

# CHINA FINANCE

## MONTHLY 中国财政月度资讯

August, 2020

第 8 期

### HIGHLIGHT

- Finance Minister Liu Kun: earnestly study and implement the Regulations for the Implementation of the Budget Law to accelerate the establishment of a modern fiscal system
- Vice Finance Minister Zou Jiayi attended and addressed the virtual ASEAN+3 Finance and Central Bank Deputies Meeting
- State Council published the *Opinions on Further Stabilizing Foreign Trade and Foreign Investment*
- State Council deployed new measures to support rural migrant workers in employment and business start-ups and help protect employment and people's livelihood
- China's CPI in July rose by 2.7% year on year

# Brief Introduction to IEFI

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

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**Journal Title:** China Finance Monthly  
**Editor:** International Economics and Finance Institute  
**Publisher:** Editorial Office, China Finance Monthly  
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Publishing Date: September 2020

# 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
CAAC	Civil Aviation Administration, China
CAC	Cyberspace Administration, China
CAFS	Chinese Academy of Fiscal Sciences
CAREC	Central Asia Regional Economic Cooperation
CASS	Chinese Academy of Social Sciences
CBIRC	China Banking and Insurance Regulatory Commission
CEPA	Closer Economic Partnership Arrangement
CMIM	Chiang Mai Initiative Multilateralization
CPA	Certified Public Accountant
CPC	Communist Party of China
CPI	Consumer Price Index
CPPCC	Chinese People's Political Consultative Conference
CSRC	China Securities Regulatory Commission
FDA	Food and Drug Administration
GAC	General Administration of Customs, China
GAMS	General Administration of Market Supervision, China
GAS	General Administration of Sport, China
GDP	Gross Domestic Product
IEFI	International Economics and Finance Institute, Ministry of Finance, China
IMF	International Monetary Fund
IPI	Industrial Production Index
IPR	Intellectual Property Rights
LICs	Low-Income Countries
MCA	Ministry of Civil Affairs, China
MCT	Ministry of Culture and Tourism, China
MEE	Ministry of Ecology and Environment, China
MIIT	Ministry of Industry and Information Technology, China
MNR	Ministry of Natural Resources, China
MOA	Ministry of Agriculture and Rural Affairs, China

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

## I. Policy Update

### **1. State Council deployed new measures to support rural migrant workers in employment and business start-ups and help protect employment and people's livelihood**

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On July 29, Premier Li Keqiang of the State Council presided over an executive meeting of the State Council to deploy new measures to support rural migrant workers in employment and business start-ups and help protect employment and people's livelihood, which provided the following. First, enhance local responsibilities and provide greater policy incentives to regions that hire large number of rural migrant workers. Second, promote the county-based new urbanization and construction of water conservancy facilities and other rural infrastructure, increase investment in work-for-the-dole programs, and raise the proportion of labor compensation funds from 10% to 15%. Third, drive employment through business start-ups. For rural migrant workers who start their

own business for the first time and maintained normal operation for more than 6 months, they may first apply for half of the one-time business start-ups subsidies. Fourth, increase assistance. For eligible migrant workers and other uninsured unemployed people who are not included in the scope of subsistence allowance, one-time temporary aid will be provided by the localities of their employment or permanent residence.

### **2. State Council published the guidelines on supporting flexible employment through multiple channels**

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On August 3, the General Office of the State Council published the guidelines on supporting flexible employment through multiple channels, which provided the following. First, encourage the development of self-employed individuals, and provide business start-ups guaranteed loans, tax incentives and business start-ups subsidies to self-employed individuals, especially laid-off and unemployed people. Second, implement targeted fiscal and financial support policies, strengthen policy support for part-time workers, and provide social insurance subsidies for those who have difficulties in finding jobs and college graduates who have not been employed within 2 years of graduation to engage in part-time jobs.

Third, abolish administrative charges related to flexible employment, and exempt occupancy fees for urban roads approved for stall vendor operation. Fourth, carry out targeted training, provide vocational training subsidies and stipends in accordance with regulations, and enhance the employability of workers. Fifth, encourage various human resource service organizations to provide standardized and professional services such as job-hunting, skills training, and human resource outsourcing for people who seek flexible employment, and provide employment and business start-ups service subsidies. Sixth, increase assistance to people in need of flexible employment, and include the eligible people into the scope of minimum living allowances and temporary assistance.

### **3. State Council published a circular on the issuance of several policies to promote the high-quality development of integrated circuit industry and software industry in the new era**

On August 4, the State Council published a circular on the issuance of several policies to promote the high-quality development of integrated circuit industry and software industry in the new era, which provided the following.

First, the preferential-tax period is calculated from the profit-making year for enterprises that enjoy preferential tax policies for integrated circuit manufacturing; the preferential-tax period is calculated from the tax year in which the project obtains the first production and operation income for enterprises that enjoy preferential tax policies for integrated circuit production projects. Second, make full use of existing national and local governments investment fund to support the development of integrated circuit industry and software industry, establish investment fund, and improve the level of market-based operation of fund. Third, focus on the research and development of key core technologies such as high-end chips, and provide support through national key research and development plans and major national science and technology projects. Fourth, promote the export of integrated circuit, software and information technology services, vigorously develop international service outsourcing business, and support enterprises to establish overseas marketing network. Fifth, deepen the global cooperation on integrated circuit industry and software industry, and actively create an enabling environment for the investment and operation of international companies in China.

#### 4. Seven ministries jointly published a circular on further strengthening the job internship work

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On August 6, the Ministry of Human Resources and Social Security, the Ministry of Education, MOF, the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the Central Committee of the Communist Youth League and the All-China Federation of Industry and Commerce jointly published a circular on further strengthening the job internship work, which provided the following. First, the trainees are college graduates that have not been employed within 2 years of leaving school as well as unemployed young people aged between 16 and 24, and the internship period is 3 to 12 months. Second, encourage the national-level economic and technological development zones and development zones, industrial parks and science and technology parks at all levels to give full play to the advantages of industrial resource agglomeration. Third, enhance the attractiveness of job positions, and create job internship positions in modern service industries such as the internet and finance as well as in high-end manufacturing companies such as 5G, semiconductor and new energy through policy incentives and active exploration. Fourth, fully open up the channels for unemployment registration, document the unemployed people in

the jurisdiction, and include eligible unemployed young people into the scope of internship. Fifth, provide follow-up employment assistance to those who have not been retained after the internship, continue to provide job information, career guidance and other services to them to help them find jobs as soon as possible. Sixth, the finance authorities shall deploy relevant channels such as employment subsidy funds to ensure the implementation of the internship policy.

#### 5. State Council published the *Opinions on Further Stabilizing Foreign Trade and Foreign Investment*

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On August 12, the General Office of the State Council published the *Opinions on Further Stabilizing Foreign Trade and Foreign Investment*, which provided the following. First, give better play to the role of export credit insurance to insure against the risk of order cancellation before shipment; support localities where conditions permit to replicate or expand the “credit insurance + guarantee” financing model and provide credit enhancement support for financing of foreign trade enterprises in a variety of ways; further expand export credit for micro, small and medium-sized foreign trade enterprises; provide financial support for key foreign-funded enterprises, and allow the special

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quota for re-lending and rediscounting to be equally applicable to foreign-funded enterprises; lower the threshold for foreign-funded R&D centers to enjoy preferential policies, and encourage foreign investors to invest in China to establish R&D centers. Second, add pilot projects for market-based procurement trade, support cross-border e-commerce platforms, cross-border logistics development and overseas warehouse construction, intensify the credit development of comprehensive foreign trade service enterprises, expand online channels of foreign trade, and support small and medium-sized foreign trade companies to open up markets and connect with overseas buyers, and develop new formats and new models of trade. Third, further standardize and reduce the compliance costs in import and export, promote the “one-stop transparent prices” of port charges at ports where conditions permit, and increase consulting services for technical trade measures. Continue to negotiate with relevant countries to establish “fast channels”, increase the total number of international passenger flights in stages, and moderately increase the number of civil flights with China’s major sources of investment. Fourth, support key industries and key enterprises, guide the transfer of processing trade, cultivate a batch of processing trade industrial parks jointly developed by eastern, central, western and northeastern regions, further

increase support for enterprises exporting labor-intensive products, enforce “one policy for one enterprise” to help large-scale foreign trade companies to resolve difficulties, and increase land supply and other services for all projects, including foreign-funded ones.

## **6. State Council decided on measures to effectively deploy new additional fiscal funds to bring direct benefits to enterprises and people**

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On August 17, Premier Li Keqiang of the State Council presided over an executive meeting of the State Council, which provided the following. First, establish a special transfer payment mechanism to enable the central government’s new additional fiscal funds to directly reach the grass-root units in cities and counties and bring direct benefits to enterprises and people. Second, instruct cities and counties to expedite the use of the funds disbursed to them on market entities and people’s livelihood, and take necessary measures to supervise and require those slow in the allocation of funds to rectify the problem. Third, dynamically track the allocation, disbursement and use of funds, and establish a special treasury reconciliation mechanism for direct funds to ensure transparency, clarity and consistency. Fourth, strictly enforce financial

and economic discipline, and seriously deal with false reporting, fraudulent claim, withholding and embezzlement of funds. Fifth, further strengthen the pertinence and effectiveness of macro policies, create an enabling environment to preserve and cultivate market players, and make greater efforts to advance reforms.

## **7. MOF published a circular on the refund of education fees during the pandemic prevention and control period**

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On August 17, MOF published a circular on the refund of education fees during the pandemic prevention and control period, which provided the following. First, the central collection units must earnestly perform the main responsibility of administering education fees; if education fees collected during school year 2019-2020 under the non-tax revenue collection management system need to be refunded or deducted due to the impact of the pandemic, such refund or deduction shall be completed by August 31, 2020; this circular also applies to the kindergarten education fees and accommodation fees that are collected by the central collection units and eligible for refund and deduction. Second, the refund standard for education fees shall be locally implemented. The internal

working procedures of refund or deduction shall be clarified, and the refund applications shall be reviewed item by item. If criteria are met, education fees shall be promptly returned to fee-payers, or deduction shall be confirmed with fee-payers. Third, it is necessary to strengthen internal control, improve accounting, and accept financial supervision and audit in accordance with regulations; the competent department should, in line with departmental responsibilities, guide and supervise the central collection units to carry out related work.

## **8. State Council promulgated the Regulations for the Implementation of the Budget Law of the People's Republic of China**

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On August 21, the State Council promulgated the *Regulations for the Implementation of the Budget Law of the People's Republic of China*, which provided the following. First, the scope of budget revenues and expenditures includes revenue of administrative fees, revenue from the paid use of state-owned resources (assets), transfer revenue and expenditure, budget revenue and expenditure of governmental fund, budget revenue and expenditure of state-owned capital operation budget, budget revenue and expenditure of social security fund budget, local

budget revenue and expenditure, and revenue and expenditure of local social security fund budget. Second, in terms of budget preparation, MOF shall make a plan for preparing next year's draft budget before June 15 in each year, stipulating the reporting format, preparation method, and submission deadline; local finance departments at all levels shall formulate the local budget expenditure standard by following the budget expenditure standard introduced by MOF and taking into account the local economic and social development level and financial situation. Third, in terms of budget implementation, the principal responsibilities of finance department include: research and implement fiscal and tax policies and measures to support the healthy development of economy and society; formulate rules for collection of budget revenue and management of budget expenditure, and related rules for financial management, accounting, internal control and supervision; require budget revenue collection agencies and units to perform their duties in accordance with the law; allocate and disburse budget funds according to the annual expenditure budget and spending plan, and supervise the use and management of budget funds by various departments and units; administer government debt borrowing, expenditure and repayment and supervise the use of funds raised from debt; guide and supervise all departments and units to establish and improve

financial systems and accounting systems, standardize account management, improve internal control mechanism, and use budget funds in accordance with regulations; summarize and compile phased budget implementation data, analyze budget implementation status, report budget implementation progress regularly in accordance with the requirements of the standing committee of the people's congress at the corresponding level, the government at the same level and the finance department of the higher-level government, and put forward relevant policy recommendations; organize and guide budget fund performance monitoring and performance evaluation; coordinate with the work of budget revenue collection departments and units, treasury and other relevant departments. Fourth, in terms of final accounts, MOF shall set the principles, requirements, methods and submission deadlines for preparing draft final accounts in the fourth quarter of each year, and formulate and distribute the format for the final accounts of central departments, local final accounts, and other relevant final accounts.

## **9. State Council deployed work on flood prevention, disaster relief, post-disaster recovery and reconstruction**

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On August 27, Premier Li Keqiang of the State Council presided over an executive meeting of

the State Council, which provided the following. First, the central government will add another 5,000 RMB on the basis of the current subsidy of 20,000 RMB per household for collapsed or severely damaged private houses in the disaster-hit provinces. Second, support the restoration of farmland facilities such as greenhouses and housing of livestock, ensure the supply of seeds, step up the replanting of crops, and strive for another good harvest of autumn crops. Support disaster-stricken merchants to resume business operations. Third, speed up the construction of flood relief projects, support local repair of destroyed roads, bridges and small and medium-sized water conservancy facilities, promote the construction of urban flood control and drainage facilities, expand effective investment, increase work-for-the-dole programs efforts, and promote local employment of migrant workers. Fourth, actively plan and promote long-term major water conservancy projects. Fifth, the central government budget will increase investment in reconstruction projects, allow local governments to use funds raised from special treasury bonds and local governments bonds as well as special transfer payment funds for recovery and reconstruction, and establish a mechanism for funds to directly reach disaster-hit areas. Sixth, introduce specific measures to guide state-owned financial institutions and rural credit cooperatives to strengthen support for the post-disaster recovery of agriculture.

## II. Facts & Figures

### 1. China issued 272.2 billion RMB of local governments bonds in July

The data published by MOF on August 4 showed that China issued 272.2 billion RMB of local governments bonds in July. Among them, 42.2 billion RMB were new bonds and 230 billion RMB were refinanced bonds. As of the end of July, a total of 3.7586 trillion RMB of local governments bonds were issued in 2020, of which 2.829 trillion RMB were new bonds and 929.6 billion RMB were refinanced bonds. The issuance of new bonds completed 59.8% of the annual issuance plan. Among them, the general bond issuance was 562.9 billion RMB, or 57.4% of the annual plan; the special bond issuance was 2.2661 trillion RMB, or 60.4% of the annual plan.

### 2. China's CPI in July rose by 2.7% year on year

The data published by the National Bureau of Statistics on August 10 showed that China's CPI

in July rose by 2.7% year on year. Among them, prices in urban areas rose by 2.4% and prices in rural areas rose by 3.7%; food prices rose by 13.2%, and non-food prices were flat; consumer goods prices rose by 4.3%, and services prices were flat. From January to July, CPI rose by 3.7% over the same period of last year. In July, CPI rose by 0.6% month on month. Among them, prices in urban areas rose by 0.6%, and prices in rural areas rose by 0.8%; food prices rose by 2.8%, and non-food prices remained flat; consumer goods prices rose by 1.0%, and services prices fell by 0.1%.

### 3. China's Producer Price Index (PPI) in July fell by 2.4% year on year

The data published by the National Bureau of Statistics on August 10 showed that China's Producer Price Index (PPI) in July 2020 fell by 2.4% year on year and rose by 0.4% month on month; the Purchasing Price Index for Industrial Producers fell by 3.3% year on year and rose by 0.9% month on month. From January to July, the Producer Price Index fell by 2.0% over the same period last year, and the Purchasing Price Index for Industrial Producers fell by 2.7%.

### 4. China's general public budget revenue was 11.4725 trillion RMB from January to July

The data published by MOF on August 19 showed that China's general public budget revenue from January to July was 11.4725 trillion RMB, a year-on-year decrease of 8.7%. Among them, the central general public budget revenue was 5.3575 trillion RMB, a year-on-year decrease of 11.3%; the local general public budget revenue was 6.115 trillion RMB, a year-on-year decrease of 6.2%. Tax revenue was 9.8509 trillion RMB, a year-on-year decrease of 8.8%; non-tax revenue was 1.6216 trillion RMB, a year-on-year decrease of 7.7%. China's general public budget expenditure from January to July was 13.3499 trillion RMB, a year-on-year decrease of 3.2%. Among them, the central general public budget expenditure was 1.8976 trillion RMB, a year-on-year decrease of 3.2%; the local general public budget expenditure was 11.4523 trillion RMB, a year-on-year decrease of 3.2%.

### 5. Budget revenue of China's governmental fund was 3.9173 trillion RMB from January to July

The data published by MOF on August 19 showed that budget revenue of China's

governmental fund from January to July was 3.9173 trillion RMB, a year-on-year increase of 1.2%. In terms of central and local governments, the budget revenue of central governmental fund was 182.7 billion RMB, a year-on-year decrease of 19.8%; the budget revenue of local governmental fund was 3.7346 trillion RMB, a year-on-year increase of 2.6%. Budget expenditure of China's governmental fund from January to July was 5.2985 trillion RMB, a year-on-year increase of 19.2%. In terms of central and local governments, budget expenditure of central governmental fund was 75.8 billion RMB, a year-on-year decrease of 42.1%; budget expenditure of local governmental fund was 5.2227 trillion RMB, a year-on-year increase of 21.1%.

## 6. China issued 272.2 billion RMB of local governments bonds in July

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The data published by MOF on August 20 showed that China issued 272.2 billion RMB of local governments bonds in July. Among them, 176.4 billion RMB were general bonds, and 95.8 billion RMB were special bonds; by purpose of usage, 42.2 billion RMB were new bonds, and 230 billion RMB were refinancing bonds. China issued a total of 3.7586 trillion RMB of local governments bonds from January to July. Among

them, 1.2902 trillion RMB were general bonds, and 2.4684 trillion RMB were special bonds; by purpose of usage, 2.8291 trillion RMB were new bonds, and 929.5 billion RMB were refinancing bonds.

## 7. Total operating income of SOEs in China registered a year-on-year decrease of 3.5% from January to July

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The data published by MOF on August 26 showed that the total operating income of SOEs in China reached 33.01584 trillion RMB from January to July, a year-on-year decrease of 3.5%, which was 1.4 percentage points narrower than the decline from January to June. Among them, the operating income of central SOEs was 18.68797 trillion RMB, down by 5.9% year on year; and the operating income of local SOEs was 14.32787 trillion RMB, down by 0.3% year on year. The total operating cost of SOEs reached 32.32388 trillion RMB from January to July, a year-on-year decrease of 1.7%. Among them, the operating cost of central SOEs was 17.94119 trillion RMB, down by 4.2% year on year; and the operating cost of local SOEs was 14.38269 trillion RMB, up by 1.7% year on year.

## 8. Total profit of major industrial enterprises in China registered year-on-year decrease of 8.1% from January to July

The data published by the National Bureau of Statistics on August 27 showed that the total profit of major industrial enterprises in China reached 3.10229 trillion RMB from January to July, a year-on-year decrease of 8.1%, which was 4.7 percentage points narrower than the decline from January to June. Among the major industrial enterprises, the total profit of state-owned and controlled enterprises reached 783.81 billion RMB, a year-on-year decrease of 23.5%; the total profit of joint-stock enterprises reached 2.20906 trillion RMB, a decrease of 9.0%; the total profit of foreign and Hong Kong, Macao and Taiwan-invested enterprises reached 858.68 billion RMB, a decrease of 3.4%; and the total profit of private enterprises reached 888.34 billion RMB, down by 5.3%.

### III .MOF Events

1. On August 5, Vice Finance Minister Zou Jiayi attended and addressed the virtual ASEAN+3

Finance and Central Bank Deputies Meeting. Before the meeting, Zou Jiayi also attended the China-Japan-Korea Finance and Central Bank Deputies Meeting.

2. On August 17, Finance Minister Liu Kun met with Ho Lat-seng, Chief Executive of the Macao Special Administrative Region. The two sides exchanged views on the development of the Guangdong-Macao Cooperation Zone in Hengqin and other issues.

## IV .Local Finance

### 1. Hunan Finance: exercise frugality on four fronts throughout the entire process of budget management

According to the news released by the Finance Department of Hunan Province on August 3, it has tightened the belt and exercised frugality throughout the process of budget preparation, implementation and supervision. First, focus on strengthening institutional building for belt tightening. Second, strengthen the administration of budget preparation, establish a new zero-

based budget management mechanism, and enhance performance target management. Third, strengthen the administration of budget implementation, establish a monitoring mechanism, enhance expenditure management, and harden budget constraints. Fourth, establish and improve the mechanism for linking performance evaluation results with budgetary arrangement, strictly manage the carry-over and surplus funds, and seriously deal with violations of financial discipline.

## **2. Guangxi Finance: fully perform fiscal functions to support autonomous counties in winning the battle against poverty**

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According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on August 4, it has adhered to the basic strategy of targeted poverty eradication and alleviation and fully performed its functions to promote the sustainable and healthy development of economy and society. First, improve the support mechanism for general transfer payment to promote the transfer of financial resources to lower-level government, support autonomous counties to use subsidies from higher-level government in a coordinated manner, and strengthen the financial capacity of autonomous

counties. Second, improve the special transfer payment investment system, increase support of special funds for ethnic minority areas, and steadily increase fiscal investment in ethnic minority areas. Third, improve the mechanism for ex-ante performance assessment, interim performance monitoring and ex-post performance evaluation, enhance the accountability of competent authorities for fund administration and finance authorities, and increase the application of supervision results such as fiscal supervision, auditing and inspection. Fourth, continue to improve the fiscal policy system that supports the economic and social development of autonomous counties, increase support for general transfer payments and special transfer payments, and improve the efficiency of the use of fiscal funds and the efficiency of fiscal resource allocation.

## **3. Chongqing Finance: advance supply-side changes to address financing difficulties of enterprises**

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According to the news released by the Finance Department of Chongqing Municipality on August 10, it has supported the comprehensive reform of financial services for private sector and micro and small-sized enterprises, developed a modern financial service system

that matches the high-quality development of private sector and micro and small-sized enterprises, and guided financial resources to step up support for micro and small-sized enterprises on the condition of respecting market laws. First, make field visits to coordinate and resolve the difficulties and problems encountered by private sector and micro and small-sized enterprises in accessing financial services, establish a financial service center, set up a mobile financial court, and promote the model of “government services + internet + financial services”. Second, launch “scientific research loans” and “anti-pandemic loans”, provide commercial value credit loans and knowledge value credit loans, and increase financing channels; establish a “credit pool”, and create risk warning and other risk control mechanisms in light of the scale of enterprises and innovation level; promote the merger and restructuring of guarantee companies in an orderly manner, encourage capable financing guarantee institutions to increase capital and integrate resources and expand business through re-insurance and co-insurance. Third, develop green finance, technology finance and supply-chain finance.

#### **4. Guangdong Finance: provide strong financial support for marine**

#### **ecological protection and restoration in Guangdong**

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According to the news released by the Finance Department of Guangdong Province on August 11, it has promoted the marine ecological protection and restoration and provided solid financial support for Guangdong’s comprehensive development of marine industries. First, fully support the coastline ecological restoration projects, tackle the difficulties in marine management, earnestly follow the requirements of the central government to strengthen the classified protection of shorelines, vigorously support the ecological protection and restoration of mangroves, enhance monitoring of the marine environment of key shorelines, and improve the water quality and environment of coastal waters. Second, actively cooperate with the application for central island and sea area protection funds, promptly notify the requirements for accelerating the comprehensive bay treatment, and speed up the pace of budget implementation. Third, strengthen the support for the implementation of key projects in the Guangdong Provincial Beautiful Bays Plan (2019-2035), and support coastal cities such as Guangzhou, Shantou and Jiangmen to carry out the development of beautiful bays and the construction of comprehensive marine demonstration zones.

## 5. Shandong Finance: focus on four areas to protect people's livelihood

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According to the news released by the Finance Department of Shandong Province on August 17, it has focused on four areas to ensure the basic stability of people's livelihood and life. First, accelerate the implementation of the industrial poverty alleviation projects in 2020 to advance poverty alleviation through industrial development; strengthen poverty alleviation by developing health care and education and improve the dynamic monitoring and immediate assistance mechanism. Second, further raise the urban and rural subsistence allowance standard, ensure that the rural subsistence allowance standard is higher than the dynamically adjusted provincial poverty alleviation standard, continue to narrow the gap between urban and rural subsistence allowance standard, and fully protect the livelihood of people living with special difficulties. Third, support the production and supply of staple agricultural products such as grain, cotton and oil and the development of high-efficient agriculture with special characteristics, increase support for the stable production and supply of hogs, implement policies such as subsidies for first-level pig breeding farms and hog insurance, and strengthen credit support for the hog industry. Fourth, improve the basic medical insurance

for residents, raise social assistance standards, renew pension insurance for veterans, carry out the three-year action on rural road hardening and rural power grid transformation and upgrading projects, and continue to promote the implementation of key livelihood projects.

## 6. Shaanxi Finance: make sound and efficient deployment to ensure that the requirements set out in General Secretary Xi Jinping's speech during his visit to Shaanxi are earnestly implemented

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According to the news released by the Finance Department of Shaanxi Province on August 19, it has tightened the belt, enhanced the quality and efficacy of fiscal funds, strengthened social projects related to people's livelihood, and supported the resumption of work and production of enterprises, so as to achieve concrete and fast progress in all aspects of work. First, reduce non-mandatory and non-essential expenditures and public expenditures when the budget is prepared at the beginning of the year and spend the freed up funds on such key areas of expenditures as delivering stability on the six fronts and security in the six areas. Second, carry out whole-process supervision of direct funds from the central government to improve the quality and efficacy

of funds by formulating management methods, setting performance targets, establishing clear records and other measures to ensure that funds “directly reach cities and counties at the grass-root level and bring direct benefits to enterprise and people”. Third, step up mobilization of funds to protect basic livelihood of people, shore up weak links, and ensure adequate funding for areas related to basic livelihood of people. Fourth, require government to make targeted efforts to implement a series of preferential tax and fee policies to support pandemic prevention and control and promote economic and social development, and further support enterprises to resume work and production.

## 7. Anhui Finance: act promptly to support flood prevention and control

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According to the news released by the Finance Department of Anhui Province on August 24, it has effectively played its fiscal functions to ensure the safety of people’s lives and property and made coordinated efforts in flood prevention and control as well as post-disaster recovery. First, ensure emergency funds for flood prevention and guarantee the livelihood of people in need by seeking funds from higher-level government, tapping into reserve funds and adjusting expenditure structure; open up a

“green channel” of funds to ensure that disaster relief funds are allocated in time and the benefits of disaster relief funds are delivered promptly. Second, keep close communication and report the disaster situation to the higher-level government in order to secure the support of policy funds. Third, quickly investigate and speed up the payment of compensation, open a green service channel for claims settlement, and strive to minimize the losses of farmers. Fourth, speed up the planning of a number of nonstandard-debt financed projects in the fields of water conservancy, transportation, and agricultural water damage reconstruction, and give priority to them in debt issuance to coordinate post-disaster recovery and reconstruction with economic and social development. Fifth, provide assistance to rural areas and fully support villages in flood prevention and disaster relief.

## 8. Hubei Finance: work on five fronts to relieve the difficulties of micro, small and medium-sized enterprises

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According to the news released by the Finance Department of Hubei Province on August 25, it has adopted more proactive fiscal policies to make funds available in order to relieve the difficulties of micro, small and medium-sized enterprises. First, actively implement fiscal and

financial policies, strengthen funding guidance, and focus on resolving the financing difficulties of micro, small and medium-sized enterprises. Second, implement tax and fee cut policies and make every effort to help reduce the burden of micro, small and medium-sized enterprises. Third, encourage enterprises to accelerate scientific and technological research, promote technological upgrading, and enhance the ability to resist risks, survive and develop. Fourth, formulate measures to stimulate consumption, and distribute all consumption-stimulating funds in the form of consumer vouchers. Fifth, make every effort to optimize the business environment and further simplify the procedures for the implementation of the pro-enterprise policies.

## V. Remarks & Opinions

### 1. Liu Kun: take active measures to achieve quick results of the effects of fiscal policies

On August 7, in his exclusive interview with the *People's Daily*, Finance Minister Liu Kun said

that it is important to deliver the concrete effects of “the fiscal policy with enhanced quality and efficacy”.

I . The annual fiscal targets are achievable

Liu Kun pointed out that due to the impact of the pandemic as well as tax and fee cut, the revenue of the national general public budget fell by 10.8% year on year in the first half of 2020. With the resumption of work and production and relief provided to enterprises, fiscal revenue in June increased by 3.2% year on year, and the growth rate turned positive, marking the first monthly positive growth in this year. In terms of expenditures, the central and local governments have strictly tightened the belt, and vigorously reduced non-essential and non-mandatory expenditures. The central government has increased transfer payments to local governments and all levels of finance authorities have strengthened coordination of funds to ensure the funding for key expenditures such as the “three protections” at grass-root level. Since the second quarter, economic performance has improved month by month, production demand has continued to pick up, major economic indicators have recovered, and positive factors have increased markedly. On the whole, the fundamentals of China’s economy for stable and sound development in the long run

remain unchanged. With the steady improvement of economy and through our hard work, we are confident that we will meet the goals and complete the tasks of this year's fiscal work.

In recent years, China has continued to advance tax and fee cut, and particularly, the implementation of massive tax and fee cut in 2019 has helped reduce by 2.36 trillion RMB throughout the year and delivered policy dividends to tens of millions of enterprises and hundreds of millions of people. The cumulative effects of these tax and fee cut policies will continue to be released, allowing enterprises to enjoy increasingly notable reduction of burden. Since the beginning of this year, in the face of grim and complex situation, the central government has issued a series of tax and fee cut policies. It is estimated that the new tax and fee cut will exceed 2.5 trillion RMB throughout the year, which will create an enabling environment for the development of market entities and give impetus to the economic opening of all industries.

II . Local sources of financial resources are secured

Liu Kun said that the MOF takes the “three protection” at the grass-root level as the mandatory task of this year's fiscal work. With the increase of transfer payments and issuance of

special treasury bonds for combating COVID-19, local governments have seen the increase of available financial resources to support the “three protection” at the grass-root level and to advance pandemic containment and economic and social development.

In this year, the central government has provided unprecedented fiscal support to local governments. First, increase the scale of transfer payments. This year, transfer payments from central government to local governments reached 8.3915 trillion RMB, an increase of 950 billion RMB or 12.8% over the previous year. Both the size and rate of increase were highest in recent years. Among them, special transfer payments of 605 billion RMB were arranged to support local finance authorities in responding to the impact of the pandemic, specifically, making up for the shortfall caused by revenue reduction and increase in expenditures and filling the gap in county-level “three protections”. Equalization transfer payments and subsidies for ensuring the basic financial capacity of county government have risen by 10%, and transfer payments to old revolutionary base areas, border areas, ethnic minority areas and poor areas went up by 12.4%. Second, extend the policy of gradually increasing the proportion of fiscal funds retained by local governments to the end of this year for central and western regions and Liaoning Province, and

allow the additional 55 billion RMB of funds freed up in this process to be retained and used by county-level government. Third, issue special treasury bonds for combating COVID-19. Issue 1 trillion RMB of special treasury bonds for combating COVID-19, with the interest fully repaid by central government and principal jointly repaid by central and local governments, in order to support local infrastructure construction and pandemic prevention and control, alleviate the difficulties of businesses, and stimulate market vitality.

The central government's fiscal support for local governments is not only reflected in the increased scale of support, but also in establishing a transfer payment mechanism for funds to reach the grass-root level and bring direct benefits to people and in promoting the expeditious implementation of fiscal policies and measures. In order to enable the new fiscal funds to reach the grass-root level units in cities and counties and deliver direct benefits to enterprises and people, MOF has established a special transfer payment mechanism which covers the entire process of fund allocation, appropriation, use and supervision, and developed a direct fund monitoring system that connects all levels of finance authorities to realize whole-process monitoring. As of July 29, of the 1.7 trillion RMB of funds that have been directly administered, the provincial finance authorities

have allocated 1.5 trillion RMB and finance authorities in cities and counties have allocated 1.29 trillion RMB to specific projects, providing effective financial support for ensuring "stability on the six fronts and security in the six areas" and implementing tax and fee cut. As of July 30, the issuance of the 1 trillion RMB of special treasury bonds for combating COVID-19 has been completed. At the same time, MOF has strengthened the monitoring of treasury funds, conducted daily monitoring and early warning of salary payment in key cities and counties, urged and guided provincial finance authorities to allocate funds in an orderly manner, and effectively protected the grass-root expenditures on the "three protections"; misappropriation of funds for the "three protections", once detected, will be investigated and those who are responsible will be held accountable. On the whole, local finances are currently functioning normally. Of course, localities at all levels must also vigorously reduce general expenditures, tighten their belt, improve the quality and efficiency of spending, cut unnecessary expenditures and spend every cent on matters that count most.

### III. Prevent the risks of local governments debt

Liu Kun pointed out that the new special bonds of local governments will reach 3.75 trillion RMB in this year. Such a substantial increase

in the size of local government bonds is a result of the major decision made by the central government, in consideration of domestic and external circumstances, in response to the impact of the pandemic.

How to manage and use the 3.75 trillion RMB of funds raised from special bonds is a challenging test. In accordance with the requirements of the central government and given the characteristics of special bond management and local realities, we will consider strengthening the all-round administration of “borrowing, use, management and repayment” to maximize the efficiency of fund use. In the “borrowing”, it is necessary to get the pace of issuance right. We will coordinate the issuance of new special bonds, special treasury bonds for combating COVID-19 and general bonds, make efforts to keep investment, economic growth and bond market stable, and strive to complete the issuance by the end of October. In the “use”, it is necessary to optimize the investment direction of bond funds. We insist that special bonds must be used for public welfare projects with a certain income flow, and the scale of financing should be balanced with the project income. It is strictly prohibited to use the funds to swap existing debts, to pay wages, fund institutional operation, provide pensions and pay interest, to fund commercial industrial projects and provide corporate subsidies. In

the “management”, it is necessary to accelerate the use of funds. We will use the information system to conduct follow-through and whole-process monitoring over the issuance and use of special bonds, enhance accountability, speed up the use of special bond funds, and generate physical workloads as soon as possible. In the “repayment”, it is necessary to enforce the statutory debt repayment responsibilities. We will take comprehensive measures to urge local governments, competent authorities, and funds users to perform their respective debt repayment responsibilities in accordance with laws and regulations, and ensure that no risks arise from statutory special bonds. Since last year, with the joint efforts of finance authorities at all levels, local governments debt management has achieved certain outcomes, and the local governments debt ratio has been steadily declining. On the one hand, the statutory debt ratio has risen slightly, and risks are generally controllable. On the other hand, the illegal and disorderly borrowing by local governments has been basically curbed, and hidden debt risks have been further mitigated.

Liu Kun emphasized that the finance authorities should effectively manage and use special bond funds, firmly prevent systemic risks, never relax risk control to solve short-term problems, and must ensure the concrete effects of “fiscal policy with enhanced quality and efficacy”.

IV . Spare no efforts in delivering “security in the six areas”

Liu Kun pointed out that since the beginning of this year, under the strong leadership of the Party Central Committee with Comrade Xi Jinping at the core, MOF has conscientiously implemented the more proactive fiscal policy, and coordinated efforts to promote pandemic prevention and control and economic and social development. However, we must also be aware that the pandemic has caused a deep recession in the global economy and has had a huge impact on China’s economy and society. MOF will follow the decisions and deployment of the Party Central Committee, bear in mind the big picture of national interest, implement more proactive fiscal policy, continue to work on the “security in the six areas”, and strive to achieve reasonable quantitative growth and stable quality enhancement of economic development. First, ensure employment of residents, with a focus on comprehensively strengthening the employment-first policy and supporting the employment of key groups such as college graduates, migrant workers and veterans, to stabilize the foundation of economic development and social stability. Second, protect the basic livelihood of people, with a focus on inclusive, basic and comprehensive protection of people’s livelihood, provide protection for the unemployed, college

graduates, people in need and retirees, resolutely win the battle against poverty, and further protect and improve people’s livelihood. Third, protect market players, with a focus on supporting micro, small and medium-sized enterprises and industries hit hard by the pandemic, effectively implement various tax and fee policies and measures, and help them maintain cash flow and retain jobs. Fourth, ensure food and energy security, with a focus on building and improving the policy system and institutional mechanism for public finance in support of the implementation of the rural revitalization strategy, make every effort to ensure the supply of grain and important agricultural products, and firmly secure independent food supply. Fifth, ensure the stability of industrial chain and supply chain, with a focus on giving full play to the structural adjustment functions of fiscal policy, support the efforts for unblocking and filling the gaps in the supply chain and the industrial chain, accelerate the resumption of work and production, stabilize foreign trade and foreign investment, step up the protection of enterprises, and stabilize manufacturing in China. Sixth, ensure the operation at the grass-root level, with a focus on increasing support for local financial resources, easing the pressure on fiscal expenditures brought about by the slowdown in local revenue growth, and securing the “three protections” to ensure the normal operation at the grass-root level.

## 2. Liu Kun: fully deliver the “stability on the six fronts and security in the six areas” to meet the annual economic and social development targets

On August 8, Finance Minister Liu Kun delivered a speech at the 21st Meeting of the Standing Committee of the 13th National People’s Congress (NPC), reporting on the implementation of budget since this year.

Since the beginning of this year, in the face of the severe impact of COVID-19, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, and guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, all regions and departments have fully implemented the requirements of 19th CPC National Congress and the Second, Third, and Fourth Plenary Session of the 19th CPC National Congress, earnestly implemented the decisions of the Central Economic Work Conference and the deployment of the *Government Work Report*, followed through on the budget resolution of the Third Session of the 13th NPC, insisted on putting people’s safety and health first, stepped up macroeconomic policy response, made great efforts to deliver “stability on the six fronts and security in the six areas”, and achieved significant outcomes in the prevention

and control of the pandemic and economic and social development. The economy has steadily recovered, and resumption of work and production has improved month by month. Economic growth in the second quarter was significantly better than expected, as the three critical battles were solidly advanced, economic structure continued to be optimized, industrial digitalization and intelligent transformation gathered pace, reform and opening up was further deepened, and people’s living standards were improved. On this basis, the budget has been implemented relatively well.

Relevant departments of the State Council earnestly implemented the Budget Law and the *Guiding Opinions on Extending the Focus of NPC’s Budget Review and Supervision to Expenditure Budget and Policies*, enforced the budget resolution and requirements passed by the NPC, made great efforts to deliver “stability on the six fronts and security in the six areas”, mitigated the impact of the pandemic with stronger macroeconomic policy, and enacted more proactive and impactful fiscal policies to stabilize the economy and maintain economic development and social stability.

I . Actively give play to the counter-cyclical role of fiscal policies

First, establish a mechanism for new fiscal funds to directly reach the grass-root level. Establish a special transfer payment mechanism to enable the new fiscal funds to directly reach the grass-root level units in cities and counties and bring benefits to enterprises and people. Improve the relevant fund allocation procedures in accordance with the principles of “Allocation decisions by the Central Government, Detailed implementation plans by the provincial governments to be filed for approved and quick disbursement of allocated funds directly to the end users”. Issue rules and measures for the management of special transfer payments and funds raised from the special treasury bonds for combating COVID-19, as well as the supervision and monitoring of funds, to clarify the requirements for the distribution, use, appropriation and supervision of direct funds. Build a direct fund monitoring system to ensure that funds can be tracked and monitored. Second, quickly approve and release the budget. Make preparation in advance, complete the central department’s budget approval on the day when the NPC endorses the 2020 central budget draft, and release the transfer payment budget to local governments in a timely manner in accordance with the requirements of the Budget Law, in order to lay a sound foundation for budget implementation and see the benefits of fiscal funds at an early date. Speed up the release of

direct fund budget, and release all funds that meet the criteria to local governments by the end of June. Third, accelerate the issuance and use of government bonds. Successfully issue 1 trillion RMB of special treasury bonds for combating COVID-19 as of July 30, with an average issuance interest rate of 2.77%. Issue the total quota of 4.53 trillion RMB of local governments bonds. Issue 2.8 trillion RMB of new local governments bonds across China as of July 15, accounting for 59% of this year’s new bond issuance; among them, 2.18 trillion RMB has already been spent, accounting for 78% of issued bonds.

## II . Support the fight against the pandemic

First, strengthen funding and policy guarantee for pandemic prevention and control. Insist on putting people’s safety and health first, introduce a series of supportive fiscal and tax policies to reduce the burden of treatment expenses on patients, raise the compensation for people engaged in pandemic prevention and control, ensure the supply of materials for pandemic prevention and control, and accelerate the development of vaccines and drugs, with a particular tilt toward Hubei Province and other key regions, in order to fully support the fight against the pandemic. Arrange a total of 175.6 billion RMB for pandemic prevention and

control by finance authorities at all levels as of the end of June and expeditiously organize fund settlement to make sure that people are not deterred from seeking medical treatment due to concern over high costs and that medical treatment and pandemic prevention and control are not affected due to funding problems. Second, strengthen the construction of the public health system. Resolutely implement the requirements on regular pandemic prevention and control, increase fiscal investment, promote the development of a major pandemic prevention and control system and emergency supplies guarantee system, address the weak links in public health infrastructure, steadily advance the construction of national medical centers and regional health centers, and support the training and development of talents adapted to the modern disease control system.

### III . Support the fight against the three critical battles

First, ensure the accomplishment of the goals and tasks for decisive victory over poverty alleviation. Release the central government's special poverty alleviation funds of 146.1 billion RMB and disburse subsidies for comprehensive financial capacity of 29 billion RMB to ensure that the remaining poverty alleviation tasks are completed and the results

of poverty alleviation are consolidated. Adjust and optimize the policies related to the central special poverty alleviation funds, optimize the use of funds within the framework of the existing fund management system, with a focus on supporting industrial poverty alleviation projects heavily affected by the pandemic and employment of poor laborers. Make up for the loss of fiscal revenues caused by the pandemic in 52 designated counties, and support relevant areas to tackle the "brackish water" problem. Further strengthen the supervision of poverty alleviation funds, optimize the functions of the dynamic fund monitoring platform, and promote performance management throughout the entire process of funds for poverty alleviation projects. Actively study the fiscal policies that consolidate the results of poverty alleviation and address relative poverty, and promote the effective coordination between poverty alleviation and rural revitalization. Second, firmly support the fight against pollution. Make 65.8 billion RMB of expenditures on ecological and environmental protection from January to June to support critical battles against such as air, water and soil pollution, carry out ecological protection and restoration, and improve the service functions of regional ecosystem and ecological environment quality. Disburse 96.1 billion RMB of transfer payments for forestry and grassland to strengthen ecological protection and restoration

of forestry and grassland. Support and guide the entire Yellow River basin to establish a pilot project for horizontal ecological compensation mechanism to promote the protection and governance of Yellow River basin by all provinces (regions) along the Yellow River. Establish a project pipeline system supported by eco-environmental protection funds, guide local governments to make sound project preparation, and make funding arrangement more scientific, standardized and accurate. Promote the investment and operation of the National Green Development Fund. Third, prevent and resolve fiscal and financial risks. Urge local governments to take comprehensive measures to steadily resolve existing hidden debts, strengthen the accountability of local governments for illegal borrowing, and resolutely curb the increase in hidden debts. Improve the regular monitoring mechanism, and promote the sharing and comparison of local debt data with the financial sector.

#### IV. Support the employment of residents

First, stabilize and expand employment. Disburse 53.878 billion RMB of employment subsidy funds from the central government. Accelerate the use of more than 100 billion RMB of special funds for vocational skills enhancement drawn from the unemployment insurance fund

to promote local implementation of various employment and business start-ups policies. Increase the support for job retention. Disburse 63.6 billion RMB for job retention from January to June. Relax the conditions for applying for subsidies, raise the subsidy standards, and strive to stabilize employment at enterprises. Support the implementation of the “internet + vocational skills training program”, comprehensively promote online vocational training, and improve the vocational skills of workers. Second, highlight support for the employment of key groups of people. Encourage the creation of 100,000 scientific research assistant positions in scientific research projects, and support the recruitment and selection of students under the “three support and one assistance” program to boost employment of college graduates. Support the implementation of the special post plan for teachers in rural compulsory education schools, and expand the recruitment scale to 105,000 this year. Encourage the eastern provinces to overcome the impact of the pandemic and hire poor laborers from other provinces. Third, protect the basic livelihood of the unemployed. Continue to make good use of the unemployment insurance fund, extend the period for the elderly unemployed people to receive unemployment insurance benefits, and foster smooth application channels. Provide 6-month unemployment subsidies for unemployed

people who remain jobless after the expiry of receiving unemployment insurance benefits and insured unemployed people who fail to meet the requirements for receiving unemployment insurance benefits. Provide one-time living allowances or temporary living allowances to the insured unemployed rural migrant workers; provide temporary price subsidies to the unemployed people who receive unemployment insurance benefits and unemployment subsidies, and gradually increase the subsidy standards.

#### V. Support the basic livelihood of people

First, support the development of fair and high-quality education. Unify the average national public funding benchmark for students receiving compulsory education starting from the spring semester of 2020, and increase the standard in the central and western regions by 50 RMB. Provide rewards and subsidies to provinces that have completed the expansion of higher vocational colleges to promote the high-quality development of vocational education. Support local governments to consolidate the achievements of poverty alleviation through education, improve basic schooling conditions, implement the “two exemptions and one subsidy” for students receiving compulsory education and various student subsidy policies in pre-school, regular high school, secondary vocational and

higher education, and ensure that students from families with financial difficulties do not drop out of school due to poverty. Second, support old-age security. Disburse 767.827 billion RMB of pension insurance subsidies as of the end of June, and keep improving the level of old-age security. Step up central adjustment of the basic pension insurance fund for enterprise employees, and bring 176.845 billion RMB of net benefits to 22 central and western provinces and provinces with old industrial bases. Release the central special lottery public welfare funds to support the development of home and community-based elderly care services, encourage the pilot areas to support private sector in providing home and community-based elderly care services, strengthen the development of the elderly care staff, and take effective measures to promote the integration of medical care and elderly care. Third, ensure that basic medical needs are met. Disburse 352.535 billion RMB of medical insurance subsidies for urban and rural residents as of the end of June to support local governments in raising the per capita medical insurance subsidy standard for residents to 550 RMB per person per year. Disburse 32.01 billion RMB of central government medical assistance subsidies (including funds for special transfer payment arrangements), and make efforts to lay a solid foundation for medical security. Fourth, effectively protect people’s livelihood. Disburse

166.047 billion RMB of subsidies for people in need (including funds for special transfer payment arrangements), guide local governments to appropriately expand the scope of the recipients of minimum living allowances and temporary assistance, continue to provide basic living assistance for the extremely needy people, vagrants, beggars and orphans, and promptly include those in distress due to the pandemic into the scope of assistance. Fifth, improve the basic housing security system. Spend 181 billion RMB on national affordable housing projects from January to June to support the transformation of shanty towns and accelerate the renovation of old residential communities in cities and towns. Disburse 18.45 billion RMB of subsidies for the renovation of rural dilapidated houses to support the renovation of dilapidated houses for the four priority types of documented poor households, and make efforts to coordinate the earthquake-resistant renovation of rural houses with the basic housing security for rural low-income groups.

#### VI. Support the protection of market entities

First, intensify the efforts of tax and fee cut. Raise the level of additional tax and fee cut to 1.5045 trillion RMB from January to June this year, to effectively reduce the burden on market players. Extend the validity of some

temporary tax and fee cut policies introduced in the previous period to the end of this year, and allow micro and small-sized enterprises and individual industrial and commercial proprietorships to defer tax payment to next year. Guide and urge local governments to fully implement tax and fee cut policies, organize the collection of fiscal revenues in accordance with laws and regulations, and strictly prohibit the excessive collection of taxes and fees, illegal tax collection and inflated presentation of revenues, and ensure that enterprises truly enjoy policy dividends and receive effective assistance in tiding over difficulties. Second, support the efforts to make financing more affordable and accessible. Increase support for interest subsidies on business start-ups guaranteed loans, raise the upper limit of loan quotas, relax loan application conditions, and promote the expansion of business start-ups guaranteed loans. Develop a performance evaluation index system and guide government financing guarantee and re-guarantee institutions to better play their role in supporting micro and small-sized enterprises and agricultural sector. Continue to provide subsidies to financial institutions in reducing guarantee fees for micro and small-sized enterprises, allow the National Financing Guarantee Fund to waive or halve the re-guarantee fees for partner institutions, and guide local governments to implement the policy of halving the financing

guarantee and re-guarantee fees for micro and small-sized enterprises in order to continue to bring down the financing guarantee rate for micro and small-sized enterprises.

#### VII . Support food and energy security

First, make every effort to ensure the supply of important agricultural products such as grain. Disburse 68.28 billion RMB of subsidy funds for farmland development to support the development of high-standard farmland and the construction of farmland water facilities in food production functional areas and important agricultural products production and protection areas, in order to consolidate the foundation of agricultural production and enhance China's food security. Adjust and improve the subsidy policies for market-oriented purchase of corns and soybeans as well as the rice subsidy policies, and increase incentives for major grain-producing counties. Support the destocking of grains, and promote the orderly supply of wheat, rice and corns to effectively maintain market stability. Second, make every effort to ensure energy security. Disburse 5 billion RMB of unconventional natural gas subsidies to encourage the exploitation and utilization of coal-bed methane, shale gas and tight gas. Adjust and improve the subsidy policy for renewable energy power generation, disburse 92.35 billion

RMB of subsidy funds, promote the adjustment of energy mix, and support the establishment and improvement of energy security reserve system.

#### VIII . Support the stability of supply chain and industrial chain

First, vigorously support the high-quality development of the manufacturing industry. Give full play to the role of the special funds for remaking industrial base to support the improvement of basic industrial capabilities and industrial chain levels. Extend the validity of the subsidy policy for new energy vehicle promotion and application and disburse 10.77 billion RMB of subsidies to support the stable development of the new energy vehicle industry. Second, improve the underpinning of scientific and technological innovation. Improve the funding mechanism, and support the establishment of the first batch of national laboratories and the reorganization of the national key laboratory system. Support the launch of the special project of "Technology Boosts Economy 2020", and implement a batch of technological innovation projects covering major sectors of the national economy. Third, stabilize foreign trade and foreign investment. Release all the funds for foreign economic and trade development as of the end of June to support and guide local governments to further improve the public service system for foreign

trade and investment, and take multiple measures to stabilize foreign trade and investment. Temporarily exempt the tax deferral interest on domestic sales for processing trade enterprises, and expand the pilot program of selective collection of tariffs for domestic sales to all bonded areas to stabilize the development of processing trade. Improve the export tax rebate policy, and allow full tax refund for all export products that are not fully tax refunded except for the “energy-guzzling, highly polluting and resource-intensive products”. Formulate a series of preferential fiscal and tax policies to support the development of the Hainan Free Trade Port, and earnestly implement them.

#### IX . Support the operation of the grass-root institutions

First, substantially increase financial support to local governments. Effectively increase support for local financial resources by tapping into higher deficit, carry-over funds from previous years, and financial resources freed up from the reduction of central-level expenditures. Release 6.12146 trillion RMB of general transfer payments as of the end of June to effectively support the operation of the grass-root institutions and the effective implementation of policies; release 537.857 billion RMB of special transfer payments to support the efforts

of local governments in delivering the “security in the six areas” and dealing with uncertainties in implementation. Second, improve treasury payment scheduling. Implement differentiated fund scheduling for local finances, and provide appropriate support to areas with financial difficulties. Increase the percentage of fiscal funds retained by local governments by 5 percentage points from March 1 to the end of June, amounting to around 110 billion RMB. Extend the validity of this policy to the end of this year in the central and western regions and Liaoning Province, to generate around 55 billion RMB of additional funds retained and used by county government, so as to effectively guarantee the stable operation of finance departments at the grass-root level. Third, strengthen monitoring and early warning of local “three protections”. Further improve the monitoring and early warning mechanism for county-level wage payment, and expand the monitoring scope from 105 counties in 2019 to 534. Conduct monitoring and early warning of county-level wage payment on a daily basis, regularly make notifications on the adequacy of treasury funds at the local grass-root level, and urge local governments to effectively prevent payment risks. Fourth, enhance accountability at all levels. Guide local governments to improve the budget management mechanism for the “three protections” covering ex-ante review, interim monitoring and ex-post

resolution. Urge provincial finance authorities to coordinate central transfer payments and provincial funds, increase the transfer of financial resources to lower-level government, and ensure that transfer payments to county-level government keep increasing. Require the county-level finance authorities to prioritize expenditures on the “three protections”, improve budget arrangement and treasury scheduling, and secure adequate funding for expenditures on the “three protections”.

In addition, actively support the coordinated development of urban and rural areas. Strengthen the provision of rural public services, accelerate the construction of rural infrastructure, and promote the continuous increase of farmers’ income; deepen the new type of urbanization, improve the fiscal policies that support the urbanization of the rural migrant workers; increase the support of the fiscal and tax policies for major regional strategies, and boost the development of old revolutionary base areas, ethnic minority areas, border areas and poverty-stricken areas.

In the next step, we will conscientiously implement the decisions and deployments of the Party Central Committee and the State Council, follow the general principle of making progress while maintaining stability, adhere to the new

development concept, better coordinate pandemic prevention and control and economic and social development, pursue supply-side structural reform as the major task, persist in deepening reform and opening up, firmly grasp the strategic focus of expanding domestic demand, vigorously protect and stimulate the vitality of market players, solidly deliver the “stability on the six fronts and security in the six areas”, promote high-quality economic development, maintain the overall social stability, and strive to complete the annual economic and social development goals and tasks. The priority work is as follows.

#### I . Implement more proactive and effective fiscal policies

Consolidate and expand the effects of the massive tax and fee cut implemented last year, fully enforce the various new policies and measures introduced in this year, strengthen the supervision of enterprise-related charges, resolutely curb all kinds of arbitrary fees, and reduce taxes and fees to the extent possible to deliver concrete policy dividends to enterprises. Closely track the pandemic and economic operation, strengthen the sharing of information of tax and fee cut, study and resolve the outstanding problems reported by localities and enterprises, and further improve relevant policies to better promote the stable operation of the

economy. Strengthen the supervision of the use of funds, effectively improve the accuracy and timeliness of relief policies, strictly implement the special transfer payment mechanism, and enable the new fiscal funds to quickly and effectively reach the grass-root level. Coordinate the issuance of the special treasury bonds for combating COVID-19, the general treasury bonds and the local governments bonds, reasonably determine the term structure and the frequency of issuance rhythm, prevent financing risks and market fluctuation risks, and maintain the stable operation of treasury. Ensure the funding needs of key areas and major projects are met, actively promote private investment, and provide effective support for shoring up weak links, improving people's livelihood, stimulating consumption and expanding domestic demand. Strengthen policy coordination, enhance policy synergy, step up supervision, guidance and inspection, and promote the effective implementation of various policies on the ground.

II . Work hard in the spirit of diligence and frugality

Resolutely tighten the belt of government, cut unnecessary expenditures, spend money on the priority areas, and fully support the protection of employment, people's livelihood and market entities. Exercise frugality in all matters.

Strengthen budget constraints, strictly implement the budget approved by the NPC, prohibit unbudgeted or over-budgeted expenditures, and generally forbid additional budget except for pandemic prevention and control and emergency and disaster relief. Closely track the progress of budget implementation and save expenditures that may no longer be made before the end of the year in accordance with the principle of frugality. Guide the central departments and local governments to improve the management of official expenditures, strictly control the total amount of official activities, expenditure scope and standards, strengthen reimbursement review and daily supervision, and strictly control expenses on conference, travel, consulting and training, and exhibition events. Strictly establish the standards for asset allocation, and strengthen planning and administration of approval. Ensure that necessary expenditures are preserved and unessential expenditures are cut, so that the funds saved can be used to support key projects and help improve people's livelihood.

III . Continue to strengthen local governments debt management

Require all localities to strictly implement the relevant regulations and requirements of budget management for local governments debts, and actively accept the supervision of the NPC

over the entire process of borrowing, use and repayment. Improve the regular monitoring mechanism of local governments debts, conduct unified measurement and supervision, and timely detect and resolve potential risks. Strictly review the compliance of special bond projects and control associated risks, accelerate the establishment of mechanisms for high-quality project pipeline development as well as project preparation, evaluation and selection. Upgrade and improve the local governments debt management information system, and strengthen the whole-process monitoring of special bond projects. Urge local governments to make public the information of project supported by special bonds, and promote the formation of a market-based financing constraint mechanism. Guide local governments to spend the funds raised from the special treasury bonds for combating COVID-19 on infrastructure projects with certain return on assets and on response to COVID-19. Adopt various measures to properly resolve the hidden debts of local governments, prohibit fraudulent resolution of debts, and leave behind no legacy problems in the process of addressing short-term problems. Implement the government borrowing accountability mechanism, and resolutely investigate and punish the culprits in strict accordance with regulations to generate effective deterrent.

#### IV . Accelerate the reform of the fiscal and tax system

Conscientiously implement the budget law and consciously accept the budget review and supervision carried out by the NPC in accordance with the law. Implement the implementation regulations of the newly revised budget law. Implement the reform plan for the division of fiscal powers and expenditure responsibilities between central and local governments in the areas of ecological environment and public culture, solidly promote similar reforms in other areas such as intellectual property protection and basic pension provision, and actively promote the reform of the division of fiscal powers and expenditure responsibilities at sub-provincial government level. Implement the reform plan for the division of revenues between central and local governments after larger-scale tax and fee cut. Study and introduce guidelines for further deepening the reform of budget management system, and resolutely implement the major decisions and deployments of the CPC Central Committee and the State Council throughout the entire process of budget preparation, implementation and management. Accelerate the legislation of the stamp duty law, VAT law, consumption tax law and customs tariff law, and revise government procurement laws and regulations. Submit comprehensive report on

the management of state-owned assets to the Standing Committee of the NPC in accordance with legal procedures, with a focus on the management of state-owned assets of enterprises (excluding financial enterprises).

V . Effectively improve the efficacy of the use of fiscal funds

Deepen the development of an integrated budget management system, and promote the formation of unified national budget management norms and technical standards. Strengthen the management of fiscal funds, track and monitor the funds, follow up on projects and funds after approval and allocation, and hold the violations of financial discipline accountable. Step up the utilization of the stock of funds, increase available financial resources through multiple channels, and enhance the efficacy of the use of funds. Rectify outstanding problems identified in auditing to prevent the recurrence of problems. Improve the budget performance management system and embed performance management into budget management. Strengthen the application of performance evaluation results, establish and improve the mechanism that links evaluation results with budget adjustment and management and policy refinement, in order to enhance accountability for the effects of expenditures and make

budgetary arrangement in accordance with the results of performance, and ultimately maximize the effects of the precious fiscal funds.

### **3. Liu Kun: earnestly study and implement the Regulations for the Implementation of the Budget Law to accelerate the establishment of a modern fiscal system**

On August 21, Finance Minister Liu Kun stated in his published speech that strict implementation of the revised Budget Law, coordination between various fiscal reforms enacted in recent years, and further improvement of budget management system and mechanism are in line with the requirements that China's fiscal policy should be more proactive and effective, as it is conducive to the full delivery of the "stability on the six fronts and security in the six areas", embodies the legislative outcome of China's budget law system, and provides legal guarantee for accelerating the development of a modern fiscal system that is compatible with the modernization of governance capability and for better giving play to the role of public finance as the foundation and important pillar of state governance.

I . Continuously deepen fiscal reform and budget management in accordance with the

decisions and deployments of the CPC Central Committee and the State Council to lay a solid foundation for the revision of the Regulations

First, the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the series of major decisions of the CPC Central Committee provide ideological guidance and fundamental principles for the revision of the Regulations. Since the 18th CPC National Congress, the CPC Central Committee with Comrade Xi Jinping at its core has attached great importance to fiscal work, and has made a series of major decisions and arrangements for deepening fiscal reform and establishing a modern fiscal system. The 3rd Plenary Session of the 18th CPC Central Committee pointed out that “public finance is the foundation and important pillar of state governance, and a scientific fiscal and tax system provides institutional guarantee for optimizing resource allocation, maintaining market integrity, promoting social equity, and achieving long-term stability in China”, and made specific arrangements for improving the budget management system, optimizing the tax system, and establishing a system where fiscal mandates and expenditure responsibilities are compatible. The report of the 19th CPC National Congress pointed out that “it is important to accelerate the establishment of a modern fiscal system, establish a fiscal relationship

between the central and local governments built upon defined powers and responsibilities, appropriate allocation of financial resources, and greater balance between regions. It is also necessary to establish a comprehensive, well-regulated and transparent budget system that uses well-conceived standards, imposes effective constraints, and enforces comprehensive budget management.” The 4th Plenary Session of the 19th CPC Central Committee further pointed out the need to “improve the budget system that is well-regulated and transparent, uses well-conceived standards and imposes effective constraints”, and “optimize the division of powers and financial resources among governments, establish a fiscal relationship between the central and local governments built upon defined powers and responsibilities, appropriate allocation of financial resources, and greater balance between regions, and create a stable system where the powers, expenditure responsibilities and financial resources of governments at all levels are compatible”. The CPC Central Committee and the State Council made a series of major decisions and deployments on deepening fiscal reforms, and issued a series of important documents around the comprehensive implementation of budget performance management as well as prevention and resolution of hidden debt risks of local governments. It is required that

the establishment of a comprehensive, full-process and full-coverage budget performance management system should be accelerated, and vigorous efforts must be made to rectify the irregularities in borrowing, resolutely curb the increase of hidden debt, and properly resolve the stock of hidden debt. The Xi Jinping Thoughts on Socialism with Chinese Characteristics for a New Era and the new ideas, new thoughts and new strategies of Xi Jinping for comprehensively governing the country according to law, have provided us with the ideological guidance and fundamental principles with respect to the revision of Regulations.

Second, the continuous deepening of fiscal reform and budget management has provided practical basis and realistic conditions for the revision of Regulations. Since the implementation of the revised Budget Law, in accordance with legal requirements and the decisions and deployments of the CPC Central Committee and the State Council, China has successively introduced a series of new systems and mechanisms to deepen fiscal reforms and standardize budget management. As a result, fiscal management has become more standardized and transparent, fiscal system more scientific and reasonable, and people's sense of gain and satisfaction constantly enhanced.

(1) Vigorously advance the reform of budget

management system. Improve the government budget system to enhance the coordination between the four budgets, including general public budget, governmental fund budget, state-owned capital operation budget, and social security fund budget. Actively promote the disclosure of budget and final accounts, and require the budget and final accounts of governments and departments at all levels to be disclosed. Improve the annual budget control method, and expand the focus of budget review from the state of balance and the scale of deficit to the expenditure budget and policies. Establish a cross-year budget balance mechanism, implement mid-term fiscal planning and management, and enhance the ability of making scientific allocation of public resources. Establish the awareness of tightening the belt and strictly control general expenditures. (2) Establish a well-regulated local governments debt financing mechanism. Empower local governments with the authority to borrow appropriately in accordance with the law, and impose limit on debts and enforce budgetary management. Establish a mechanism for life-long accountability and retroactive investigation to effectively prevent and resolve fiscal risks. (3) Reform and improve the transfer payment system. Adjust and optimize the classification of transfer payments, clarify the functions of various transfer payments, strengthen transfer

payment management, and better link up with the reform of the division of fiscal powers and expenditure responsibilities. (4) Fully implement budget performance management. Build a comprehensive, full-process and full-coverage budget performance management system to promote the improvement of government efficiency. (5) Strengthen the administration of budget implementation. Enforce centralized treasury management for government revenues and expenditures. Vigorously clean up and standardize special fiscal accounts, and establish a long-term mechanism for the management of special fiscal accounts. Realize regular cash management and operation of central treasury and steadily carry out cash management of local treasury. (6) Promote new progress in the preparation of final accounts and the accrual-based government comprehensive financial report. Make the system of final fiscal accounts and departmental final accounts more complete and granular. Steadily advance the reform of the accrual-based government comprehensive financial reporting system, and continuously improve the system of government accounting standards. The further advancement of fiscal reform and the detailed implementation of reform measures have provided a wealth of practical experience and necessary conditions for the revision of Regulations.

II. New norms of budget management resulting from the Budget Law have provided a concrete and practical basis for revising the Regulations

The Regulations were issued and implemented in 1995, which played a very important role in further deepening the reform of the tax-sharing system, standardizing budget management, and enhancing the scientific nature of budget preparation and implementation. With the revision of the Budget Law in 2014, major breakthroughs have been made in many aspects of budget management. The original Regulations are no longer compatible with the revised Budget Law and urgently need to be revised. In the process of revising the Regulations, we have adhered to the provisions of the higher-level law, earnestly implemented the decisions and deployments of the CPC Central Committee and the State Council, and worked to refine the relevant provisions of the Budget Law. The revision includes the following 7 aspects: (1) Further clarify the scope of government budgeted revenues and expenditures and the content of budget, in order to make the government budget system clearer and more complete. In line with the authorization of the Budget Law, the Regulations stipulate the scope of revenues and expenditures and the content of the 4 budgets: general public budget, governmental fund budget, state-owned capital operation budget and

social security fund budget. The Regulations also explain the various revenue concepts under the general public budget revenue in the Budget Law. Provisions are made for the scope of revenues and expenditures of governmental fund budget, state-owned capital operation budget, and social security fund budget, as well as the coordination among them. The general public budget may, where appropriate, arrange funds to supplement the social security fund budget in light of the needs and financial resources, and the state-owned capital operation budget may transfer funds to the general public budget. The Regulations also make detailed provisions on the specific content of the four budgets. The above-mentioned Regulations are conducive to making the preparation of government budget more standardized and scientific, and enhancing the effective connection between the different types of budgets in the government budget system. (2) Further standardize departmental budget management and improve the integrity of budget preparation. The Regulations strictly enforce the basic concept of comprehensive budget management that all government revenues and expenditures should be included in the budget established by the Budget Law, and stipulate that the budgets of various departments should reflect all the budgetary funds allocated to them and their affiliated units from the general public budget, governmental fund budgets, and state-

owned capital operation budget. While regulating the revenues and expenditures of departmental budgetary appropriations, we must ensure the requirements of “one budget for one department” are further implemented, which is conducive to further improving the integrity of departmental budget preparation. The Regulations also stipulate that departmental budget expenditures include basic expenditures and project expenditures. The budget appropriation of each department and its affiliated units and their corresponding expenditures should be separately reflected in the departmental budget. (3) Further strengthen local governments debt management and prevent debt risks. The Regulations specify and clarify the provisions of the Budget Law on government debt management. It is required to establish and improve the local governments debt risk assessment index system, conduct assessment of the local governments debt risks, provide early warnings for areas with high debt risks, and supervise and resolve debt risks. For loans from foreign governments and international economic organizations, the State Council may on-lend them to the governments of provinces, autonomous regions, and municipalities directly under the central government. Where the governments of provinces, autonomous regions, and municipalities directly under the central government have direct repayment

responsibilities, they shall be included in the budget management at the corresponding level. The governments of provinces, autonomous regions, and municipalities directly under the central government may re-lend loans from foreign governments and international economic organizations that have been on-lent by the State Council to lower-level governments. The above Regulations are conducive to establishing a standardized local governments debt financing mechanism, further strengthening local governments debt management, strengthening the supervision of local governments debt, effectively preventing and resolving debt risks, and promoting the sustainable and healthy development of economic and social undertakings. (4) Further standardize budget implementation and strengthen full-process management. In accordance with the relevant provisions of the Budget Law and the needs of budget management, the Regulations amend and refine the provisions on the responsibilities of the finance department and other departments and units in budget implementation, further clarify the division of responsibilities between the finance department and the budget unit, and strengthen the principal role of each department and unit in budget implementation. The Regulations also substantiate the relevant provisions on mobilization of budgetary revenues and allocation of budgetary funds, and

put in place the provisions of the Budget Law on the state's centralized collection of treasury revenues and centralized payment system. In order to refine the Budget Law's requirement that special fiscal accounts may be established for specific-purpose funds in accordance with the provisions of the State Council, the Regulations clarify the scope of specific-purpose funds, stipulate the procedures for opening, changing and canceling special fiscal accounts, and require that funds of special fiscal accounts be managed by the finance department of the government at the same level and be separately reflected in budget implementation, final accounts and government comprehensive financial report. These provisions have consolidated the outcomes of the clean-up of special fiscal accounts and brought the management of special fiscal accounts into a standardized and law-based track. (5) Further improve the transfer payment system and standardize inter-governmental fiscal relations. The Regulations further refine the part of Budget Law on the mechanism for regular evaluation and exit of special transfer payments, and further substantiate and improve the specific content of transfer payment management. The Regulations strictly regulate the allocation of transfer payment funds, strengthen the centralized management of transfer payment funds, clarify that the release of transfer payment budget and

fund allocation should be administered by the finance department and other departments and units shall not release transfer payment budget or allocate transfer payment funds to lower-level government departments and units, with a view to comprehensively improving the standardization and efficacy of transfer payment management. At the same time, the Regulations stipulate that governments at and above the county level shall, in accordance with a certain percentage of the expected amount of transfer payment in the current year, deliver the expected amount of transfer payment in the next year to the next level of government in advance, and separately specify the proportion of advance release of general transfer payment and special transfer payment. (6) Further deepen budget performance management and improve the efficacy of fund use. The Regulations follow the Budget Law's principles that budgets at all levels should be performance-oriented. On the basis of the Budget Law's provisions on performance target management and expenditure performance evaluation, the Regulations further clarify the concept of performance evaluation, identify performance evaluation results as the basis for improved management and preparation of future annual budget, and enable finance department to conduct and guide the monitoring and performance evaluation of budgetary funds and each department and unit to implement

performance monitoring and regularly submit budget performance evaluation reports to the finance department at the corresponding level. The provisions of the Regulations on budget performance management have further established a comprehensive budget performance management pattern and established a performance management chain for the whole process of budget preparation, implementation and final accounts, which is conducive to further saving expenditures, addressing the gap between fiscal revenues and expenditures, and enabling the allocation of fiscal funds to focus more on key areas, with improved quality and efficiency. (7) Further intensify budget information disclosure and increase budget transparency. Adhering to the Budget Law's fundamental requirement on budget disclosure, the Regulations insist that disclosure is the norm and non-disclosure is the exception. The disclosure of general transfer payment should be detailed to regions, and the disclosure of special transfer payment should be detailed to regions and projects. Information about government debts, government agency operating expenses, government procurement, and special fiscal account funds shall be disclosed to the public in accordance with relevant regulations. Departmental budgets and final accounts should disclose basic expenditures and project expenditures, with expenditures disclosed

according to their functional classification and basic expenditures disclosed according to their economic nature. The Regulations put forward detailed requirements for the disclosure of departmental budgets, and at the same time, further promote the budget disclosure of each department's affiliated units. The Regulations also set specific requirements for the time limit and level of detail of the disclosure of budget and final accounts of each department's affiliated units, which help further enhance the budget transparency of each department and its affiliated units and vigorously promote the development of a transparent and clean government.

III. Implement the Regulations with a high sense of responsibility and accelerate the establishment of a modern fiscal system

Finance departments and budget units at all levels must have a high sense of responsibility to implement the Regulations. It is necessary to strengthen the publicity and training of the Regulations. The fiscal and financial officials should strengthen their learning and understanding of the Regulations, strictly implement the provisions of the Budget Law and the Regulations in actual work, and truly implement the Regulations in all relevant fields and links of fiscal and financial management. At the same time, it is important to step up efforts

to build related supporting systems, vigorously promote fiscal reforms, and accelerate the establishment of a modern fiscal system. First, focus on the publicity, training and learning of the Regulations. General Secretary Xi Jinping emphasized that it is necessary to carry out the publicity and education on the awareness of the rule of law, promote the spirit of the socialist rule of law in the whole society, and establish the authority of the rule of law. It is necessary to take the issuance of the Regulations as an opportunity to further strengthen the publicity and training of the legal framework of budget, and fully understand and accurately grasp the legislative spirit, revision principles and specific provisions of the Regulations. Finance departments at all levels should follow the requirements of "those who enforce the law shall popularize the law", and while stepping up their own training and learning, deploy the "online and offline" platforms to organize in-depth study among the financial personnel of budget units, so as to gain thorough understanding. It is necessary to increase publicity, increase the awareness of the Regulations in all sectors of the society, and further enhance the society's awareness of the rule of law on budget. Second, focus on the implementation of the Regulations. General Secretary Xi Jinping emphasized that the vitality of law lies in its implementation, and the authority of law also

lies in its implementation. The Regulations set out clear provisions on budget preparation, implementation, final accounts and legal responsibilities. It is a system which finance departments and budget units at all levels must strictly implement in specific budget management and financial management. We must manage public finance, organize fiscal revenues, arrange fiscal expenditures, make public budgets and final accounts, and accept supervision in strict accordance with laws, put fiscal and financial discipline above all fiscal and financial work, and make ensure that laws are followed and enforced in a rigorous manner and violations are held accountable. Third, focus on the construction of supporting systems for the Regulations. The 4th Plenary Session of the 19th CPC Central Committee decided to speed up the formation of a complete legal system. The promulgation of the Regulations indicates that China's budget management laws and administrative regulations have been improved with the development of the times. A complete budget legal system must be formed, and the budget law and regulations must be gradually refined into specific operating measures to form a systematic supporting system. On the one hand, we must actively study and formulate laws and regulations on fiscal transfer payments, government debt management, budget performance management,

treasury management, and fiscal supervision. On the other hand, it is necessary to clean up the current budget management rules and regulations in a timely manner, revise the provisions that are inconsistent with the Regulations, refine the specific operating measures and requirements of the Regulations, and introduce relevant systems and measures in time to ensure that the Regulations are well implemented. Fourth, focus on fiscal reform. The decision of the 4th Plenary Session of the 19th CPC Central Committee put forward a series of requirements for deepening the reform of the fiscal and tax system, and we must earnestly implement them. We must continue to deepen the reforms of the fiscal system and budget management system in conjunction with the implementation of the Regulations, and continue to deepen and advance fiscal reforms. It is necessary to make overall advancement, strengthen integration, coordination and efficiency, refine various reform plans and measures, and clarify timetables and roadmaps, in order to accelerate the establishment of a modern fiscal system, and make new and greater contribution to the modernization of the state governance system and governance capabilities.

#### **4. Xu Hongcai: earnestly implement the Regulations for the Implementation of**

## the Budget Law to further deepen the reform of budget management system

On August 24, Vice Finance Minister Xu Hongcai said in his speech that the Implementation Regulations of the Budget Law are the bedrock and important underpinning of the budget legal system, and MOF has actively promoted the revision of the Regulations according to the revised Budget Law. On August 3, 2020, No. 729 Order of State Council unveiled the revised Implementation Regulations of the Budget Law, which will come into force on October 1, 2020. This revision strictly follows the provisions of the higher-level law, implements the decisions and deployments of the CPC Central Committee and the State Council on deepening the reform of the fiscal and tax system, makes detailed and clear explanations on relevant provisions of the Budget Law, articulates specific provisions on the matters stipulated by the State Council as authorized by the Budget Law, and sets out provisions on the matters that need to be clarified in budget management. The revision of the Regulations is an important step to implement the decisions and deployments of the CPC Central Committee and the State Council and to enforce the Budget Law. It reflects the results of the reform of the budget management system in recent years, and highlights the direction of the reform of budget management system, providing

the legal and institutional basis for improving the regulated and transparent budget system that uses scientific standards and imposes effective constraints.

I . Detail and define the scope of budgetary revenues and expenditures

In order to fully reflect the operation of all fiscal funds and enhance the integrity of government budget, on the basis of the relevant provisions and authorization of the Budget Law, the Regulations specify the scope of budgetary revenues and expenditures in light of budget management practices: (1) Detail the scope of the revenues and expenditures of the three budgets. In accordance with the authorization of Article 28 of the Budget Law and in light of the relevant provisions of budget management, Articles 14 to 16 of the Regulations detail and define the scope of revenues and expenditures of governmental fund budget, state-owned capital operation budget and social security fund budget. At the same time, the scope of transferable revenues and expenditures is also clarified.(2) Further detail the revenue sources of the social security fund budget. On the basis of strengthening the self-discipline of social security fund budget and clarifying that “social security fund budget should achieve sustainable operation on the basis of actuarial balance”, considering that with the

deepening of reforms related to social insurance, shortfall of revenues in social security fund may arise, and in order to ensure the balance of the social security fund budget, Article 3 of the Regulations further stipulates that the general public budget may make funds available to replenish the social security fund budget according to needs and the state of financial resources.(3) Explain the concept of revenue. In order to facilitate the implementation of the law, the Regulations explain the professional terms mentioned in the Budget Law such as revenues from administrative charges and revenues from the paid use of state-owned resources (assets).

## II . Improve budget compilation

In order to implement the provisions of the Budget Law, the Regulations further detail the relevant content of budget compilation and make specific provisions on the timing, procedures, content and requirements of budget compilation. (1) Clarify the time of the draft budget compilation. According to the authorization of Article 31 of the Budget Law, Article 22 and Article 25 of the Regulations respectively stipulate that MOF shall arrange specific matters for the compilation of next year's draft budget before June 15 of each year, and local finance departments above the county level shall arrange specific matters for the compilation of

next year's draft budget in their jurisdiction before June 30 of each year.(2) Regulate the compilation of revenue budget. In order to make budget compilation more scientific and accurate and reflect the requirement for shifting revenue budget from being binding to anticipatory, Article 29 of the Regulations stipulates that when the finance departments of governments at all levels prepare draft revenue budget, they should solicit the opinions of tax authorities, customs authorities and other revenue collection departments and units. The budget revenue collection departments and units shall provide the forecast of the next year's budget revenue collection according to the requirements of the finance departments. Article 76 further stipulates that tax authorities, customs authorities and other budget revenue collection departments and units at all levels shall establish information sharing mechanism on revenue collection and management with relevant finance departments. (3) Clarify the content of budgetary revenues and expenditures. Articles 33 to 39 of the Regulations stipulate the content regarding the compilation of central and local general public budget, governmental fund budget, state-owned capital operation budget, and social security fund budget. Article 40 also stipulates the content of budget compilation of all departments and units. (4) Promote the standardization of budget compilation. In order to implement the relevant

requirements of Article 32 of the Budget Law and give better play to the basic role of the standards of budgetary expenditures in budget management, Article 21 of the Regulations stipulates that local finance departments at all levels shall formulate the standards of budgetary expenditures for their jurisdiction by following the standards of budgetary expenditures established by MOF and in consideration of the level of economic and social development as well as the state of financial resources of their jurisdiction.

### III. Strengthen departmental budget management

On the basis of summarizing the effectiveness of reforms, the Regulations further detail the requirements for departmental budget management. (1) Unify the coverage of departmental budget. In accordance with the requirements of full-range budget management, Article 5 of the Regulations stipulates that the budget of each department shall reflect all budgetary funds allocated to the department and its affiliated units by the general public budget, governmental fund budget and state-owned capital operation budget.(2) Clarify the content of revenues and expenditures of departmental budget. Article 5 of the Regulations stipulates that the budgetary revenues of each department include the budgetary appropriation revenues

and other revenues allocated to the department and its affiliated units by the finance department at the same level. The budgetary expenditures of each department are corresponding expenditures to departmental budgetary revenues, including basic expenditures and project expenditures. The budget appropriation revenues of each department and its affiliated units and their corresponding expenditures shall be separately reflected in the departmental budget. At the same time, the concepts of basic expenditures and project expenditures are also defined.(3) Clarify the management rights and responsibilities of all parties. Article 5 of the Regulations requires that the finance departments of governments at all levels shall formulate specific measures for the preparation and implementation of departmental budgets in accordance with the law; Articles 23, 26 and 53 respectively specify the responsibilities and tasks of each department and unit in budget implementation. (4) Improve the project expenditure management model. Article 41 of the Regulations clarifies that project expenditures shall be managed by the model of project pipeline and the project pipeline review mechanism and project rolling management mechanism shall be established and improved; the finance departments of governments at all levels shall establish and improve the project expenditure budget review system; all departments and units shall carry out

budget review according to the regulations of the finance department of the government at the corresponding level.

#### IV . Improve the fiscal transfer payment system

The Regulations strictly implement the relevant provisions of the Budget Law, and coordinates well with the reform of the transfer payment system.(1) Detail the content and concepts of general transfer payments and special transfer payments. Article 9 of the Regulations clarifies that general transfer payments include equalization transfer payment, financial subsidies to old revolutionary base areas, ethnic minority areas, border areas and poverty-stricken areas, and other general transfer payments. Article 10 clarifies that special transfer payments refer to the budgetary funds that the higher-level government provides to the lower-level government to be used according to the purposes specified by the higher-level government in order to achieve specific economic and social development goals. In practice, in order to be in line with the provisions of the Budget Law and in accordance with the relevant requirements of the reform of the transfer payment system, the transfer payment for common fiscal mandates is temporarily included in the general transfer payments.(2) Establish and improve the regular evaluation and exit mechanism for special

transfer payments. In order to implement the relevant requirements of Article 16 of the Budget Law, Article 10 of the Regulations clarifies that the finance departments of governments at and above the county level shall, in conjunction with relevant departments, establish and improve the regular evaluation and exit mechanism of special transfer payments, and details the processing methods after evaluation: those that comply with laws, administrative regulations and State Council regulations may continue to be implemented if necessary; those that are not properly managed with performance falling short of targets shall be adjusted; those that are invalidated with establishment rationale repealed shall be abolished.(3) Regulate the release of transfer payment budget. In order to make local budget preparation more complete and standardized and speed up budget implementation, Article 48 of the Regulations clarifies the proportion and requirements for the advance release of transfer payments. At the same time, in order to further clarify the transfer payment management responsibilities, Article 59 stipulates that the release of transfer payment budget and fund allocation should be administered by finance department, and other departments and units shall not release transfer payment budget or allocate transfer payment funds to lower-level government departments and units.

## V. Regulate the management of local governments debts

In order to further regulate the management of local governments debts and prevent fiscal risks, the Regulations make clearer provisions on four aspects. (1) Detail the management of local governments debt limit. On the basis of the provisions of the Budget Law on local governments debt limit, Articles 43 to 46 of the Regulations further detail the relevant requirements, clarifying that the government debt limits of various provinces, autonomous regions and municipalities shall be within the limits determined by MOF and approved by the National People's Congress or its Standing Committee and the proposal shall be submitted to the State Council for approval; the balance of local governments debt shall not exceed the limit approved by the State Council. (2) Clarify the definition of general debts and special debts. Article 44 of the Regulations defines the "scale of borrowed debt" in the Budget Law and clarifies the definition of general debts and special debts. Among them, general debts refer to the general bonds that are included in the general public budget for the development of public welfare undertakings and the loans borrowed from foreign governments and international economic organizations for which local governments are responsible for repayment;

special debts refer to the special bonds that are included in the governmental fund budget for the development of public welfare undertakings with income flow. (3) Improve the local governments debt risk assessment and early warning mechanism. In accordance with the relevant provisions of the Budget Law, the General Office of the State Council has issued an emergency response plan for local governments debt risks. MOF regularly assesses the debt risk status of various regions and provides risk warnings for areas with high debt risks. The Regulations detail the local governments debt risk assessment and early warning mechanism in the form of administrative regulations. Article 47 clarifies that MOF and the finance departments of the governments of provinces, autonomous regions and municipalities shall establish and improve the local governments debt risk assessment index system, carry out the assessment of local governments debt risk status, issue early warning to areas with high debt risks, and supervise the resolution of debt risks. (4) Rationally determine the structure, maturity and timing of the issuance of local governments bonds. *The Circular of the General Office of the CPC Central Committee and the General Office of the State Council on Doing a Good Job in Local governments Special Bond Issuance and Supporting Project Financing* clarifies that the special bonds shall match the project duration. In order to avoid the

mismatch between bond maturity and project duration, the mismatch between bond issuance time and the use of project construction funds, and the idle waste of bond funds, reduce costs and improve efficiency, Article 58 of the Regulations further clarifies that the finance departments of provinces, autonomous regions and municipalities shall reasonably determine the structure, maturity and timing of the issuance of local governments bonds in accordance with the local governments debt limit approved by the State Council.

## VI . Fully implement budget performance management

The Regulations reflect in administrative regulations the spirit of central government documents and the achievements of budget performance management reform in recent years, and detail and improve relevant requirements in all aspects of budget management. (1) Improve the whole-process budget performance management chain. On the basis that the Budget Law has made provisions on performance target management and performance evaluation, and in order to further unblock the budget performance management chain, Article 51 and Article 53 of the Regulations clarify that finance departments of governments at all levels shall organize and guide the performance monitoring

and performance evaluation of budgetary funds during budget implementation; all departments and units should implement performance monitoring, carry out performance evaluation, improve the efficiency of the use of funds, and regularly submit budget implementation reports and performance evaluation reports to the finance department of government at the corresponding level.(2) Harden performance constraints. In order to improve the binding force of budget performance, Article 20 of the Regulations stipulates that the results of performance evaluation shall be used as the basis for improving management and preparing future annual budget in accordance with regulations. At the same time, in accordance with the requirements of the *Opinions on the Full Implementation of Budget Performance Management*, important performance targets and performance evaluation results must be submitted to the people's congress at the same level and be disclosed to the public simultaneously with the draft budget and final accounts. (3) Further clarify the responsibilities of finance department. Article 73 of the Regulations stipulates that the finance departments of governments at all levels shall evaluate and assess the budget implementation and performance of each department, further highlighting the principal responsibility of each department and the role of finance department in conducting evaluation and

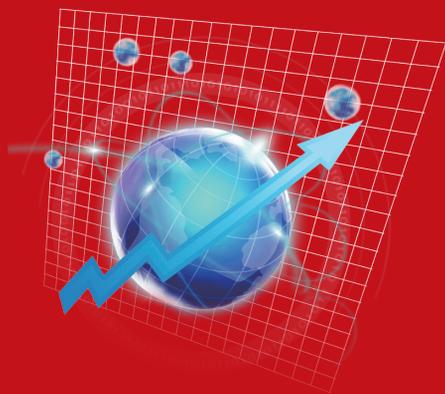
assessment.

#### VII. Further promote budget disclosure

In order to further promote budget disclosure and improve budget transparency, Article 6 of the Regulations further details the disclosure requirements for transfer payments, budgets and final accounts of departments and affiliated units.

(1) The disclosure of general transfer payments should be detailed to regions, and the disclosure of special transfer payments should be detailed to regions and projects. (2) Government debts, operating expenses of government agencies, government procurement and funds of special fiscal account shall be made public in accordance with relevant regulations. (3) Departmental budgets and final accounts should make public basic expenditures and project expenditures. Items of expenditures of departmental budgets and final accounts should be disclosed according to their functional classification, and amounts of basic expenditures shall be disclosed according to their economic nature. (4) The budgets, final accounts and financial statements of the affiliated units of each department should be disclosed to the public within 20 days after the department's approval. The unit's budgets and final accounts shall make public basic expenditures and project expenditures. Items of expenditures of the unit's budgets and final accounts should be disclosed

according to their functional classification, and amounts of basic expenditures shall be disclosed according to their economic nature.



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