimize and restructure. Fifth, promote the regulated and healthy development of private enterprises. Guide private enterprises to concentrate their efforts on running industries and encourage private enterprises to

operate in compliance with laws and regulations. Sixth, build close and clean government-business relations. Establish a standardized mechanism for government-enterprise communication, and improve the policy-making and implementation mechanism involving enterprises.

### **15. The State Council Customs Tariff Commission published a circular on the plan for adjusting 2020 provisional import tariff rates**

On December 23, the State Council Customs Tariff Commission published a circular on the plan for adjusting 2020 provisional import tariff rates, which provided the following. First, adjust import tariff rates. Starting from January 1, 2020, provisional import tariff rates will be applied to 859 goods (excluding goods with tariff quotas); starting from July 1, 2020, provisional import tariff rates for 7 information technology products will be removed. Continue to enforce tariff quota management on 8 categories of commodities such as wheat, with the tax rates unchanged. Second, the export tariff rates. Starting from January 1, 2020, export tariffs will continue to be levied on 107 commodities such as ferrochrome. The export tariff rates or the provisional export tariff rates, and the scope of goods to be subject to tariffs remain unchanged. The above provisions, unless otherwise specified, will be implemented starting from January 1, 2020.

### **16. The State Council published the *Opinions on Further Stabilizing Employment***

On December 24, the State Council published the *Opinions on Further Stabilizing Employment*, which provided the following. First, support enterprises to stabilize job positions. Implement the policy of targeted reduction of required reserve ratio and release funds to primarily support the financing of private enterprises and small and micro enterprises. Second, develop more job opportunities. Increase investment to create jobs, rationally expand effective investment, and appropriately reduce the capital ratio of some infrastructure projects. Third, promote multi-channel employment and entrepreneurship for workers. Lower the conditions for applying for startup guarantee loans of small and micro enterprises. Fourth, carry out large-scale vocational skills training. Vigorously promote vocational skills upgrading and provide vocational training subsidies and living allowances in accordance with regulations. Fifth, provide sound employment and business startup services. Promote full coverage of employment services and strengthen management services. Sixth, provide basic living protection and security. Make timely payment of unemployment insurance benefits for those who meet the conditions for receiving such benefits.

### **17. Two ministries published the *Measures for the Administration of Performance Evaluation and Incentives for Renovation of Rural Dilapidated Houses amid Poverty Alleviation***

On December 20, MHURD and MOF published the *Measures for the Administration of Performance Evaluation and Incentives for Renovation of Rural Dilapidated Houses amid Poverty Alleviation*, which provided the following. The performance evaluation for renovation of rural dilapidated houses mainly covers the following three cases: funding arrangements and formulation of policy measures for renovation of rural dilapidated houses, including investment of provincial subsidies and setting of classified subsidy standards; implementation and supervision of projects for renovation of rural dilapidated houses, including quality and safety inspection, technical training, and supervision over the use of subsidy funds; progress of rural dilapidated house renovation projects and the quality and safety of projects, including the completion rate and the renovation effects. MHURD and MOF may evaluate the annual performance of provinces (autonomous regions and municipalities) in renovating rural dilapidated houses. The evaluation results will serve as an important reference for MHURD and MOF to allocate subsidy funds for the renovation of rural dilapidated houses in provinces (autonomous regions and municipalities) in the next year.

### **18. MOF published a circular on issuing the *Basic Guidelines for the Cost Accounting of Public Institutions***

On December 25, MOF published a circular on issuing the *Basic Guidelines for the Cost Accounting of Public Institutions*, which provided the following. These guidelines apply to public institutions that implement government accounting standards and carry out cost accounting. The cost accounting should meet the specific cost information needs of internal management and external management. The public institutions shall perform cost accounting on the basis of accrual-based financial accounting data, and the detailed account setting and auxiliary accounting shall meet the needs of cost accounting. The public institutions may determine the costing cycle based on cost information needs and costing targets, and compile cost reports based on the costing cycle to fully reflect the costing situation. These guidelines will come into effect on January 1, 2021.

### **19. National Fiscal Work Conference was held in Beijing**

From December 26 to 27, the National Fiscal Work Conference was held in Beijing. The conference, in an effort to earnestly implement the decisions of the Central Economic Work Conference, reviewed fiscal work in 2019 and

planned fiscal work in 2020. Finance Minister Liu Kun made a work report at the conference. The conference emphasized that 2020 is the year when a moderately prosperous society in all respects will be fully built and the “13th Five-Year Plan” will be completed. The finance authorities should adhere to the reform and opening up as the driving force, promote high-quality development, resolutely win the three critical battles, do a good job of the “six stabilization”, and make coordinated efforts to promote stable growth, advance reform, adjust economic structure, improve people’s livelihood, prevent risks, and maintain stability. Proactive fiscal policy must vigorously enhance its quality and effectiveness, pay more attention to structural adjustment, and consolidate and expand the effect of tax and fee cut; we will conscientiously implement the principle of “determining expenditures according to revenues”, step up efforts to optimize fiscal expenditure structure, and tighten the belt for government spending; we will make good use of the special bonds of local government, regulate the borrowing and financing of local government, and prevent and resolve the hidden debt risks of local government; we will deepen the reform of fiscal and tax system, accelerate the establishment of a modern fiscal system, and promote the sustainable and healthy development of economy and society to ensure the successful building of a moderately prosperous society in all respects and the completion of the “13th Five-Year Plan”.

## **20. State Council Customs Tariff Commission issued the Circular on *the Import and Export Tariff Rules of the People’s Republic of China (2020)***

On December 30, the State Council Customs Tariff Commission issued the Circular on *the Import and Export Tariff Rules of the People’s Republic of China (2020)*, which provided the following. The Import and Export Tariff Rules of the People’s Republic of China is the component of the *Import and Export Tariff Regulations*, and mainly include import tariff rules and export tariff rules. The import and export tariff items of the 2020 version of the Tariff Rules are the same as those of the 2019 version; the most-favored nation tariff rate, the provisional import tariff rate, the agreed tariff rate and the preferential tariff rate of the 2020 version of Tariff Rules have been recalibrated on the basis of the 2019 version in accordance with the *Circular of the State Council Customs Tariff Commission on the Plan for Adjusting the Provisional Import Tariff Rates*. Except for the tariff items and rates announced in the 2020 version of Tariff Rules, import and export tariff items and rates that are otherwise governed by laws and administrative regulations shall continue to be implemented in accordance with laws and administrative regulations.

## **21. Six ministries jointly issued the Master Plan for Improving the**

### ***Employment Security Fund System for the Disabled and Better Promoting the Employment of the Disabled***

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On December 30, NDRC, MOF, MCA, MOHRSS, SAT, and the China Disabled Persons' Federation jointly issued *the Master Plan for Improving the Employment Security Fund System for the Disabled and Better Promoting the Employment of the Disabled*, which provided the following. The method for collection of employment security fund for the disabled is adjusted from a single standard to tiered standard. If the proportion of employment of the disabled at the employer is above 1% (included) but lower than the percentage stipulated by the province (district and city), the fund will be collected at 50% of the payable amount within three years; if the proportion is less than 1%, the fund will be collected at 90% of the payable amount within three years. The finance department is responsible for the daily supervision of the collection and use of the fund. MOF will report to the State Council each year the income and spending of employment security fund for the disabled in the previous year in accordance with the budget management regulations. The provincial, city and county finance departments will, together with the disabled persons' federations at the same level, regularly disclose the above-mentioned information in their jurisdiction to the public and accept public supervision.

### ***22. Two ministries jointly issued the 2019 Report on the Reform and Development of State-owned Cultural Enterprises***

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Recently, the Publicity Department of the CPC Central Committee and MOF jointly issued *the 2019 Report on the Reform and Development of State-owned Cultural Enterprises*, which provided the following. The scale and strength of state-owned cultural enterprises have continued to increase. As of the end of 2018, the total assets of state-owned cultural enterprises were 5.3 trillion RMB and the owner's equity was 2.5 trillion RMB, an increase of 15.4% and 11.7% year on year respectively. MOF has cooperated with the Publicity Department of the CPC Central Committee to promote the reform and development of state-owned cultural enterprises toward new outcomes. First, strengthen the Party's leadership over state-owned cultural enterprises. Require enterprises to include the general requirements of Party building work into their articles of association. Second, improve the state-owned assets supervision system for cultural enterprises. At the central level, the state-owned assets supervision system led by the Publicity Department of the CPC Central Committee, with MOF exercising the responsibilities of capital contributor on behalf of the State Council, is effectively improved. Third, increase support for cultural enterprises. In 2018, MOF arranged 1.5 billion RMB of state-

owned capital operating budget to support central cultural enterprises in implementing the national key cultural industry development strategy. Fourth, assist enterprises with operational and institutional innovation. Promote the corporate system reform of central cultural enterprises and key provincial cultural enterprises. Fifth, promote corporate transformation and upgrading. Support state-owned cultural enterprises to facilitate the integration of cultural, scientific and technological, tourism and other related industries and build provincial financial media cloud platform and county-level financial media centers.

### 23. MOF published a circular on issuing the Guidelines for Overseas Accounting Organizations to Apply for the Identification of Competent Regulatory Authorities

On January 2, MOF published a circular on issuing the Guidelines for Overseas Accounting Organizations to Apply for the Identification of Competent Regulatory Authorities, which provided the following. For overseas accounting organizations that meet the requirements set out in *the Guidelines for Registration and Record-filing of Temporary Activities of the Representative Offices of Overseas Non-Governmental Organizations*, if they intend to establish representative offices in China and their scope of business is related to the research, communication

and cooperation of international accounting and social auditing, they may request finance authorities to be their competent regulatory authorities. Overseas accounting organizations shall register at the public security authorities within 30 days from the date of issuance of the consent letter by MOF or provincial finance department.

## II. Facts & Figures

### 1. China's manufacturing PMI in November was 50.2%

The data published by NBS on November 30 showed that China's manufacturing PMI in November was 50.2%, an increase of 0.9% month on month. By the scale of enterprises, the PMI of large enterprises was 50.9%, an increase of 1.0% from the previous month; the PMI of medium-sized enterprises was 49.5%, an increase of 0.5% from the previous month; the PMI of small enterprises was 49.4%, an increase of 1.5% from the previous month. In terms of the specific indexes, the production index was 52.6%, an increase of 1.8% from the previous month; the new order index was 51.3%, an increase of 1.7% from the previous month; the raw material

inventory index was 47.8%, an increase of 0.4% from the previous month; the employment index was 47.3%, flat from the previous month; and the supplier delivery time index was 50.5%, up by 0.4% from the previous month.

## **2. 99% of the annual issuance tasks of local bonds were completed from January to November**

The data published by MOF on December 4 showed that from January to November, 4.3244 trillion RMB of local bonds were issued, completing 99% of the annual issuance tasks, among which, 3.0354 trillion RMB were new bonds, 1.1461 trillion RMB were refinanced bonds, and 142.9 billion RMB were swapped bonds. Among the new bonds, 905.7 billion RMB were general bonds and 2.1297 trillion RMB were special bonds.

## **3. China's PPI in November fell by 1.4% year on year**

The data published by NBS on December 10 showed that China's PPI in November fell by 1.4% year on year and 0.1% month on month. In terms of the year-on-year changes, the prices of means of production fell by 2.5% year on year, of which the prices of extractive industries fell by 1.4% year on year, the prices of raw materials industries

fell by 5.0% year on year, and the prices of processing industries fell by 1.6% year on year; the prices of means of consumption rose by 1.6% year on year, of which food prices rose by 5.4% year on year, apparel prices rose by 0.3% year on year, prices of daily necessity goods rose by 0.1% year on year, and the prices of durable consumer goods fell by 2.1% year on year. In terms of the month-on-month changes, the prices of means of production fell by 0.2% month on month, among them, the prices of extractive industries fell by 0.8% month on month, the prices of raw materials industries fell by 0.4% month on month, and the prices of processing industries fell by 0.1% month on month. The prices of means of consumption rose by 0.3% month on month, among them, the food prices rose 1.1% month on month, apparel prices remained flat, the prices of daily necessity goods fell by 0.3% month on month, and the prices of durable consumer goods fell by 0.2% month on month.

## **4. China's CPI in November rose by 4.5% year on year**

The data published by NBS on December 10 showed that China's CPI in November rose by 4.5% year on year. Among them, prices in urban areas rose by 4.2% year on year, and prices in rural areas rose by 5.5% year on year; food prices rose by 19.1% year on year, and non-food prices rose by 1.0% year on year; consumer goods



prices rose by 6.5% year on year, and services prices rose by 1.2% year on year. China's CPI in November rose by 0.4% month on month. Among them, prices in urban areas rose by 0.3% month on month, and prices in rural areas rose by 0.5% month on month; food prices rose by 1.8% month on month, and non-food prices were flat; consumer goods prices rose by 0.8% month on month, and services prices fell by 0.4% month on month.

### **5. China's total retail sales of consumer goods in November registered a nominal increase of 8.0% year on year**

The data published by NBS on December 16 showed that China's total retail sales of consumer goods in November were 3.8094 trillion RMB, a nominal increase of 8.0% year on year. From January to November, the total retail sales of consumer goods were 37.2872 trillion RMB, a year-on-year increase of 8.0%. By regions, the retail sales of consumer goods in urban areas in November were 3.2345 trillion RMB, a year-on-year increase of 7.9%; the retail sales of consumer goods in rural areas were 574.8 billion RMB, a year-on-year increase of 9.1%. From January to November, the retail sales of consumer goods in urban areas were 31.8614 trillion RMB, a year-on-year increase of 7.9%; the retail sales of consumer goods in rural areas were 5.4259 trillion RMB, a year-on-year increase of 9.0%.

By consumption type, the catering revenues in November were 496.4 billion RMB, a year-on-year increase of 9.7%; the revenues of retail sales of goods were 3.313 trillion RMB, a year-on-year increase of 7.8%. From January to November, catering revenues were 4.1896 trillion RMB, a year-on-year increase of 9.4%; the revenues of retail sales of goods were 33.0976 trillion RMB, a year-on-year increase of 7.9%.

### **6. China's general public budget revenues from January to November registered a year-on-year increase of 3.8%**

The data published by MOF on December 17 showed that China's general public budget revenues from January to November were 17.8967 trillion RMB, a year-on-year increase of 3.8%. Among them, the central general public budget revenues were 8.6116 trillion RMB, a year-on-year increase of 4.8%; the local general public budget revenues were 9.2851 trillion RMB, a year-on-year increase of 3%. Tax revenues from general public budget revenues were 14.9699 trillion RMB, a year-on-year increase of 0.5%; non-tax revenues were 2.9268 trillion RMB, a year-on-year increase of 25.4%. China's general public budget expenditures from January to November were 20.6463 trillion RMB, a year-on-year increase of 7.7%. Among them, the central general public budget expenditures were 3.0444

trillion RMB, a year-on-year increase of 8.3%; the local general public budget expenditures were 17.6019 trillion RMB, a year-on-year increase of 7.6%. China's governmental fund budget revenues from January to November were 6.808 trillion RMB, a year-on-year increase of 9.5%. In terms of the central and local levels, the revenues of the central governmental fund budget were 371.5 billion RMB, a year-on-year increase of 2.2%; the revenues of the local governmental fund budget were 6.4365 trillion RMB, a year-on-year increase of 10%. China's governmental fund budget expenditures from January to November were 7.5976 trillion RMB, a year-on-year increase of 19%. In terms of the central and local levels, the central governmental fund budget expenditures were 231.2 billion RMB, a year-on-year decrease of 2.7%; the local governmental fund budget expenditures were 7.3664 trillion RMB, a year-on-year increase of 19.9%.

## **7. Total operating income of SOEs registered a year-on-year increase of 6.4% from January to November**

The data published by MOF on December 23 showed that from January to November, total operating income of SOEs was 55.74553 trillion RMB, a year-on-year increase of 6.4%. Among them, the total operating income of central SOEs was 32.16491 trillion RMB, an increase of 5.3% year on year; the total operating income of local

SOEs was 23.58062 trillion RMB, an increase of 7.9% year on year. From January to November, the total operating cost of SOEs was 53.98583 trillion RMB, a year-on-year increase of 6.6%. Among them, the total operating cost of central SOEs was 30.73401 trillion RMB, an increase of 5.4% year on year; the total operating cost of local SOEs was 23.25182 trillion RMB, an increase of 8.2% year on year. From January to November, the total profit of SOEs was 3.1981 trillion RMB, a year-on-year increase of 5.3%. Among them, the total profit of central SOEs was 2.09312 trillion RMB, a year-on-year increase of 7.7%; the total profit of local SOEs was 1.10498 trillion RMB, a year-on-year increase of 1.0%.

## **8. China issued 45.789 billion RMB of local government bonds in November**

The data published by MOF on December 26 showed that China issued 45.789 billion RMB of local government bonds in November. Among them, 23.065 billion RMB were general bonds, and 22.724 billion RMB were special bonds. According to the purpose of usage, no new bonds were issued and 45.789 billion RMB were swapped bonds and refinanced bonds. China issued 4.3244 trillion RMB of local government bonds from January to November. Among them, 1.7702 trillion RMB were general bonds, and 2.5542 trillion RMB were special bonds. According to the purpose of usage, 3.0367 trillion

RMB were new bonds, and 1.2877 trillion RMB were swapped bonds and refinanced bonds. As of the end of November 2019, the nationwide outstanding local government debts were 21.3333 trillion RMB. Among them, general debts were 11.879 trillion RMB, special debts were 9.4543 trillion RMB; government bonds were 21.1143 trillion RMB, and government debts in the form of non-government bonds were 219 billion RMB.

### 9. Total profits of major industrial enterprises went down by 2.1% year on year in China from January to November

The data published by NBS on December 27 showed that the profits of major industrial enterprises in China totaled 5.61007 trillion RMB from January to November, down by 2.1% year on year. By sectors, the figure was 517.4 billion RMB for the mining sector, up by 1.0%; 4.62834 trillion RMB for the manufacturing sector, down by 4.1%; and 464.33 billion RMB for the electricity, thermal, gas and water production and supply sector, up by 17.7%. By types of ownership, the figure stood at 1.60366 trillion RMB for state-controlled ones, down by 11.2% year on year; 4.04823 trillion RMB for joint-stock ones, down by 1.6%; 1.41112 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, down by 3.3%; and 1.58933 trillion RMB for private ones, up by 6.5%.

### 10. China's manufacturing PMI was 50.2% in December 2019

The data published by NBS on December 31 showed that China's manufacturing PMI was 50.2% in February, which was flat from the previous month. By enterprises, the PMI of large enterprises was 50.6%, down by 0.3 percentage point from the previous month; the PMI of medium-sized enterprises was 51.4%, up by 1.9 percentage point from the previous month; and the PMI of small-sized enterprises was 47.2%, down by 2.2 percentage point from the previous month. In terms of the classified indexes, the production index was 53.2%, up by 0.6 percentage point from the previous month; the new orders index was 51.2%, a decrease of 0.1 percentage point from the previous month; the raw material inventory index was 47.2%, down by 0.6 percentage point from the previous month; the employment index was 47.3%, the same as last month; and the supplier delivery time index was 51.1%, an increase of 0.6 percentage point from the previous month.

## III . MOF Events

1. On November 22, Finance Minister Liu Kun

met with Kristalina Georgieva, Managing Director of IMF.

2. On November 29, Vice Finance Minister Xu Hongcai met with Hans Hoogervorst, Chairman of the International Accounting Standards Board.

3. On December 3, Finance Minister Liu Kun met with Takehiko Nakao, the President of ADB. Vice Finance Minister Zou Jiayi also attended the meeting.

4. From December 6 to 7, Vice Finance Minister Zou Jiayi attended and addressed the G20 Finance and Central Bank Deputies Meeting in Riyadh, Saudi Arabia.

5. From December 12 to 13, Vice Finance Minister Zou Jiayi attended and chaired the ASEAN+3 Finance and Central Bank Deputies' Meeting in Xiamen.

6. On December 17, Vice Finance Minister Zou Jiayi met with Syed Shakeel Shah, Director of the CAREC Institute.

## 1. Finance authorities of Beijing Municipality took multiple measures to enhance the effectiveness of monitoring over the implementation of fiscal budget

According to the news released by the Finance Bureau of Beijing Municipality on December 2, since 2019, the Beijing Finance Bureau has further enhanced the effectiveness of monitoring by improving its dynamic monitoring mechanism. First, expand the scope of monitoring to achieve full coverage of fiscal funds. As of the end of September, the dynamic monitoring has horizontally covered 1387 grass-root budget units of 215 municipal budget departments, and vertically extended to 2348 budget units of 16 district-level finance departments and 550 budget units of 319 townships (streets). Second, clarify monitoring priorities and provide accurate and smart early warning. Formulate early warning rules to accurately monitor whether budget units are transferring fiscal funds against the rules and changing the purpose of the use of funds without authorization. Third, conduct fiscal supervision to spur the implementation of departmental budget management. The supervisory departments of finance authorities shall conduct on-site inspection of suspected violations identified by monitoring and early warning, and instruct the budget units to timely correct irregularities in financial management and gift collection. Fourth, raise awareness to regulate and correct

problems. Carry out two-way monitoring of cash withdrawal and use, and add cash withdrawal early warning and official credit card settlement and payment reminder functions to the centralized payment system, in order to regulate the use and withdrawal of cash.

## **2. Finance authorities of Guangdong Province focused on the priority areas to put public finance at the service of public interests**

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According to the news released by the Finance Department of Guangdong Province on December 3, since 2019, the Finance Bureau of Zhuhai City, with a focus on the management of revenues and expenditures, has accelerated the reform of the fiscal management system and steadily advanced various fiscal tasks, so as to provide strong financial support for the city's high-quality development. First, raise revenues to build a solid foundation for economic and social development. Conduct research of the impact of tax and fee reduction on the city's revenues in a timely manner, and unite all departments at all levels to raise revenues. Second, stabilize expenditures and enhance the effectiveness of proactive fiscal policies. Vigorously reduce all unnecessary administrative expenses, and strengthen the monitoring over expenditures related to people's livelihood and major projects. Third, strengthen management to gradually improve the budget

management system. Strictly review the increase of expenditure, and examine the items of increased expenditure one by one. Fourth, promote reforms to accelerate the establishment of a modern fiscal system. Accelerate the establishment of a fiscal system that matches the financial resources with the fiscal powers of cities and districts in accordance with the principles of concentrating financial resources for priority tasks, enhancing sustainable development and reducing dependence on land.

## **3. Finance authorities of Henan Province took four measures to push forward the comprehensive tax administration**

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According to the news released by the Finance Department of Henan Province on December 9, since 2019, Nanyang City has achieved remarkable results in advancing comprehensive tax administration. First, improve the system and enhance the basic administration capabilities. Formulate eight rules and regulations, and clarify the working process and division of responsibilities. Second, promote information sharing and improve the comprehensive tax administration system. Improve the tax-related information catalogue, strengthen the coordination of departments, disaggregate the reported tax-related information, clarify the information items, sharing cycle and sharing level, and

refine the content of data items. Third, enhance coordination and carry out special programs. The Finance Bureau of Nanyang City actively communicated with relevant departments, and paid close attention to the developments of real estate and land transfer. Fourth, promote learning and work to solve the problem of comprehensive tax administration. Actively draw upon the advanced experience, continuously improve the level of law-based tax administration, and take the electronic invoices as a lever to close the loopholes and increase revenues and as a highlight of the work of tax and fee reduction.

#### **4. Finance authorities of Guangxi Zhuang Autonomous Region concentrated efforts on implementing the “three checklists” of poverty alleviation through industrial development**

According to the news released by the Finance Department of the Guangxi Zhuang Autonomous Region on December 11, since 2019, it has formulated the “three checklists” for poverty alleviation through industrial development, and promoted the transition of public finance in support of poverty reduction from being qualitative to quantitative and from being extensive to intensive. The first checklist is to promote the consolidation of agriculture-related funds and increase funding support. The consolidated funds are primarily spent on

the industries that directly benefit the poor and to encourage the expansion of local specialty insurance products. The second checklist is to enlarge and strengthen the advantageous industries. Strengthen the support for county-level “5+2” and poverty-stricken village-level “3+1” industries, and comprehensively implement the policy of replacing subsidies with rewards to ensure that more than 90% of poor households are covered during the year. The third checklist is to vigorously develop new industries and new forms of business. Promote the development of poverty alleviation projects through tourism, nurture the advantageous industries of tourism, and create new products that integrate regional features such as rural cultural tourism, agricultural tourism, and forest tourism.

#### **5. Finance authorities of Zhejiang Province mobilized tens of billions of funds to boost rural revitalization**

According to the news released by the Finance Department of Zhejiang Province on December 16, Zhejiang Province has made “agriculture, rural areas and farmers” a top priority, and concentrated financial resources to promote the modernization of agriculture and rural areas and the high-quality development of the rural economy. First, focus efforts around a specific goal. Finance authorities of Zhejiang have set up special incentive funds for enhancing the performance

of rural revitalization to spur cities and counties to work together and leverage private capital and financial capital to invest in rural revitalization. Second, adopt two methods of allocation to ensure that the incentive funds are properly used. The “factor method” allocates funds according to the results of the performance assessment of the rural revitalization strategy. The “competitive allocation method” allocates incentive funds to support cities and counties (cities and districts) to concentrate financial resources on addressing the key or difficult work in rural revitalization. Third, highlight the three key tasks and work to ensure greater quality and efficiency. Promote smart rural development, green agricultural development, and urban-rural integrated development, in order to boost the quality and efficiency of rural areas.

## **6. Finance authorities of Qingdao City worked on six fronts to expand financial resources in response to the pressure from tax and fee cut**

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According to the news released by the Finance Bureau of Qingdao City on December 18, since 2019, Qingdao has focused on six areas to expand the financial resources, effectively addressing the mismatch between fiscal revenues and expenditures and ensuring generally stable fiscal performance. First, issue bonds to make up for financial resources. Properly balance the relationship between borrowing and development

as well as between current and long-term needs, and give full play to the role of bonds in stabilizing investment, expanding domestic demand and strengthening shortcomings. Second, make budgetary arrangements to concentrate financial resources. Make budget adjustment plans in a timely manner to increase the contribution of state-owned enterprises to public finance. Third, save financial resources by reducing expenditures. Cut general expenditures and the “three public” expenses to the extent possible and free up more funds to deliver more benefits to people and businesses. Fourth, revive the idle state-owned assets to put financial resources to good use. Carry out thorough investigation and put a total of 29.3 billion RMB of idle state-owned assets to good use. Fifth, strengthen the collection and administration of taxes. Improve the tax administration mechanism and enhance tax planning for investment projects. Sixth, adopt market-based means to leverage financial resources. Actively promote the use of PPP model to reduce the current financial pressure and fully leverage the government guiding fund.

## **7. Finance authorities of Tianjin Municipality accelerated budget implementation**

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According to the news released by the Finance Bureau of Tianjin Municipality on December 23, since 2019, it has implemented zero-

based budgeting reforms, hardened budget implementation constraints, revitalized idle capital and assets, and effectively improved budget implementation efficiency, in order to ensure the high-quality and sustainable economic development of the municipality. First, build a “new engine” with zero-based budgeting. Fully implement the zero-based budgeting, readjust and optimize the expenditure structure, and further improve the efficiency of the allocation and use of fiscal funds. Second, strengthen management and control and keep the “steering wheel” stable. Firmly establish the consciousness of law-based budgeting, strengthen budget implementation management, harden budget implementation constraints, and effectively preserve the seriousness and binding force of government budget. Third, tap the potential and leverage the idle funds. Redouble efforts to sort through various types of surplus and carryover funds, revitalize and put to good use idle and low-efficient government assets, and strengthen the centralized management and unified use of fiscal and public funds.

## **8. Finance authorities of the Inner Mongolia Autonomous Region worked on three fronts to boost high-quality economic development**

According to the news released by the Finance Department of the Inner Mongolia Autonomous

Region on December 24, in recent years, the Finance Bureau of Baotou City, has worked on three fronts to shore up weak links and increase advantages, laying the foundation for the city’s high-quality economic development. First, work on demonstration projects to promote the transition of new growth drivers. Implement the national comprehensive demonstration project for emission reduction, the demonstration project for treatment of dirty and odorous water, and the pilot demonstration project for rare earth transformation and upgrading, in order to facilitate the transition of growth drivers in advantageous industries and promote energy conservation, environmental protection and green development. Second, promote investment in industrial fund to bring in capital and talents. Actively explore ways to support the development of Baotou’s real economy and resolve corporate financing difficulties, innovate fiscal investment methods, and guide the establishment of Baotou Key Industry Development Fund with an initial scale of 1.5 billion RMB and the Talent Innovation and Entrepreneurship Investment Fund with an initial scale of 200 million RMB. Third, advance the reform of “streamlining administration, delegating powers and improving services” and promote the improvement of business environment. Vigorously promote such reform in the public finance, accelerate the development of smart finance based on Internet + electronic government procurement, Internet + centralized treasury payment, and Internet + government investment



project pipeline, so as to improve the level of management and services.

## 9. MOF published the 2018 local budget and final accounts openness ranking

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According to the news released by the Supervision and Evaluation Bureau on December 31, MOF has published the 2018 local budget and final accounts openness ranking on the basis of the scores of various localities made through inspection. In 2019, MOF organized a special inspection over the disclosure of local budget and final accounts in 2018. The work of the disclosure of local budget and final accounts has achieved initial outcomes. In terms of the scope, the vast majority of local departments have made public their budget and final accounts. In 2018, local governments at all levels were basically able to disclose their budgets and accounts as required, and the inspection covered 267,800 departments and units at all levels, with the exception of only 8 departments and units. In terms of the effect, the relevant requirements of the system for disclosure of budget and final accounts were met, and the average completion rate of various indicators for the disclosure of local budget and final accounts increased year by year from 2015 to 2018. However, there are still some problems with the disclosure of local budget and final accounts. First, there are still problems in terms of completeness and standardization, and a few

departments and units have failed to disclose their budget and final accounts. Second, the awareness of proactive disclosure is still not strong, and the relevant explanations and details are insufficient. Third, the quality of disclosure of budget and final accounts needs to be improved, the accuracy and readability are insufficient, and there are cases of false presentation of revenues and expenditures. In the next step, MOF will continue to promote the disclosure of budget and final accounts, and promote the transformation of disclosure from “form” to “substance”.

## 10. Finance Authorities of Zhejiang Province explored the establishment of a fiscal policy system to concentrate financial resources on priority areas

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According to the news released by Finance Department of Zhejiang Province on January 2, since 2019, Huzhou City, Zhejiang Province has made coordinated efforts to revitalize and consolidate financial resources in order to ensure that fiscal policies are tilted to the priority areas and fiscal funds are channeled toward important directions. First, carry out major tasks with strict use of financial resources. Strengthen organization and leadership, set up a city-level cross-departmental leading work group for the formulation of implementation program in order to improve the accuracy and reliability of formulation. Second, arrange projects in

a tiered and classified manner. Clarify each direction of funding support, and concentrate funding support on project implementation and subsidy disbursement. Third, maintain a balance by preserving necessary expenditures and cutting unnecessary ones. With reference to the preparation method of the annual budget draft, adopt the “base period + growth rate” method and follow the principle of pro-activity and prudence to define the expected average level and bottom level for the fiscal revenues and corresponding financial resources during the planned period.

should proceed from the easier issues to advance WTO reforms on the basis of consultation and communication. Second, we must accelerate the formulation of international rules related to the digital economy, including digital taxation, digital currency and digital cash. Third, international policy coordination is required in such important fields as artificial intelligence, but the most critical aspect of macroeconomic policy coordination is the coordination of monetary and fiscal policies. Fourth, we must respond to the impact of geopolitical emergencies. In the face of international political and economic challenges, the most important thing for China is to manage its own affairs well, adhere to the general policy of making progress while maintaining stability, continuously deepen reform and expand opening up, and drive the sustained and healthy development of China’s economy through reform, opening up and innovation.

## V. Remarks & Opinions

### 1. Zhu Guangyao: it is important to tackle challenges in four areas in the year 2020

On December 1, Zhu Guangyao, Counselor of the State Council and former Vice Finance Minister, stated at the 4th (2019) China New Finance Summit Forum that the key to promoting global economic growth and coping with the uncertainty and complexity of the international environment in 2020 is tackling challenges in four areas. First, we must safeguard the multilateral trading system as much as we can. The 164 members of WTO

### 2. Wang Yiming: better promote the high-quality development of economy

On December 9, Wang Yiming, Deputy Director of the Development Research Center of the State Council, wrote in the *Economic Daily* that in order to promote high-quality economic development, we must make supply-side structural reform our central task and work faster to build and improve the institutional environment that is compatible with high-quality development. First,

strengthen the foundational role of competition policy, coordinate related policies on the basis of the competition policy, and accelerate the establishment of a fair competition review system. Second, further improve the property rights system and build an institutional environment that promotes the equal use of production factors, the open and fair participation in market competition, and the equal protection of law for entities of all ownership. Third, deepen the reform of the land system, speed up the reform of collectively-owned land for construction use, and promote the two-way flow of urban and rural production factors. Fourth, explore the market-oriented incentive mechanism for scientific and technological findings, explore the granting of ownership over scientific and technological findings to scientific research personnel, and promote the reform of the allocation of the initial rights and interests of scientific and technological findings. Fifth, accelerate the reform of state-owned assets and state-owned enterprises, advance the optimization and structural adjustment of the state-owned economy, and invest more in the important industries and key areas related to national security and national economy. Sixth, deepen the reform of the fiscal, tax and financial system, regulate local governments' debt financing mechanism, increase the proportion of direct financing, especially equity financing, improve the transaction system, and strengthen the vitality of the capital market.

### **3. Liu Kun: take General Secretary Xi Jinping's important exposition as guide to lend full support to "agriculture, rural areas and farmers" in the new era**

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On December 16, Finance Minister Liu Kun wrote in China Finance that the finance authorities should thoroughly study and implement General Secretary Xi Jinping's important exposition on the work of "agriculture, rural areas and farmers", give full play to the role of public finance, and support the work of "agriculture, rural areas and farmers" in the new era with greater determination, clearer objectives and stronger measures.

The article pointed out that public finance is the foundation and an important pillar of state governance, and the finance authorities shoulder important responsibilities in implementing General Secretary Jinping's important instructions and the decisions of the Party Central Committee to promote agricultural and rural development. We must adhere to the guidance of General Secretary Xi Jinping's important exposition on the work of "agriculture, rural areas and farmers", conscientiously implement the spirit of the Fourth Plenary Session of the 19th Party Central Committee, implement the relevant requirements of the *Regulations on Rural Work of the Communist Party of China*, strive to build and improve the policy system and institutional mechanism of public finance supporting the

enforcement of rural rejuvenation strategy, enhance the effectiveness of work, and take the work of “agriculture, rural areas and farmers” to a new level.

(1) Prioritize the development of agriculture and rural areas, and continue to increase fiscal input. We must always adhere to the general policy of prioritizing agricultural and rural development, make best efforts within our capacity, further improve the input system, innovate investment and financing mechanisms, broaden financing channels, and promote the formation of a diversified financing pattern featuring fiscal and financial support as well as private participation. First, continue to increase investment in “agriculture, rural areas and farmers”. We will provide strong fiscal support for poverty alleviation, take rural rejuvenation as an important factor in fiscal budget arrangement, implement agriculture-related tax cut policies, and continue to tilt government investment towards agriculture and rural areas. We will advance the reform of the division of fiscal powers and expenditure responsibilities in the agriculture-related fields, clarify and strengthen the responsibilities of governments at all levels regarding investment in “agriculture, rural areas and farmers”, and promote the implementation of accountabilities. Second, broaden the input channels for “agriculture, rural areas and farmers”. We will adjust the scope of the use of land transfer income, and increase the proportion of investment in agriculture and rural

areas. We will use the newly-added farmland quotas for high-standard farmland development, implement the policy for the inter-provincial allocation of urban-rural construction land quotas, and use the income from such allocation for consolidating the results of poverty alleviation and supporting rural revitalization. We will actively leverage the national financing guarantee fund, improve the agricultural credit guarantee system, and work to resolve the problem of difficult and expensive financing for new agribusinesses. We will explore the possible models and mechanisms for the application of PPP for public welfare projects with stable returns in the agricultural and rural areas by deploying subsidies, rewards and subsidized loans. Third, accelerate the establishment of a long-term mechanism for the consolidation of agriculture-related funds. We will improve the management mechanism featuring “special project + task list”, release task lists in tandem with funds, reasonably define the binding tasks and the guiding tasks, and promote the establishment of an implementation mechanism for sub-provincial level task lists.

(2) Adhere to the policy of focusing on domestic needs and ensuring self-sufficiency, and support high-quality agricultural development. We must actively give play to fiscal functions, continue to make national food security a top priority, strengthen support for the production of key agricultural products and livestock products, enhance China’s comprehensive agricultural

efficiency and competitiveness, and promote the transformation from a major agricultural country to a strong agricultural country. First, consolidate and improve comprehensive agricultural production capacity. We will accelerate the development of high-standard farmland, strengthen the protection of cultivated land, enhance land fertility, vigorously promote the innovative development of seed industry, and support the improvement of science and technology in service of agriculture. We will speed up efforts to strengthen the weak links of water conservancy, and support the management of small and medium rivers, the reinforcement of small and dangerous reservoirs, the construction of flood prevention and early warning systems for rural grass-root units, and the prevention and control of flash floods. Second, support the deepening of agricultural supply-side structural reforms. We will give overall consideration to the regional distribution of productivity and market-oriented direction, and promote the construction of a modern agricultural structure that integrates grain, cash crops and feed, planting, raising and processing as well as farming, herding and fishing. We will steadily push forward the establishment of the national modern agricultural industrial park, and the leading demonstration platform for quality agriculture. We will support the campaign of boosting the prosperity of villages and counties through industrial development, promote the integrated development of rural primary, secondary and

tertiary industries, accelerate the reform of grain and cotton collection and storage system, and deepen the implementation of high-quality grain projects. Third, improve the agricultural support and protection system. We will implement and improve the agricultural subsidy system, and consolidate the results of the “three agricultural subsidies” reform. We will strongly support the development of social services throughout the agricultural production process, and promote the organic connection between small-scale farmers and modern agricultural development. We will improve the benefit compensation mechanism in major grain producing areas, continue to implement subsidy policies for corn and soybean producers, and improve the cotton target price subsidy policies. We will innovate and improve the subsidy policies for agricultural insurance premiums, and strengthen the agricultural risk prevention and protection systems.

(3) Adhere to the direction of prioritizing ecological and green development, and support the promotion of rural ecological revitalization. We must consciously practice the concept of green development, strengthen agricultural and rural pollution control and ecological environment protection, and make good ecological environment an underpinning of rural revitalization. First, support green agricultural development movement. We will promote the establishment of a green ecology-oriented agricultural subsidy system, vigorously promote

the development of green, circular, quality and efficient agriculture, expand the trials of cropland rotation and fallow system in an orderly manner, establish a compensation mechanism for banning fishing in key waters of the Yangtze River Basin, and step up efforts to support the use of livestock and poultry waste and the trial for the comprehensive use of crop stalks. Second, promote water saving in agriculture. We will accelerate the development of water-saving agricultural projects such as efficient and water-saving irrigation, step up the comprehensive reform of agricultural water prices, and establish a precision subsidy mechanism for agricultural use of water. We will support the implementation of the river chief system, the lake chief system and the most stringent water resource management system, support the expansion of the scope for the comprehensive management of groundwater over-exploited areas, accelerate the comprehensive management of soil erosion, carry out the trials for providing rewards instead of subsidies for soil and water conservation, and work to promote the connectivity of rivers, lakes and reservoirs. Third, support the strengthening of forestry and grassland ecological development. We will arrange funds to support the launch of large-scale land greening operations, vigorously support the major forestry ecological protection and restoration projects such as natural forest protection and a new round of farmland conversion to forest and grassland, strengthen wetland protection and restoration, and continue to provide a new round

of subsidies and rewards for grassland ecological protection. Fourth, promote the improvement of rural living environment. We will support the implementation of the three-year action for the improvement of the rural living environment, provide solid fiscal subsidies and rewards for carrying out the rural “toilet revolution”, further upgrade the ecologically livable and beautiful rural areas, actively and steadily carry out the pilot demonstration programs of the construction of a pastoral complex, and accelerate the construction of an ecological and circular pastoral production system. Fifth, strengthen the construction of key ecological function zones. We will implement the transfer payment policy for key ecological function zones, guide local governments to strengthen ecological environment protection, promote the development of ecological civilization, and improve the basic public service delivery capabilities of local governments in the key ecological function zones.

(4) Continue to safeguard and improve rural people’s livelihood, and vigorously support the equalization of basic public services in urban and rural areas. We will continue to support the equalization of basic public services in urban and rural areas, make it an important focus of fiscal policies, continue to increase fiscal input, and provide solid guarantee for the urban and rural integration. First, strengthen rural infrastructure construction. We will strengthen funding for infrastructure construction including rural

roads, water supply, gas supply, environmental protection, power grids, logistics, information, radio and television, and postal services, and promote urban and rural infrastructure interconnectivity. Second, give priority to the development of rural education. We will consolidate and improve the funding mechanism for compulsory education in urban and rural areas, vigorously support the reform and development of vocational education, promote pre-school education in rural areas with a combination of public and private participation, continue to support the development of special education, and implement a plan for advancing universal education in senior high school. Third, support the construction of a rural social security system. We will further improve the mechanism for determining the basic pension insurance benefits of urban and rural residents. We will integrate the basic medical insurance system for urban and rural residents, rationally determine the government subsidy standards, and implement urban and rural medical assistance policies. We will improve social assistance and welfare policies such as the rural minimum living allowance, the renovation of dilapidated houses, and the protection of the disabled. Fourth, support later-period resettlement of large and medium-sized reservoirs. We will implement resettlement subsidy policies to support infrastructure construction and economic and social development in the reservoir area and resettlement area.

(5) Adhere to the path of good governance in rural areas and promote the establishment and improvement of a modern rural social governance system. We must vigorously support all aspects of rural social governance, promote innovation in rural governance, and make rural areas vibrant and harmonious. First, further promote comprehensive rural reform. In line with the implementation of the rural revitalization strategy, we will explore and push forward the pilot demonstration of comprehensive rural reform. We will develop the rural collective economy, and improve the fiscal reward and subsidy policies for rural public welfare undertakings. Second, promote the reform of agricultural reclamation, the reform of collective forest tenure system and the reform of state-owned forest farms and forest areas, and cooperate with the rural land system reform, rural collective property rights system reform, and the reform of economically developed towns. Third, support the promotion of rural talents. We will support new business entities such as major grain growers, family farms, farmers' cooperatives, and agricultural enterprises according to local conditions, implement programs for cultivating new type of professional farmers, support the cultivation of rural scientific and technological personnels, and nurture various specialized market-oriented service providers. Fourth, improve the stable funding guarantee system for village-level organizations centered on fiscal input, and ensure that village-level organizations have human and financial resources to get things done.

(6) Adhere to the basic strategy of targeted poverty alleviation, and give full support to winning the battle against poverty. We must fully implement the Guiding Opinions of the CPC Central Committee and the State Council on the Three-year Action to Win the Battle against Poverty, ensure that the battle against poverty is won by 2020 as scheduled, and strengthen the connection with the rural revitalization strategy after the task of poverty alleviation is completed. First, improve the input mechanism that suits the task of poverty alleviation. We will increase special poverty alleviation funds and related transfer payment to poor areas, tilt resources towards the extremely poor areas of the “three regions and three prefectures”, regulate the financing in the field of poverty alleviation, and support poor areas to shore up the weak links in poverty alleviation as soon as possible. Second, standardize and deepen the pilot projects for consolidating agriculture-related funds in poor counties. We will effectively decentralize the review and approval authority for fund projects to poor counties, supervise and guide poor counties to carry out consolidation within the prescribed scope, adjust the scope of use according to the requirements of the Party Central Committee, arrange expenditures, and make good use of the consolidated funds. Third, refine and implement the fund management policies. We will strictly abide by the targets and standards for poverty alleviation, and will neither raise the targets blindly nor lower the standards at will. We will

strengthen the supervision and management over the allocation and use of funds, urge and guide poor areas to strengthen budget constraints and guidance, and constantly improve the accuracy of the use of poverty alleviation funds to ensure that money is spent on the key areas. Fourth, make scientific planning to consolidate and expand the outcomes of poverty alleviation and to enhance synergy with the rural revitalization strategy. We will accelerate policy research, summarize the advanced practices and successful models, put forward and enforce policy measures regarding fiscal support to consolidate and expand the outcomes of poverty alleviation and to better implement rural rejuvenation strategy, and establish a long-term mechanism to tackle relative poverty.

#### **4. Liu Kun: continue to implement various tax and fee cut policies to unleash its effects**

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On December 25, at the 15th meeting of the Standing Committee of the 13th NPC, Finance Minister Liu Kun made a report to the Standing Committee of the National People's Congress on the work of tax and fee cut. The full text is as follows.

The Standing Committee of NPC,

Entrusted by the State Council, I now report to



the Standing Committee of NPC on the work of tax and fee cut in 2019.

## I. Implementation of various tax and fee cut policies and measures in 2019

Implementing larger-scale tax and fee cut is a major decision made by the Party Central Committee and the State Council. General Secretary Xi Jinping emphasized that macro policies should strengthen counter-cyclical adjustments, proactive fiscal policies should be strengthened to improve effectiveness, and tax and fee cut policies and measures should take root to lighten the burden of enterprises. Premier Li Keqiang pointed out that tax and fee cut directly addresses the difficulties of current market players, and is thus a fair and efficient policy. In accordance with the decisions of the Party Central Committee and the State Council, the largest tax and fee cut policy unprecedented in history has been rolled out in this year.

(1) Make meticulous research and planning to ensure the timely introduction of tax and fee cut policy

This year's *Government Work Report* explicitly required that the burden of corporate taxes and social security contributions be reduced by nearly 2 trillion RMB throughout the year. The policy of inclusive tax cut for small and micro enterprises and special additional deductions for personal

income tax was implemented starting from January 1; measures to deepen VAT reform were implemented starting from April 1; reduction of social insurance premium rates was implemented starting from May 1; and measures to regulate administrative fees and governmental fund were implemented starting from July 1.

First, deepen the reform of VAT. According to the decisions of the executive meeting of the State Council, the 16% VAT rate of the manufacturing and other industries was reduced to 13%, the 10% VAT rate of the transportation and construction industries was reduced to 9%, and the export tax rebate for some goods and services and the deduction rate applicable to the purchase of agricultural products were adjusted accordingly; the scope of input tax deductions was further expanded to include passenger transport services, and the input tax paid by taxpayers to obtain real property was changed from two-year deduction to one-time full deduction; for taxpayers whose principal business is postal, telecommunication, modern services and consumer services, extra 10% of the input tax amount was deducted from the taxable amount (the rate for the consumer services industry was further raised to 15% starting from October 1).

Second, implement inclusive tax cut for small and micro enterprises. In accordance with the decisions of the executive meeting of the State Council, a number of new inclusive tax

cut measures for small and micro enterprises were introduced. For small-scale taxpayers, the threshold for VAT was raised from monthly sales of 30,000 RMB to 100,000 RMB; the criteria for small and micro enterprises to enjoy corporate income tax benefits was greatly relaxed and the corporate income tax benefits were raised; the people's government of provinces, autonomous regions and municipalities may reduce up to 50% of "six taxes and two fees" (i.e., resource tax, urban maintenance and construction tax, real estate tax, urban land use tax, stamp tax, farmland occupation tax and education surcharge, and local education surcharge) for small-scale VAT taxpayers according to the local situation; the scope for start-up science and technology enterprises to enjoy preferential policies for investment was expanded.

Third, implement special additional deductions for personal income tax. On August 31, 2018, the 5th session of the 13th session of the Standing Committee of NPC passed the newly revised *Personal Income Tax Law of the People's Republic of China*. The Article 6 of the new personal income tax law set out 6 special additional deduction policies for children's education, continuing education, medical treatment of major illness, mortgage loan interest, housing rent, and caring for elderly dependents. On this basis, the State Council issued the *Interim Measures for Special Additional Deductions of Personal Income Tax*, and officially implemented 6 special

additional deduction policies from January 1 this year.

Fourth, reduce social insurance premium rates. After review and approval by the State Council executive meeting, the General Office of the State Council issued the *Comprehensive Plan for Reducing Social Insurance Premium Rates*, which clearly reduced the proportion of basic pension insurance paid by urban employers for their employees. If the employers' share of contribution in provinces, autonomous regions and Xinjiang Production and Construction Corps (hereinafter collectively referred to as provinces) is higher than 16%, the share may be reduced to 16%; continue to gradually reduce the unemployment insurance and work-related injury insurance premium rates; adjust the social insurance payment base policy, and all provinces may determine the upper and lower limits of the individual payment of social insurance on the basis of the average salary of urban employees, and industrial and commercial proprietorships and the flexibly employed may voluntarily choose the payment base set at between 60% and 300% of the average salary of urban employees in their provinces.

Fifth, clean up and regulate administrative fees and governmental fund. In accordance with the arrangement of the State Council executive meeting, policies and measures were introduced to further clean up and regulate administrative

fees and governmental fund, explicitly reduce and exempt real estate registration fees and cultural undertaking construction fees, and expand the scope of reduction for patent application fees and annual fees; reduce the charge for private passports, registration of some trademarks, and occupation of radio frequency; reduce the charge for major water conservancy construction fund and airline civil aviation development fund by half; deduct 30% of investment against payable education surcharge and local education surcharge if the investment is made by enterprises under the pilot production-education integration program into vocational education.

In addition, NDRC, MCA, MIIT, GAMS, CBIRC and other departments have also formulated measures to reduce the costs of energy, logistics and telecommunication for enterprises, further reduce the electricity prices and telecommunication fees for general industrial and commercial enterprises, promote the reduction of tolls for roads, railways and ports, and clean up and regulate the charges for banking and intermediary services, in order to effectively reduce the burden on enterprises and society.

(2) Make meticulous organization and implementation to ensure that the tax and fee cut policies take root

First, strengthen organizational leadership and improve working mechanisms. MOF,

SAT, MOHRSS, and other departments have established special taskforce for tax and fee cut to coordinate the various tasks of tax and fee cut, focused efforts on program formulation, publicity, supervision and inspection, budget support, and overall coordination, refined and broke down work tasks, clarified timetables and roadmaps, and rigorously benchmarked and compared notes, so as to ensure that all work progress in a steady way; guided and urged all provinces, autonomous regions, and municipalities to strengthen the leadership and efforts of tax and fee cut in line with local conditions, established and improved working mechanisms, clarified their work responsibilities, and built joint synergy.

Second, conduct in-depth research and strengthen policy evaluation. Relevant departments in various regions actively carried out research on tax and fee cut, collected information on the implementation of policies, listened to the opinions of enterprises and the public on the implementation of tax and fee cut policy, followed up and evaluated in a timely manner, strengthened the analysis of policy effects, and studied and addressed the new situations and problems arising in the course of policy implementation; carried out in-depth accounting and calculation for tax and fee cut to ensure meticulous book-keeping.

Third, strengthen the interpretation of policies to ensure the effectiveness of publicity. Relevant departments in various regions explained tax and

fee cut through multiple channels and platforms of press conference, government websites, WeChat, Weibo, mobile portal, and tax service hotlines; proactively explained policies, interpreted data, responded to and addressed social concerns in a timely manner, and actively created a favorable public opinion environment; organized multiple rounds of special counselling and training on tax and fee cut policies to help taxpayers and fee-payers to make full use of the tax and fee cut policies and enhanced the sense of gain for taxpayers and fee-payers.

Fourth, optimize tax payment services and simplify tax procedures. In accordance with the requirements of “streamlining administration, delegating powers and improving services”, the tax authorities promptly introduced new measures to facilitate tax payment, and rolled out specific tax services that target the inclusive tax cut for small and micro enterprises, VAT reform and reduction of social insurance rates. 60 tax-related certificates were canceled and functions of electronic tax bureau were improved, to allow taxpayers and fee-payers to go online to access tax services.

Fifth, strengthen supervision and inspection to ensure effective implementation. Relevant departments in various regions focused on the effects of the tax and fee cut policies, continued to strengthen supervision and inspection, seriously investigated and dealt with inaction and misconduct, and resolutely punished the cases

that compromised the effects of tax and fee cut, in order to make sure that enterprises truly enjoy the policy benefits of tax and fee cut.

(3) Strengthen budget management of fiscal revenues and expenditures to support the implementation of tax and fee cut policies

First, increase local transfer payments. In order to support the stable operation of local finances, the central government provided 7.54 trillion RMB of local transfer payment in this year, up by 9% over the previous year, representing the largest increase in recent years. At the same time, the allocation of equalization transfer payments and the subsidies for county-level finances was tilted toward areas with financial difficulties at the grass-root level and areas affected by tax and fee cut, in order to strengthen their financial capabilities. At the same time, the provincial governments' principal responsibilities should be enforced to enhance the “three guarantees” at the grass-root level (wage payment, basic operation and people's livelihood).

Second, guide local governments to raise funds through multiple channels to make up for reduced income. As the central government increases transfer payment to local government, it also guided local finance departments to take into account local realities, studied the use of budget stabilization funds, the increased transfer of state capital operating budget into general public budget, and the revival of the stock of funds and

state-owned resources and assets to raise funds to mitigate the impact of tax and fee cut on the fall of fiscal revenues, in order to strive to achieve a balanced budget.

Third, urge local governments to reduce general expenditures. All regions are required to firmly tighten their belt, and strive to cut over 10% of expenditures on top of the 5% reduction of general expenditures specified in the Government Work Report. The saved funds would be used to finance the expenditures related to the “three guarantees”, and support the fight against the three critical battles. At the same time, the budget implementation constraints will be hardened and budget adjustments be strictly controlled.

Fourth, study and implement the plan for reforming and advancing the central-local revenue division. The State Council issued the *Plan for the Reform of the Central-Local Revenue Division after the Implementation of Larger-scale Tax and Fee Cut*, which kept the “50-50” ratio for sharing the revenue of VAT and further stabilized local expectations; adjusted and improved the mechanism for sharing VAT rebates to make the sharing mechanism more fair and reasonable; moved backward the stage for the collection of consumption tax and steadily delegated it to the localities so as to strengthen local financial capabilities.

Fifth, increase central adjustments and subsidies

for basic pension insurance funds of enterprise employees. In order to balance the burden of basic pension insurance funds for enterprise employees between regions, the central government further increased the transfer rate in 2019 to 3.5%. The scale of annual fund transfer reached more than 630 billion RMB, and 22 central and western regions and the old industrial base provinces received over 150 billion RMB of benefits. At the same time, the basic pension insurance fund subsidies for enterprise employees were increased. In this year, the central government budget allocated 528.5 billion RMB of such subsidies, a year-on-year increase of 9.4%.

## II. Principal effects of tax and fee cut

In accordance with the decisions of the Party Central Committee and the State Council, and with the concerted efforts of all relevant parties, the various tax and fee cut measures are well implemented and the effects are gradually showing.

(1) Effectively reduce the costs and burdens of enterprises. From January to October, tax and fee cut reached 1.968894 trillion RMB nationwide, of which tax cut was 1.647326 trillion RMB and the cut of social insurance premiums was 321.568 billion RMB. The annual tax and fee cut will exceed 2 trillion RMB, accounting for more than 2% of GDP, which is significantly higher than that of other countries in the world. After the VAT

reform, the higher bracket rate of VAT dropped from 16% to 13%, which is at the lower-middle level among G20 countries and is lower than some developed countries and emerging market countries.

(2) Basically meet the “three guarantees” requirement. Since the implementation of the policy of deepening VAT reform on April 1, we have firmly grasped the requirements of the “three guarantees”. First, ensure that the tax burden of major industries such as manufacturing is significantly reduced. From April to October, the VAT cut for manufacturing and wholesale industries was 459.883 billion RMB, a reduction of 25.7%. Second, ensure that the tax burden on industries such as construction and transportation is reduced. From April to October, the construction industry reduced taxes by 18.819 billion RMB, a fall of 6.2%; the transportation industry reduced taxes by 3.563 billion RMB, a fall of 7.5%. Third, ensure that the tax burden of other industries is reduced or not increased. From April to October, the tax cut of modern services industry and consumer services industry was 32.196 billion RMB and 13.49 billion RMB respectively, a fall of 12.3% and 6.6% respectively. With the implementation of policies such as the increase of deduction from 10% to 15%, the consumer services industry will continue to see larger scale of tax cut.

(3) Focus on supporting private and small and

micro enterprises. Place equal emphasis on inclusive tax cut and structural tax cut, with a focus on reducing the tax burden on small and micro enterprises. Since the implementation of the inclusive tax cut policy for small and micro enterprises on January 1, as of the end of October, the tax cut for small and micro enterprises reached 186.089 billion RMB. After the standard was relaxed, the number of taxpayers who actually enjoy corporate income tax cut reached 4.6892 million, and the small-scale taxpayers who enjoy VAT exemption increased by 4.0264 million. Private enterprises are the principal beneficiaries of the tax cut policy. From January to October, the total tax cut from various policies for private enterprises reached 1.051184 trillion RMB, accounting for 63.8% of the total tax reduction.

(4) Effectively promote enterprises to increase investment in research and development. Accelerate the implementation of the policy of deducting 75% of R&D expenses before taxes to reduce taxes by 87.796 billion RMB. With the implementation of other policies to reduce taxes and fees, enterprises were spurred to use the saved costs for reinvestment in R&D and technological upgrading. From January to October, despite the overall decline of investment, investment in high-tech industries increased by 14.2% year on year, an increase of 1.2 percentage points from the previous three quarters, and 9 percentage points higher than the total investment.

(5) Notably increase residents' income and consumption capacity. From January to October, the special additional tax deduction policy has cut personal income tax by 52.194 billion RMB. With the increase in basic deduction standards for personal income tax and the optimization of the tax rate structure on October 1 of last year, the total tax cut was 448.084 billion RMB; the per capita tax reduction for personal income taxpayer was 1,786 RMB, which directly increased residents' income and boosted consumption capacity.

Judging from the response of various sectors, the tax and fee cut policy has been well implemented, and enterprises and the general public are satisfied as the tax and fee cut policy implemented this year has exceeded expectations and delivered most direct, effective and fair benefits to enterprises. According to the estimate of the fiscal and tax departments, tax and fee cut boosted GDP growth by 0.8 percentage point in the current year, fixed asset investment growth by 0.5 percentage point, and total retail sales of consumer goods by 1.1 percentage point. Currently, economic operation is in a reasonable range and maintains the overall trend of stable and steady development, which is largely owed to the important role of the tax and fee cut policy.

While acknowledging the effectiveness of tax and fee cut, we must also recognize that there are still some difficulties and problems in the

implementation of the policy. First, increased pressure on fiscal revenues. From January to October, due to higher-than-expected tax and fee cut, the national general public budget revenues increased by 3.8%, of which tax revenues only increased by 0.4%. Central and local fiscal revenues are under great pressure, making it difficult to complete the annual revenue budget. In addition, the pressure on the balance of revenue and expenditure of social insurance funds in some provinces is also rising, leading to a deficit between current revenues and expenditures. Second, the burden reduction of a few enterprises is not obvious. Judging from the implementation of VAT reform, the tax burden of all industries has declined, but the benefit transmission mechanism of tax and fee cut is not smooth and some enterprises in the "mezzanine layer" of the industrial chain could only access relatively limited policy dividends. A small number of enterprises have experienced a small increase in taxes due to inconsistent tax rate reductions at sales and purchase and imperfect self-management. Third, the problems of arbitrary charges, fines and apportionment involving enterprises cannot be ignored. Some enterprises reported that the problem of random charging by industry associations and intermediaries still exists. In the context of large fall in fiscal revenues, non-tax revenues, especially fines and confiscated incomes, have increased significantly in some localities, and it is necessary to prevent arbitrary fines and apportionment.

### III. Thoughts on the work of tax and fee cut in the next step

In view of the difficulties and problems in tax and fee cut, the finance and tax authorities will take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guide, conscientiously implement the requirements of the 19th National Congress of the CPC, the 2nd, 3rd and 4th Plenary Sessions of the 19th CPC Central Committee, and the Central Economic Work Conference, adhere to the problem-oriented approach, continue to implement the various tax and fee cut policies on the basis of ensuring sustainable financial operation, and promote the continued effects of tax and fee cut policies.

(1) Resolutely implement the tax and fee cut policy. We will earnestly implement the tax and fee cut measures arranged by the Party Central Committee and the State Council to ensure that enterprises and general public reap real gains. We will firmly grasp the requirements of the “three guarantees”, strengthen departmental coordination and cooperation, step up local guidance and supervision, continue to pay close attention to changes in the tax burden of various industries, follow up on effect monitoring and analysis, and organize the summary and assessment of the effects of policy implementation. We will further increase publicity and policy interpretation, increase the policy awareness of taxpayers and fee-payers, and help enterprises to make the most

of the policies. We will urge local government to resolutely clean up and regulate fees related to enterprises, seriously investigate and deal with problems such as the failure to implement policies, the increased burden on enterprises, and the damage to the interests of the people, and ensure that all measures are put in place.

(2) Effectively strengthen fiscal budget management. We will continue to pay close attention to the implementation of budgets at all levels, and guide and urge local governments to increase revenues and reduce expenditures to support tax and fee cut. We will strengthen budget management of fiscal revenues, carefully study and assess the fiscal revenues, analyze in depth the impact of tax and fee cut policies, and where appropriate, require state-owned financial institutions and state-owned enterprises to turn in profits in accordance with laws and regulations in an orderly manner, and step up efforts to revive state-owned resources and assets. As things stand now, it is expected that local fiscal revenues may see a large shortfall in this year; the central fiscal revenues may basically complete the budgeted target, and if there are changes in expenditures caused by a small shortfall in revenues, a balanced will still be achieved by saving non-emergency expenditures.

(3) Adjust and optimize the structure of fiscal expenditures. We will firmly tighten the belt and strictly reduce general expenditures. We



will enhance provincial government's principal responsibilities, delegate more financial resources, work on supporting grass-root "three guarantees", and focus on helping areas with difficulties of ensuring "three guarantees" and where the impact of tax and fee cut is big. We will implement the plan for reforming the division of revenues between the central and local government after a larger-scale tax and fee cut, and ensure that the mechanism for sharing VAT rebate burden is well calibrated, so as to effectively reduce the financial pressure on some areas, especially the ones at the grass-root level.

Chairman, Deputy Chairman, Secretary General, and Members of the NPC Standing Committee, implementing tax and fee cut is an important step to deepen supply-side structural reforms, and plays a critical role in reducing the burden on enterprises, stimulating the vitality of market players, and boosting economic growth. We must unite more closely around the Party Central Committee with Comrade Xi Jinping as the core, strengthen the "Four Consciousnesses", reinforce the "four self-confidence", ensure the "two safeguards", conscientiously implement the decisions of the Party Central Committee and the State Council, follow up on the opinions of the NPC Standing Committee, do a good job in reducing taxes and fees, in order to adhere to and improve the socialist system with Chinese characteristics, promote the modernization of the state governance system and governance

capabilities, strive to achieve the "two centenary" goals, and realize the Chinese dream of the great rejuvenation of Chinese nation.

### **5. Liu Kun: proactive fiscal policies in 2020 must vigorously enhance quality and effectiveness and do a good job in 5 key areas and 8 aspects**

At the National Fiscal Work Conference held on December 26, Finance Minister Liu Kun put forward the guiding principles and preliminary arrangements for fiscal work in 2020, and elaborated the principal tasks of fiscal work. He pointed out that, in accordance with the decisions of the Party Central Committee and the State Council, proactive fiscal policies in 2020 must vigorously enhance quality and effectiveness, pay more attention to structural adjustment, and work on both "quality" and "quantity". At the same time, we will endeavor to save fiscal resources and increase funding support for local government, especially those in difficult areas. We must keep macro policies stable, micro policies flexible, and social policies sound, adhere to the problem-oriented, goal-oriented, and result-oriented approach, and solidly move forward tasks in 5 key tasks and 8 aspects.

Solidly move forward 5 key areas

First, resolutely implement the decisions of

the Central Economic Work Conference. It is necessary to further clarify the priority direction of fiscal expenditures and step up structural adjustment. General expenditure must be vigorously reduced, unnecessary project expenditures must be resolutely phased out, new project expenditures must be strictly controlled, and in principle, no new expenditures should be made. We will effectively fund the key expenditures, ensure that general transfer payments are significantly higher than the growth rate of central government expenditures, and see to it that equalization transfer payments, subsidy and reward funds for basic financial capacity at the county level, and transfer payments to old revolutionary base, ethnic minority, border and poor areas register relatively strong increase. Each locality must, in light of the actual situation in the region, clarify the priorities of fiscal spending, pinpoint shortcomings and weak links, and concentrate policies and funds to ensure targeted support. We will do a good job of budget performance management, embed the concept of performance into the entire process of budget management, improve the fiscal management level, and ensure that the fiscal policies are of greater quality and efficiency and are more sustainable.

Second, consolidate and expand the effects of tax and fee cut. The tax and fee cut is institutionalized and sustained. After years of implementation, the cumulative effects are immense, and the

reduction of burden for enterprises will become increasingly notable. At the same time, relevant tax policies will be studied and improved around promoting high-quality development, encouraging technological innovation, attracting high-end talents, and promoting export growth. During the process of implementation, it is important to strengthen the sharing of information on tax and fee cut, closely watch the changes in the tax burden of various industries, firmly follow the “three guarantees” requirement, timely study and resolve outstanding problems flagged by enterprises, and continue to maximize the effects of tax and fee cut policies. Tax and fee cut is the most important manifestation of proactive fiscal policies. The transfer of more resources to market entities is also a way to increase expenditures. We will resolutely cut taxes and fees that ought to be reduced.

Third, do a good job of saving expenses. We must determine expenditures according to revenues and improve fiscal balance by reducing expenditures. The general fiscal expenditures of local governments should be further reduced on the basis of the reductions already made in 2019, and various stock funds and assets will continue to be revived. In the implementation of budget, we must save expenses as much as we can. We must strictly control the disbursement of fiscal funds. Basic expenditures already included in the budget must be funded in accordance with state regulations, project expenditures must save

expenses, and disbursement must be made in strict accordance with project progress, contractual agreement and prescribed procedures. Over-scheduled advances beyond contract are strictly prohibited. It is also strictly forbidden to push up budget implementation progress by means of false presentation of expenditures. For projects that do not meet the conditions for implementation, with slow pace of progress, and may fail to make expenditures, no funds shall be disbursed.

Fourth, give full play to the role of fiscal capital in making up for the shortcomings and protecting people's livelihood. We must do a good job of protecting people's livelihood. When allocating funds for people's livelihood, we must give priority to support the basic livelihood of people living with difficulties and make targeted efforts at the right time to address the living difficulties of people. We will focus on the unemployed, urban and rural households with minimum living allowances, recipients of social assistance, disaster-affected people, and people with special hardships, pay close attention to the changes in the number, scope and degree of difficulties of the disadvantaged people, and take timely measures to effectively protect their livelihood to the extent possible. It is necessary to make good use of the special bonds of local government, adhere to the principle of "funds following projects", optimize the bond investment structure, implement policies to expand the use of special bonds, speed up the establishment of mechanisms

for project preparation, evaluation and selection, develop, build and implement a batch of non-profit construction projects, and actively leverage the advantages of special bonds regarding low financing cost and direct and rapid policy effectiveness to expand effective investment as soon as possible to boost the economy.

Fifth, strengthen fiscal support for localities, especially those in difficult areas. In order to support the normal operation of localities, especially those in difficult areas, the central government has continued to increase general transfer payments to local government, with a focus on the old revolutionary base areas, ethnic minority areas, border areas and poor areas. Provincial finance departments should further increase sub-provincial transfer payments, strengthen the financial capabilities of relevant areas, and support grass-root and difficult areas to do a good job of "three guarantees" and implement the central government decisions.

#### Plan and carry out eight tasks

First, vigorously support the fight against the three critical battles and promote the construction of a moderately prosperous society in all respects as scheduled. On the basis of consolidating the existing outcomes, we will continue to focus on priority areas, make up for shortcomings, strengthen weak links, complete relevant qualitative and quantitative indicators, and

continue to work on outstanding issues. We will continue to increase fiscal investment in poverty alleviation to ensure that the goals and tasks of poverty alleviation are achieved. We will focus on supporting the efforts to preserve the blue sky, clear water and clean land, and promote the realization of the phased targets for the prevention and control of pollution. We will strengthen supervision and accountability, strictly rectify disorderly debt borrowing, effectively curb the increase of hidden debts, and prevent and resolve the hidden debt risks of local government.

Second, spur innovation and industrial upgrading, and vigorously promote the healthy development of the real economy. We will adhere to the principles of “consolidating, enhancing, upgrading and unblocking” the economy, give full play to the role of fiscal and tax policies in structural adjustment, and advance supply-side structural reforms to comprehensively improve the overall economic competitiveness. We will promote industrial transformation and upgrading, support the development of new energy vehicles, and research and establish government procurement transaction system as well as cost management and risk sharing mechanisms that are suited for supporting innovation. We will support scientific and technological innovation, and improve the institutions and mechanisms that encourage and support basic research and original innovation. We will support the development of small and medium-sized enterprises, and work to clear the

arrears owed to private enterprises and small and medium-sized enterprises.

Third, implement the strategy of rural revitalization and accelerate the modernization of agriculture and rural areas. We will establish and improve the policy system and institutional mechanisms for public finance to support the implementation of the strategy of rural rejuvenation, concentrate resources, strengthen support, and implement precise policies to take the work of “agriculture, rural areas and farmers” to a new level. We will vigorously support the development of modern agriculture, continue to promote the in-depth integration and development of rural primary, secondary and tertiary industries, further advance agricultural supply-side structural reforms, support the advancement of rural reform and development, and take the work of “agriculture, rural areas and farmers” to a new level.

Fourth, promote the equalization of financial resources across regions and promote the formation of a new pattern of coordinated regional development. We will accelerate the implementation of regional development strategies, improve relevant fiscal and tax policies, give full play to the comparative advantages of various areas, and promote the formation of a pattern of regional economic development with complementary advantages and high-quality development. We will improve

the cost-sharing mechanism for the urban residency of farming population, strengthen the synergy between the policies related to the urban residency of farming population and the new type of urbanization, support the implementation of major regional strategies of the state, and promote the implementation of fiscal and tax policies to support high-standard construction and development of Xiong'an New District, development of Guangdong-Hong Kong-Macao Greater Bay Area, revitalization of Northeast China, and the development of the western region.

Fifth, make effort to protect and improve people's livelihood, and effectively enhance the well-being of people. We will adhere to the people-centered development philosophy, give play to the role of government in protecting people's basic livelihood, pay attention to inclusiveness and basic needs, and make targeted efforts at the right time to address the living difficulties of people. We will take employment stabilization as the top priority, and support the employment of key groups of people such as college graduates and veterans. We will further optimize the structure of education spending and support the development of fair and quality education. We will actively promote the strategy of healthy China, steadily increase the level of old-age security, improve the basic housing security system, promote cultural prosperity, and provide solid funding support for the hosting of Beijing Winter Olympics and the preparation of the national team.

Sixth, promote the reform of fiscal and tax system and accelerate the establishment and improvement of the modern fiscal system. With a focus on advancing the modernization of state governance system and capability, we will continue to resolutely and steadily deepen the reform of fiscal and tax system. We will accelerate the reform of fiscal system, basically complete the division of fiscal mandates and expenditure responsibilities between the central and local governments in major areas, and actively promote the sub-provincial reform of fiscal system. We will improve the budget management system, accelerate the establishment of a comprehensive, full-process and full-coverage budget performance management system, deepen the reform of treasury management system, and further advance the market-oriented reform of the management of treasury bonds. We will deepen the reform of tax system, steadily advance the reform of the local tax system, adjust and optimize the tariff policy system, and vigorously advance tax legislation. At the same time, the reform of state-owned assets and state-owned enterprises will be accelerated to form a state-owned asset supervision system focusing on managing capital.

Seventh, strengthen fiscal management and supervision and earnestly improve the effectiveness of the use of fiscal funds. We will pay close attention to system construction and implementation, plug loopholes, enhance supervision, and continuously improve the

efficiency of fiscal management and fund performance. We will improve the supervision ability with IT-based fiscal management, and improve the supervision mechanism with traceability of responsibilities in the allocation and use of fiscal funds. We will strengthen the management and supervision of budget execution, and continuously improve the efficiency of fiscal management and fund performance.

Eighth, deepen international economic and financial cooperation and promote higher level of opening up. We will take into account and

make comprehensive use of international and domestic markets, resources and rules, actively engage in multilateral and bilateral exchanges and cooperation, and actively participate in the transformation of global economic governance. We will support the expansion of opening up, optimize the import tax policy system, and continue to improve the business environment in China. We will actively carry out multilateral and bilateral exchanges and cooperation to promote the in-depth development of multilateral and bilateral financial cooperation.

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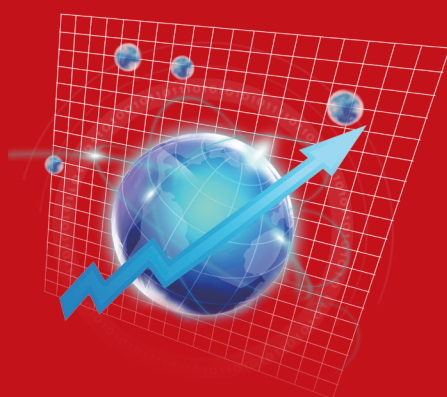
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