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HIGHLIGHT

- Finance Minister Liu Kun: intensify efforts to implement the proactive fiscal policy to promote sustained and healthy economic and social development
- Five ministries jointly published a circular on increasing the support of credit loans for micro and small-sized enterprises
- MOF published the *Regulations on the Accounting Treatment of Rent Concession Related to the COVID-19 Pandemic*
- Budgeted revenue and expenditure of MOF in 2020 total 11.1239344 billion RMB

Brief Introduction to IEFI

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

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Acronyms

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

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

I . Policy Update

1. The State Council determined the division of labor for the key tasks set out in the *Government Work Report*

On May 29, Premier Li Keqiang chaired an executive meeting of the State Council to decide on the division of responsibilities in executing the key tasks set out in the *Government Work Report* and to call for vigorous efforts in implementing relevant policies to meet the annual economic and social development goals. First, establish a special mechanism for funds to reach the primary level and ensure their effective use. The finance and social security authorities must set up special accounts to ensure that the funds are directly allocated to micro, small and medium-sized enterprises, self-employed individuals, and members of disadvantaged groups; local regulatory authorities of MOF, treasury management authorities of PBoC, and audit authorities should strengthen supervision in line with their duties respectively, and earnestly implement

various policies such as tax and fee cut, phased reduction of electricity prices, extension of loan repayment period, and extension of the period of exemption and reduction of civil aviation development fund and port construction fee. Second, create a market-oriented and law-based business environment up to international standard, and promote fair competition; make greater efforts to open up and attract foreign investment. Third, each government department should determine the responsible persons and timetable in accordance with the division of tasks set out in the *Government Work Report*, and specify the phased targets and final outcomes to be achieved.

2. Three ministries jointly published a circular on the comprehensive demonstration program for the roll-out of e-commerce in rural areas in 2020

On June 1, MOF, MOFCOM, and the State Council Leading Group Office of Poverty Alleviation and Development jointly published a circular on the comprehensive demonstration program for the roll-out of e-commerce in rural areas in 2020, which provided the following. First, encourage localities to give priority to the discount loans, government procurement service and replacing subsidies with rewards

to accelerate the pace of fund disbursement. The central government will implement the “encouraged areas of development + negative list” management model, with a focus on supporting the three-tier logistics distribution system, the public service system for bringing agricultural products to the city, the service system for bringing industrial products to the countryside and the e-commerce training system of rural areas. Second, after the central government funds and performance targets released, the provincial finance authorities should allocate funds in a timely manner, refine the performance targets and break them down to the relevant counties. Third, strengthen organization, enhance the accountability and supervision mechanism, improve guidance, step up the government services disclosure, information reporting, and strengthen publicity.

3. Five ministries jointly published a circular on increasing the support of credit loans for micro and small-sized enterprises

On June 2, PBoC, CBIRC, MOF, NDRC and MIIT jointly published a circular on increasing the support of credit loans for micro and small-sized enterprises, which provided the following. First, starting from June 1, 2020, PBoC will

adopt monetary policy tools to purchase the micro and small credit loans newly issued by qualified local banking financial institutions on a quarterly basis. Second, support more micro and small-sized enterprises to access to unsecured and non-guaranteed pure credit loan support, ensure the proportion of micro and small credit loans rise significantly in 2020, and reasonably delegate the authority of approval to improve the efficiency of providing credit loans to micro and small-sized enterprises. Third, MOF should strengthen policy transmission, support the normal operation and stable employment of micro and small-sized enterprises, and improve the capabilities of banking financial institutions in serving micro and small-sized enterprises by launching special credit loan programs.

4. Two ministries jointly published a circular on the implementation of the “three support and one assistance” plan for college graduates in 2020

On June 3, MOF and MOHRSS jointly published a circular on the implementation of the “three support and one assistance” plan (support to education, agriculture and health care, and assistance to poverty-alleviation) for college graduates in 2020, which provided the following. First, the central government’s

financial subsidies will be further tilted to poor areas, old revolutionary base areas, ethnic minority areas and the border areas, with the 52 remaining poor counties all covered by the subsidies. Second, actively complete the recruitment plan issued by the central government. Those who fail to complete the recruitment quota will have the quota transferred to other provinces. Third, conscientiously organize the implementation of a special plan for improving the capabilities of the personnel involved in the “three support and one assistance”, and a special training project supported by the central government will be carried out separately. Fourth, fully allocate stipends to the personnel involved in the “three support and one assistance” on a monthly basis, and implement the policies related to social insurance and one-time settlement allowance. Fifth, support those with entrepreneurship to start business at the primary level and offer additional marks for those who take the postgraduate entrance examination. Sixth, continue to carry out publicity and reporting activities with prominent themes and diverse forms to widely publicize the significance and outcomes of the “three support and one assistance” program. Seventh, the provincial finance authorities and human resources and social security authorities should strictly manage and use the central government subsidy

funds according to regulations, and submit budget applications to MOF and MOHRSS by September 15 in accordance with the progress of the completion of the recruitment plan issued by the central government.

5. Five ministries jointly published a circular on continuing the deferment of principal and interest repayment on loans extended to micro, small and medium-sized enterprises

On June 4, PBoC, CBIRC, MOF, NDRC and MIIT jointly published a circular on continuing the periodical deferment of principal and interest repayment on loans extended to micro, small and medium-sized enterprises, which provided the following. First, the micro and small loans due to mature from June 1 to December 31, 2020 will enjoy deferment of principal and interest repayment; for loans to other micro, small and medium-sized enterprises and loans to major enterprises in the international industrial chains (foreign-trade-oriented enterprises) and other enterprises with special difficulties that are due to mature before the end of 2020, the relevant enterprises and the banking financial institutions may negotiate the deferment of principal and interest repayment on their own. Second, defer the loan repayment

for up to March 31, 2021 for enterprises through loan extension and renewal. Third, PBoC and MOF will adopt special-purpose tools to provide local banks with incentives worth 1% of the principal of micro and small loans with repayment deferred by the banks. Fourth, the application made by enterprises for the deferment of principal and interest repayment on micro and small loans should be processed and the repayment time should be reasonably rearranged; for loans to other micro, small and medium-sized enterprises and loans to major enterprises in the international industrial chain (foreign-trade-oriented enterprises) and other enterprises with special difficulties, the enterprises and the banking financial institutions may negotiate the deferment of principal and interest repayment on their own. Fifth, the supporting policies. When assessing operational performance, finance authorities at all levels should fully consider the impact of the deferred repayment policy on the performance of banking financial institutions, and make reasonable adjustments to assessment.

6. The State Council determined a special transfer payment mechanism for the disbursement of newly added fiscal funds to directly benefit

enterprises and people and deployed support for the sale of marketable export products in the domestic market

On June 9, Premier Li Keqiang chaired an executive meeting of the State Council to determine a special transfer payment mechanism for the disbursement of newly added fiscal funds to directly benefit enterprises and people and to deploy support for the sale of marketable export products in the domestic market, which provided the following. First, establish a special transfer payment mechanism to allocate the newly added fiscal funds in the form of central-to-local transfer payment and governmental fund transfer payment to cities and counties. MOF shall establish an extensive monitoring system at the same time, and treasuries at all levels shall carry out supervision to ensure the direct and point-to-point allocation of funds. Second, step up efforts to support the employment of poor workers, poverty alleviation through consumption, and poverty alleviation through industrial development, work effectively to overcome the impact of the epidemic, and ensure that all remaining rural poor people under the current poverty standard are lifted out of poverty and all poverty-stricken counties effectively escape poverty. Third, help the foreign-trade-oriented enterprises crucial for the employment of nearly 200 million people to tide over difficulties and

develop, and support the sale of marketable export products in the domestic market while encouraging them to expand the international market.

7. Ten ministries jointly published a circular on consolidating and expanding the effects of poverty alleviation through the provision of domestic services

On June 11, MOFCOM, MOHRSS, the State Council Leading Group Office of Poverty Alleviation and Development, the Publicity Department of CPCCC, the National Development and Reform Commission, MOE, MOF, PBoC, CRIRC and the All China Women's Federation jointly published a circular on consolidating and expanding the effects of poverty alleviation through the provision of domestic services, which provided the following. First, further improve the matching mechanism in a targeted way and expand the matching platform. Second, help the poor workers to return work and support the poor workers to retain their jobs. Third, strengthen training support and improve the level of training. Fourth, promote the implementation of the policies that have been put into effect, build a sound labor export base, increase fiscal

support, improve financial policies, refine the credit system for domestic services, and strengthen insurance support. Fifth, enhance organization and coordination, keep written records, and promote good examples.

8. MOF published a circular on expanding the scope of the central government's pilot program for replacing subsidies with rewards for insurance provided to agricultural products with local special features

On June 12, MOF published a circular on expanding the scope of the central government's pilot program for replacing subsidies with rewards for insurance provided to agricultural products with local special features, which provided the following. First, expand the pilot region to 20 provinces, and increase the pilot subject matters or insurance products from no more than two types to three. Second, start by including poor counties into the scope of policy support, and gradually expand the scope of implementation on the basis of the pilot experience. The support for relatively poor areas in 2021 and beyond will be optimized and improved in accordance with the unified national policy. Third, local governments are supposed to subsidize at

least 35% of the insurance expenditure, and the central government will subsidize 30% of the expenditure to central and western regions and northeastern region, and 25% to eastern region, and 65% to the Xinjiang Production and Construction Corps.

9. The General Office of the State Council published a circular on the reform plan for the division of fiscal powers and expenditure responsibilities between the central and local governments in the ecological and environmental field

On June 15, the General Office of the State Council published a circular on the reform plan for the division of fiscal powers and expenditure responsibilities between the central and local governments in the ecological and environmental field, which provided the following. First, appropriately increase the fiscal powers of central government in cross-regional ecological and environmental protection, establish central-local fiscal relations featuring clearly defined powers and responsibilities, appropriate allocation of financial resources and greater balance across regions, and put in place a stable mechanism where the fiscal powers, expenditure responsibilities and financial resources of all

levels of governments are matched. Second, clearly divide the fiscal powers and expenditure responsibilities between the central and local governments in the areas of ecological and environmental planning system, ecological and environmental monitoring and law enforcement, ecological and environmental management and capacity building, environmental pollution prevention and control, and other matters related to the ecological environment. Third, strengthen organizational leadership, implement expenditure responsibilities, and promote sub-provincial reforms in a coordinated manner.

10. Three ministries jointly published a circular on the issuance of the *National Housing Provident Fund Annual Report 2019*

On June 16, MOHURD, MOF, and PBoC published a circular on the issuance of the *National Housing Provident Fund Annual Report 2019*, which provided the following. First, MOHURD, MOF, and PBoC are responsible for formulating housing provident fund policies and supervising their implementation. Second, as the number of contributing employers and employees continues to increase, the authorities will support the employees to withdraw fund for

mortgage loans, support the renting of homes and the construction of affordable housing, and support the reduction of the interest expenses of housing loans for employees. Third, the business standard system has continued to improve, notable achievements have been made in IT development, service capabilities have been further enhanced, electronic inspection tools have achieved full coverage, and cultural development has been further advanced.

11. MOF published a circular on further strengthening the budget management of local governments' sovereign foreign loans

On June 17, MOF published a circular on further strengthening the budget management of local governments' sovereign foreign loans, which provided the following. First, foreign loans refer to the loans borrowed from international financial institutions and foreign governments by MOF, with the approval of the State Council, on behalf of the state and on-lent to provinces, autonomous regions, municipalities and cities with independent planning status. It is required to have a repayment plan and a stable source of repayment funds for foreign loans. Second, revenues, expenditures and principal and interest payments of foreign loans for which the

government is responsible for repayment are included into the government's general public budget management, and the debt balance is included into the local government debt quota management. Local finance authorities at all levels shall use funds of foreign loans in accordance with the purposes specified in the budget. Third, the local regulatory bureaus of MOF should strengthen the supervision of the use of foreign loans by local governments, urge local governments to regulate the use and repayment of foreign loans, and exercise oversight over the local governments' foreign debt quota management and review and implementation of foreign loans plan in accordance with the relevant requirements of MOF.

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12. The executive meeting of the State Council called for expeditious implementation of fee-cut policies to reduce the burden of market entities

On June 18, Premier Li Keqiang chaired an executive meeting of the State Council which called for expeditious implementation of fee-cut policies to reduce the burden of market entities. First, extend to the end of the year the policies of cutting electricity tariff by 5% for industrial and commercial enterprises, waiving

the airlines' civil aviation development fund and import and export cargo port construction fees, and halving the compensation fee for oil pollution damage from vessels, and cutting the average rate for broadband and dedicated lines by 15%. Second, resolutely prohibit unregulated charges. Prohibit the excessive collection of taxes and fees, illegal collection of taxes and fees, and any act that increases the unreasonable burden of market entities in the name of supplemental tax payment; ensure that the policies of canceling, suspending, waiving and reducing relevant fees are delivered to enterprises. Third, deepen the reform of "streamlining administration, delegating powers and improving services", and create a market-oriented and law-based business environment up to international standards. On the basis of carrying out special campaign to regulate and improve charges in key areas such as import and export, enterprise financing, public utilities, logistics, and intermediary services related to administrative examination and approval, it is important to improve the institutional arrangement and eliminate the arbitrary charges from the source.

13. Two ministries jointly published a circular on the issuance of the

Measures for the Administration of the Central Special Lottery Public Welfare Funds in Support of Sports Undertakings

On June 19, MOF and GAS jointly published a circular on the issuance of the *Measures for the Administration of the Central Special Lottery Public Welfare Funds in Support of Sports Undertakings*, which provided the following. First, the expenditures of the special funds include: construction of public sports venues and facilities, funding of mass sports organizations and team building, funding or organization of fitness-for-all activities, organization of scientific research and publicity for fitness-for-all activities, funding of the development of reserve sports talents, funding and hosting of national comprehensive sports games, improvement of the facilities and conditions of the venues for national team training and competition, supporting national teams in preparing for and participating in international comprehensive sports games, and other sports undertakings approved by MOF and GAS. Second, the finance authorities are responsible for reviewing the budget preparation proposals submitted by the sports administrative departments, approving the budget, disbursing the funds in conjunction with the sports administrative departments,

and supervising the use and performance management of funds.

14. Two ministries published the *Measures for the Administration of Forestry Reform and Development Funds*

On June 23, MOF and NFGA published the *Measures for the Administration of Forestry Reform and Development Funds*, which provided the following. First, the forestry reform and development funds are mainly used for forest resource management, land greening, national nature reserves, wetland and other ecological protection. Second, the forestry reform and development funds are allocated by the factor method, and fixed subsidies are to be provided to areas that undertake pilot or reform tasks. Third, finance authorities at all levels should work with forestry and grassland authorities at the same level to support the consolidation of agriculture-related funds in accordance with relevant laws, regulations and policies, and strengthen the coordinated use of the forestry reform and development funds and the central infrastructure investment funds to avoid duplication of support.

15. MOF published the *Regulations on the Accounting Treatment of Rent Concession Related to the COVID-19 Pandemic*

On June 24, MOF published the *Regulations on the Accounting Treatment of Rent Concession Related to the COVID-19 Pandemic*, which provided the following. First, these regulations apply to the rent concession caused by the COVID-19 pandemic, among them, rent reduction and deferred rent payment, as agreed by the lessee and the lessor on the existing lease contract, provided that the lease consideration after the concession is reduced or remains basically unchanged from before the concession and no major changes occur in the other terms and conditions of the lease after comprehensive consideration of qualitative and quantitative factors. Second, these regulations shall come into force on the date of promulgation. Enterprises that adopt the simplified method in accordance with these regulations may make adjustment to relevant rent concession that occurred between January 1, 2020 and the date of entry into force of these regulations.

16. Three ministries published an announcement on the tax-free

shopping policy for travelers departing Hainan Island

On June 30, MOF, GAC, and SAT jointly published an announcement on the tax-free shopping policy for travelers departing Hainan Island, which provided the following. First, the policy is effective from July 1, 2020. Second, the tax-free shopping policy is the preferential tax policy that allows travelers that leave the island (excluding overseas departures) by air, train or ship to enjoy import duty-free shopping, subject to the limits on value, quantity and category, when making payment at the tax-free shops or approved online sales platforms to which the tax-free shopping policy is applicable and picking up goods at the designated area of the airport, railway station, and port terminal. Third, the tax-free policy covers customs duties, import VAT and consumption tax. Fourth, the tax-free shopping quota is increased from 30,000 RMB to 100,000 RMB per person per year. The categories of tax-free goods are increased from 38 to 45, and the 8,000 RMB limit for a single tax-free purchase is removed. Fifth, the tax-free policy is administered mainly through quota management, and the categories of goods subject to the restrictions on the quantity of single purchase are greatly reduced. Moderate competition is encouraged, and business entities qualified for the marketing and

distribution of tax-free goods may participate in the tax-free business operation of Hainan Island on an equal footing. Sixth, it is important to strengthen interim and ex-post supervision and clearly define the legal responsibilities of individuals, enterprises, and duty-free shops that involve in reselling and smuggling activities.

17. Two ministries published a circular on the preferential corporate income tax policy for enterprises in the Hainan Free Trade Port

On June 30, MOF and SAT jointly published a circular on the preferential corporate income tax policy for enterprises in the Hainan Free Trade Port, which provided the following. First, this circular is effective from January 1, 2020 to December 31, 2024. Second, enterprises in the encouraged industrial sectors that are registered and undertake substantive operation in the Hainan Free Trade Port will enjoy a reduced corporate income tax rate of 15%. Enterprises in the encouraged industrial sectors refer to enterprises whose main business is centered on the industrial projects specified in the Catalogue of Encouraged Industrial Sectors of Hainan Free Trade Port and whose main business income accounts for more than 60%

of the total enterprise income; enterprises in the tourism, modern services, and high-tech industries established in the Hainan Free Trade Port are exempted from corporate income tax for their income obtained from new overseas direct investment. If the unit value of the newly purchased (including self-built and self-developed) fixed assets or intangible assets of enterprises established in Hainan Free Trade Port is below or at 5 million RMB, such purchase is allowed to be included in the current cost and be deducted from the taxable income, and will not be depreciated and amortized annually; if the unit value of the newly purchased (including self-built and self-developed) fixed assets or intangible assets exceeds 5 million RMB, the depreciation and amortization period may be shortened or accelerated.

18. Two ministries published a circular on the personal income tax policy for high-end talents in short supply in the Hainan Free Trade Port

On June 30, MOF and SAT jointly published a circular on the personal income tax policy for high-end talents in short supply in the Hainan Free Trade Port, which provided the following. First, this circular is effective from January 1, 2020 to December 31, 2024. Second, the

incomes eligible for the above preferential policies include the comprehensive income derived from Hainan Free Trade Port (among them, wages, labor service remuneration, author payment and royalties), operating income, and talent subsidies provided by Hainan Province. Third, high-end talents and those in short supply working in the Hainan Free Trade Port will have the portion of their actual personal income tax burden that exceeds the 15% rate exempted from personal income tax. Eligible taxpayers will enjoy the above preferential policies when filing the annual tax return and making payment for personal income tax in Hainan.

19. The State Council decided to enhance financial services for micro, small and medium-sized and allow the issuance of local government special bonds to support capital replenishment of small and medium-sized banks

On July 1, Premier Li Keqiang chaired an executive meeting of the State Council, which provided the following. First, give priority to supporting small and medium-sized banks with sustainable market-based operational capacity to replenish capital; make improvement of governance and internal control the precondition for capital replenishment; enhance the territorial responsibilities of local

government, principal responsibilities of banks and shareholders, and regulatory responsibilities of financial authorities; establish a market-based and timely exit mechanism for capital replenishment through special bond issuance, and strictly prevent moral hazards. Second, adopt the Regulations on Safeguarding the Payment of Small and Medium-sized Enterprises (Draft) to protect payment of small and medium-sized enterprises and safeguard their legitimate rights and interests. Third, replicate and promote in National High-tech Zones the relevant pilot reform policies of Pilot Free Trade Zones and National Independent Innovation Demonstration Zone, step up the opening-up of National High-tech Zone, and encourage various forms of cooperation with foreign industrial parks.

20. Two ministries published a circular on cutting subsidies for renewable energy tariff surcharge of waste incineration power generation projects that violate environmental laws

On July 1, MOF and MEE jointly published a circular on cutting subsidies for renewable energy tariff surcharge of waste incineration power generation projects that violate environmental laws, which provided the following. First, waste incineration power generation projects may be included in the scope of subsidies list only

after completion of monitoring and disclosure procedures in accordance with laws and regulations. Second, if the waste incineration power generation projects included in the scope of subsidies are punished for violation of laws, the power grid enterprises shall cut the amount of subsidies for the corresponding grid-connected electricity generated by the incinerator on the date of legal violation. Third, if the waste incineration power generation project has tampered with or forged the automatic monitoring data, the power grid enterprises should remove it from the list of renewable energy power generation subsidies from the date when the public security and environmental authorities make administrative punishment decisions or the people's court judgment takes effect. Fourth, MEE will report to MOF the penalties for environmental violation of waste incineration power generation projects on a quarterly basis, and MOF will make settlements with power grid enterprises accordingly.

21. MOF published a circular on the issuance of the *Interim Measures for the Administration of the Special Funds for Clean Energy Development*

On July 1, MOF published a circular on the issuance of the *Interim Measures for the Administration of the Special Funds for Clean*

Energy Development, which provided the following. First, the special funds are in effect from 2020 to 2024, and will be renewed after expiry through application in accordance with the prescribed procedures. Second, the scope of areas supported by the special funds includes the promotion and application of the key technologies of clean energy, the large-scale development, utilization and capacity building of clean energy, the construction of a clean energy public platform, the comprehensive application of clean energy, and the other important matters related to clean energy development as required by the Party Central Committee and the State Council. Third, the allocation of special funds, in light of the nature of clean energy-related work, objectives, investment costs, comprehensive utilization of energy resources and other factors, may use the competitive allocation, reward or actual settlement methods; the “allocation first and settlement later” approach will be applied if the actual settlement method is adopted.

II . Facts & Figures

1. China's manufacturing PMI in May was 50.6%

The data published by NBS on May 31 showed that China's manufacturing PMI in May was 50.6%, a decrease of 0.2 percentage point month on month. By the scale of enterprises, the PMI of large-sized enterprises was 51.6%, an increase of 0.5 percentage point; the PMI of small and medium-sized enterprises was 48.8% and 50.8% respectively, down by 1.4 and 0.2 percentage point. Specifically, the production index, the new order index and the supplier delivery time index were all above the critical point, and the raw material inventory index and the employee index were below the critical point.

2. China issued 1.3025 trillion RMB of local government bonds in May

The data published by MOF on June 3 showed that China issued 1.3025 trillion RMB of local government bonds in May, a record high for the monthly issuance of local bonds. As of the end of May, local governments issued a total of 3.1997 trillion RMB of bonds in 2020, of which 2.7024 trillion RMB were new bonds and 497.3 billion RMB were refinanced bonds. The new bond issuance completed 94.9% of the quota released in advance by the central government,

of which 552.2 billion RMB were general bonds, completing 99% of the central government's quota; 2.1502 trillion RMB were special bonds, completing 93.9% of the central government's quota.

3. China's CPI in May rose by 2.4% year on year

The data published by NBS on June 10 showed that China's CPI in May rose by 2.4% year on year. In breakdown, prices in urban areas rose by 2.3%, and prices in rural areas rose by 3.0%; food prices rose by 10.6%, and non-food prices rose by 0.4%; consumer goods prices rose by 3.3%, and service prices rose by 1.0%. CPI fell by 0.8% month on month. In breakdown, prices in urban areas fell by 0.7% and prices in rural areas fell by 0.9%; food prices fell by 3.5% and non-food prices were flat; consumer goods prices fell by 1.2% and service prices were flat.

4. Chill by 3.7% year on year

The data published by NBS on June 10 showed that China's PPI in May fell by 3.7% year on year, and the prices of means of production fell by 5.1% year on year. In breakdown, the

prices of extractive industries fell by 14.8%, the prices of raw materials industries fell by 9.9%, and the prices of processing industries fell by 2.4%. The prices of consumer products rose by 0.5% year on year. Specifically, food prices rose by 2.9%, apparel prices fell by 0.6%, prices of general daily necessities fell by 0.2%, and durable consumer goods prices fell by 1.7%.

5. Budgeted revenue and expenditure of MOF in 2020 total 11.1239344 billion RMB

On June 11, the 2020 MOF Departmental Budget published by MOF showed that the budgeted revenue and expenditure in 2020 total 11.1239344 billion RMB. Among them, the budgeted revenue is 11.1239344 billion RMB, and the carryover from the previous year is 2.0652508 billion RMB, accounting for 18.57%; the general public budget appropriation revenue is 7.4019873 billion RMB, accounting for 66.54%; the business revenue is 1.1498812 billion RMB, accounting for 10.34%; the operating revenue of public institutions is 20.4071 million RMB, accounting for 0.18%; other revenue is 213.8574 million RMB, accounting for 1.92%; and the balance of non-fiscal appropriation is 272.5506 million RMB,

accounting for 2.45%. Budgeted expenditure is 10.332199 billion RMB, and basic expenditure is 2.4105163 billion RMB, accounting for 23.33%; project expenditure is 7.9070087 billion RMB, accounting for 76.53%; operating expenditure of public institutions is 14.674 million RMB, accounting for 0.14%.

6. China's general public budget revenue registered a year-on-year decrease of 13.6% from January to May

The data published by MOF on June 18 showed that China's general public budget revenue was 7.7672 trillion RMB from January to May, a year-on-year decrease of 13.6%. In breakdown, the central general public budget revenue was 3.5998 trillion RMB, down by 17% year on year; the local general public budget revenue was 4.1674 trillion RMB, down by 10.4% year on year. The national tax revenue was 6.681 trillion RMB, down by 14.9% year on year; non-tax revenue was 1.0862 trillion RMB, down by 4.9% year on year. From January to May, China's general public budget expenditure was 9.0281 trillion RMB, a year-on-year decrease of 2.9%. In breakdown, central general public budget expenditure was 1.3171 trillion RMB, down by 2% year on year; local general public budget expenditure was 7.711 trillion RMB, down by 3.1% year on year.

7. China's governmental fund budget revenue registered a year-on-year decrease of 4.5% from January to May

The data published by MOF on June 18 showed that China's governmental fund budget revenue was 2.3641 trillion RMB from January to May, a year-on-year decrease of 4.5%. In terms of the revenue of central and local governments, the central governmental fund budget revenue was 119.9 billion RMB, a year-on-year decrease of 24.1%; the local governmental fund budget revenue was 2.2442 trillion RMB, down by 3.1% year on year. Among them, the revenue from the transfer of state-owned land use right was 2.1091 trillion RMB, up by 0.9% year on year. From January to May, China's governmental fund budget expenditure was 3.1856 trillion RMB, up by 14.4% year on year. In terms of the expenditure of central and local government, the central governmental fund budget expenditure was 34.6 billion RMB, a year-on-year decrease of 36.2%; the local governmental fund budget expenditure was 3.151 trillion RMB, an increase of 15.4% year on year. Among them, the expenditure financed by the revenue from the transfer of state-owned land use right was 2.1166 trillion RMB, down by 14.2% year on year.

8. China's lottery sales in May were 29.222 billion RMB

The data published by MOF on June 23 showed that China's lottery sales in May were 29.222 billion RMB, a year-on-year decrease of 6.302 billion RMB, down by 17.7%. In breakdown, the welfare lottery sales were 14.012 billion RMB, a year-on-year decrease of 2.481 billion RMB, down by 15.0%; the sports lottery sales were 15.21 billion RMB, a year-on-year decrease of 3.821 billion RMB, down by 20.1%. In terms of lottery sales by regions, the lottery sales in the three provinces of Xinjiang, Tibet and Qinghai have increased, up by 183 million RMB, 134 million RMB and 22 million RMB respectively.

9. Total profit of China's industrial enterprises above designated size fell by 19.3% year on year from January to May

The data published by NBS on June 28 showed that the total profit of China's industrial enterprises above designated size reached 1.84349 trillion RMB from January to May, down by 19.3% year on year, registering a fall 8.1 percentage points narrower than the fall from January to April. Among these industrial enterprises, the total profit of state-owned and

controlled enterprises reached 440.42 billion RMB, a year-on-year decrease of 39.3%; the total profit of joint-stock enterprises reached 1.34788 trillion RMB, a year-on-year decrease of 19.2%; the total profit of foreign-funded and Hong Kong, Macao and Taiwan-invested enterprises reached 465.92 billion RMB, a year-on-year decrease of 18.4%; and the total profit of private enterprises reached 560.73 billion RMB, down by 11.0%.

10. Total operating income of SOEs in China registered a year-on-year decrease of 7.7% from January to May

The data published by MOF on June 29 showed that the total operating income of SOEs in China was 21.83881 trillion RMB from January to May, a year-on-year decrease of 7.7%. In breakdown, the income of central SOEs was 12.58275 trillion RMB, down by 8.6% year on year; the income of local SOEs was 9.25606 trillion RMB, down by 6.3% year on year. The total operating cost of SOEs was 21.61262 trillion RMB, a year-on-year decrease of 4.9%. In breakdown, the cost of central SOEs was 12.19271 trillion RMB, down by 6.2% year on year; the cost of local SOEs was 9.41991 trillion RMB, down by 3.3% year on year. The total profit of SOEs was 663.09 billion RMB, a year-on-year decrease of 52.7%. In breakdown, the profit of central SOEs was

528.54 billion RMB, down by 44.7% year on year; the profit of local SOEs was 134.55 billion RMB, down by 69.8% year on year.

11. China's manufacturing PMI in June was 50.9%

The data published by NBS on June 30 showed that China's manufacturing PMI in June was 50.9%, an increase of 0.3 percentage point from the previous month. By the scale of enterprises, the PMI of large and medium-sized enterprises was 52.1% and 50.2% respectively, up by 0.5 and 1.4 percentage points from the previous month; the PMI of small-sized enterprises was 48.9%, down by 1.9 percentage points from the previous month. In terms of the classification index, among the five indexes that constitute the manufacturing PMI, the production index, new order index and supplier delivery time index were all above the critical point, and the raw material inventory index and the employee index were below the critical point.

III . Local Finance

1. Anhui Finance: five measures to support the funding for “three guarantees”

According to the news released by the Finance Department of Anhui Province on June 2, Chuzhou City, Anhui Province has fully supported the funding for “three protection” to stabilize the local economic and social development. First, further cut the “three public expenses” and general expenditures and give priority to the funding of “three guarantees”. Second, strengthen the analysis and assessment of fiscal and economic situation, enhance the principal accountability of government departments, counties and districts, and promote the stable operation of fiscal revenue. Third, reduce administrative expenses and strictly curb expenditures related to meetings, training and business travel; revitalize the stock of funds, recover the carry-over funds and project funds with low efficiency and slow expenditure progress, and prioritize the expenditure on pandemic control and “three guarantees”. Fourth, improve treasury operation, step up the transfer of funds on the basis of the monitoring of treasury funds, shorten the fund allocation cycle, and actively apply to higher-level for funds. Fifth, well plan and advance work in a coordinated way; make meticulous calculation and enhance fund management; enact rules

and regulations to strengthen institutional mechanism; carry out rigorous management and strengthen supervision and assessment.

2. Tianjin Finance: actively respond to the impact of pandemic to fully stabilize employment

According to the news released by the Finance Bureau of Tianjin Municipality on June 4, Tianjin has strengthened financial support to help reduce the burden of businesses, retain jobs and expand employment. First, reduce the labor cost of enterprises, and implement the policy of waiving, reducing and deferring the payment of social security contributions; support enterprises to keep and retain jobs; help enterprises to resume recruitment and offer subsidies to college graduates and other key groups of people. Second, encourage young people to find jobs at the grass-root level, expand the scope of trainee subsidies to graduation year students of secondary vocational colleges and technical colleges, and provide living stipends, education subsidies, accidental injury insurance subsidies and retention incentives; encourage enterprises to absorb employment, and provide qualified enterprises that recruit college graduates or other key groups of people with subsidies to five social insurance for up to 3 years and

post subsidies for 1 year; encourage flexible employment, and provide college graduates who graduated in the past 2 years in Tianjin, people with special employment difficulties and aged people with employment difficulties with subsidies to three social insurance for up to 2-3 years. Third, increase government subsidies for startup guaranteed loans, provide first-time startup subsidies and house rent subsidies, and support the development of startup incubation.

3. Ningxia Finance: multiple measures to support epidemic prevention and control and to promote economic and social development

According to the news released by the Finance Department of Ningxia Hui Autonomous Region on June 9, it has implemented various fiscal and tax policies to support the resumption of business production, spring farming and poverty alleviation, and made every effort to ensure stable and healthy economic and social development. First, adjust and optimize the budget expenditure structure, step up the transfer of treasury funds, simplify the fiscal fund allocation process, and coordinate the expenditure on all the priority items. Second, actively implement policies to keep employment stable, support the stable development of small

and medium-sized enterprises, provide central government credit support and subsidized loans for enterprises producing key medical supplies, and continue to implement the policy of rebating unemployment insurance premiums. Third, work with the tax authorities to monitor tax cut and exemption, allow eligible micro, small and medium-sized enterprises to defer the payment of taxes and waive rent payment, and temporarily cut employers' contribution to pension and work-related injury insurance for enterprises.

4. Jiangsu Finance: set clear targets and provide better services to boost economic growth

According to the news released by the Finance Department of Jiangsu Province on June 11, it has deployed a toolkit of fiscal policies to promote the transformation and upgrading of industries. First, reduce the contribution of enterprises to social insurance in a phased manner to alleviate the difficulties of enterprises. Second, increase support for recruitment and employment, provide training subsidies, and implement the policy of offering subsidies for job retention. Third, provide interest subsidies, support loan extension, and unblock the financing channels. Fourth, increase government procurement to support small and medium-

sized enterprises, further increase the amount and proportion of procurement that targets small and medium-sized enterprises, encourage the preferred selection of small and medium-sized enterprise suppliers, and waive bidding deposits for small and medium-sized enterprises affected by the epidemic.

5. Shandong Finance: multiple measures to support and improve people's livelihood

According to the news released by the Finance Department of Shandong Province on June 15, it has made great efforts to enhance institutional building, strengthen weak links, protect basic livelihood, and enhance financial support, in order to continuously improve people's living standards and life quality. First, increase subsidies for business startup and innovation, provide guaranteed loans for business startup, step up assistance for disadvantaged groups of people, create jobs in public welfare posts, and implement various employment support policies. Second, strengthen health-based poverty alleviation, ensure the security of housing, drinking water and electricity for the poor, and improve the dynamic monitoring and immediate assistance mechanism. Third, strengthen the public health system, improve the level of

basic medical services, provide basic relief and assistance for people with special difficulties, and raise the level of government subsidies for basic pensions of urban and rural residents.

6. Zhejiang Finance: work on multiple fronts to keep business operation and economic fundamentals stable

According to the news released by the Finance Department of Zhejiang Province on June 17, it has leveraged the more proactive and effective fiscal policies to keep business operation and economic fundamentals stable. First, meticulously implement the policies introduced by the higher-level government, take the lead in waiving and reducing the social security contributions for enterprises, and allow enterprises hard hit by the pandemic to defer social security contributions; refine the local policies, improve the four special policies in the area of scientific innovation, agriculture, tourism, and commerce and trade to offer targeted support for enterprises in such sectors. Second, improve the allocation of financial resources and optimize expenditure structure; deploy bond financing and improve the online processing of funds. Third, combine Party building with fiscal governance and build a team of professionals; classify and sort through

preferential policies related to enterprises to meet diversified needs; aggregate problems and solve them in an efficient manner.

7. Anhui Finance: multiple measures to ensure stability on the six fronts and security in the six areas

According to the news released by the Finance Department of Anhui Province on June 28, it has worked to ensure stability on the six fronts and security in the six areas, and taken effective measures to support epidemic prevention and control and promote economic and social development. First, carry out in-depth analysis of the impact of the pandemic, economic operation, and tax and fee cut on fiscal revenue to accurately understand the trend of fiscal revenue; strengthen cross-department coordination and improve the information sharing mechanism; enhance the management of revenue expectation and strengthen tax supervision according to law. Second, vigorously reduce general expenditures and non-mandatory and non-essential project expenditures, and strictly curb the “three public” expenses; adjust and optimize the expenditure structure, and put funds, assets and resources to good use. Third, increase special fiscal funds for poverty alleviation, improve

medical and health care for poverty alleviation, consolidate all sorts of special agriculture-related funds, and implement policies to support the agricultural sector and rural areas. Fourth, fully enforce the tax and fee cut policy, expand effective investment, and fully implement performance management.

8. Sichuan Finance: coordinated efforts to support epidemic prevention and control and promote economic and social development

According to the news released by the Finance Department of Sichuan Province on June 29, it has worked to safeguard the health and safety of people by fully supporting the epidemic prevention and control. First, step up overall leadership, unify thoughts and action, and enhance vertical linkage. Second, take concrete measures to raise funds to ensure adequate funding. Third, establish the green channel for fund raising, the green channel for fund payment and allocation, and the green channel for government procurement. Fourth, thoroughly study various fiscal policies for epidemic prevention and control to ensure full and accurate understanding of the policies; ensure timely and smooth transmission of information; work expeditiously with city-level departments

to study and formulate implementation rules to ensure that relevant policies and measures of the central and provincial governments are effectively implemented; sort through the fiscal policies in support of epidemic prevention and control, compile a pamphlet of such policies and publicize them through newspapers, WeChat and other means. Fifth, enhance accountability, clarify disciplinary requirements, improve business guidance, and strengthen supervision and inspection.

IV. Remarks & Opinions

1. Gao Peiyong: accelerate the development of a theoretical framework for modern fiscal system

On May 29, Gao Peiyong, Deputy President of CASS, said in his article that we must consider the tests and challenges faced by China's fiscal system in the new era as we systematically study the socialist fiscal system with Chinese characteristics, and accelerate the development of a theoretical framework for modern fiscal system. First, the development of the fiscal

system must evolve in line with the changes in the principal contradictions of society. The fiscal system in the new era sets sight on meeting people's aspiration for a better life at a higher level and in a broader range as opposed to purely material and cultural needs, and therefore, must seek to meet people's material and cultural needs as well as non-material and non-cultural needs; seek to address imbalanced and inadequate development rather than backwardness in social production, and must work to correct both the imbalanced and inadequate market supply and the imbalanced and inadequate government supply. Second, the development of the fiscal system must evolve in line with the changes in economic development. The fiscal system in the new era, while revolving around the changes in the principal contradictions of society, must promote the transformation of economic growth from a focus on "size" and "speed" to "quality" and "efficiency". The fiscal system in the new era is based on the realization of a moderately prosperous society in all respects and significant improvement of material conditions rather than material shortage, and seeks to advance the comprehensive development of people and social progress. Third, the development of the fiscal system must evolve in line with the comprehensive deepening of reforms. The fiscal system in the new era must define the functions and role of China's fiscal system in

the new era by considering the close connection and interaction between public finance and economic, political, cultural, social and ecological sectors; and integrate into the process of the modernization of governance system and capabilities, and reshape the structure of China's fiscal system in the new era from a higher starting point, at a higher level, and toward higher goals. Fourth, the new era, new positioning and new mission of fiscal system. As socialism with Chinese characteristics enters a new era, public finance has evolved from an economic dimension into a national governance dimension, and the fiscal and tax system has evolved from a component of economic system into a component of national governance system, and the establishment of a modern fiscal system has become the goal and positioning of China's fiscal system. Compared with the past, the direction and strategic goal of the development of China's fiscal system have undergone historic changes. The basic content and course of action of the development of China's fiscal system have also undergone historic adjustment, and China's fiscal system has entered a new era. Fifth, to advance the development of China's fiscal system, it is necessary to expeditiously build a theoretical framework for modern fiscal system. Advancing the development of China's fiscal system in the new era should start with advancing the theoretical study of China's

fiscal system in the new era. The premise and foundation for accelerating the establishment of a modern fiscal system is to accelerate the establishment of a theoretical framework for a modern fiscal system.

2. Liu Kun: the proactive fiscal policy is unprecedented in terms of its strength

On June 9, Finance Minister Liu Kun said in a speech that the deficit ratio was appropriately raised to send out a positive signal that we are taking extraordinary measures during this unusual time to actively cushion the impact of income loss and expenditure increase caused by the epidemic and to stabilize and boost market confidence.

Liu Kun pointed out that China will increase government investment this year to mitigate the downward pressure on the economy, including making available 3.75 trillion RMB of new special bonds for local governments, an increase of 1.6 trillion RMB from last year, and issuing 1 trillion RMB of special treasury bonds for combating COVID-19. In addition, China will further cut taxes and fees to help alleviate the operating difficulties of enterprises, and it is expected that this move will save over 2.5 trillion RMB of taxes and fees for market players

throughout the year. China will also increase transfer payment to alleviate the pressure of primary-level government in funding the “three guarantees”, and strengthen the budgetary balance to hedge the impact of the epidemic.

Liu Kun emphasized that the proactive fiscal policy is unprecedented in terms of the scale of expenditure and takes into account the uncertainties in the second half of the year. The top priority at this moment is to fully implement various policy measures, and ensure that fiscal policies and funds are put to effective use to play a key role in stabilizing economic growth.

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3. Xu Hongcai: set up the special transfer payment mechanism

On June 12, Vice Finance Minister Xu Hongcai attended the regular policy press briefing of the State Council and made a presentation on the establishment of the special transfer payment mechanism.

The establishment of the special transfer payment mechanism is mainly about: first, clarify the scope of funds, which principally covers the newly increased fiscal deficit and funds related to the 2 trillion RMB of special treasury bonds for combating COVID-19.

Second, refine the allocation process. Develop detailed and classified fund allocation processes in light of the characteristics of the regular transfer payment funds, special transfer payment funds and the funds raised from special treasury bonds for combating COVID-19. Third, keep meticulous records to ensure effective monitoring. Establish a direct fund monitoring system to achieve full coverage and full-chain monitoring, and ensure that fund allocation is accompanied by effective fund supervision. Fourth, enhance local responsibilities. Provincial finance authorities should timely transfer all funds to cities and counties, and also allocate more of their own financial resources to the grass-root level governments. City and county-level finance authorities should scientifically arrange fiscal expenditures, spend public money for public good, and ensure that people's basic needs are met to the extent possible. Fifth, strengthen supervision and accountability. MOF, NAO, PBoC and relevant authorities should cooperate closely to step up the supervision of funds to ensure that funds reach the grass-root units in cities and counties and directly benefit enterprises and people.

The funds that go directly to grass-root level governments under the special transfer payment mechanism are funds raised from the newly increased 1 trillion RMB of fiscal deficit and

the 1 trillion RMB of special treasury bonds for combating COVID-19, adding up to 2 trillion RMB in total. First, the portion included in special transfer payment. The special transfer payment of this year is separately established in order to deal with the economic and fiscal impact of COVID-19; second, the special treasury bonds for combating COVID-19 included in the governmental fund transfer payment. The special treasury bonds for combating COVID-19, instead of being included in the fiscal deficit, are included in the governmental fund budget management and are disbursed to local governments through governmental fund transfer payment; third, the portion included in the increment and stock of regular transfer payment. In general, the funds will be distributed and used according to the following three principles. First, support local governments to accomplish the task of "stability on the six fronts", in particular, employment, basic livelihood and viability of market entities. In line with this principle, funds will be made available to local governments in light of the impact of the pandemic, local financial capacity and financial gap at the grass-root level. Premier Li Keqiang mentioned at the executive meeting of the State Council that the impact of COVID-19 has led to fall of local fiscal revenue, especially at the grass-root level, and given rise to shortfall of expenditure. We will allocate the funds on the basis of the

gap at the grass-root level. Second, incentivize and encourage local governments not to shirk their responsibility when funds are passing through them. It is necessary to follow the principle of avoiding the “squeeze-out effect” of investment by provincial public finance. In making the allocation, in addition to the factors mentioned above, we must also consider the financial capacity at the grass-root level and encourage the channeling of more local financial resources to grass-root level units. In the case that some provinces are not duly fulfilling their responsibility in directing financial resources to grass-root level, resulting in huge financial gap at the grass-root level, we will, accordingly, cut the funds allocated to such provinces. For some provinces that allocate a sizable portion of financial resources to the grass-root level and retain relatively few financial resources at the provincial level, we will allocate more funds to such provinces to incentivize them not to shirk their responsibility. Third, increase the autonomy of local governments in using funds. The funds are to be used by local governments within the stipulated scope of usage to enable the grass-root level to coordinate the efforts of ensuring security in the six areas.

4. Liu Kun: intensify efforts to implement the proactive fiscal policy to promote sustained and healthy economic and social development

On June 18, at the 19th Meeting of the Standing Committee of the 13th National People's Congress, Finance Minister Liu Kun stated that China has intensified efforts to implement the proactive fiscal policy to promote sustained and healthy economic and social development in 2019.

First, implement larger-scale tax and fee cut. Tax and fee cut is a major measure to cope with the downward pressure on the economy as it delivers direct benefits to enterprises and the people and is fair and effective in nature. Finance and tax authorities at all levels have taken the implementation of larger-scale tax and fee cut as the top priority for the implementation of proactive fiscal policy in 2019. The tax and fee cut policy has played an important role in reducing the burden on enterprises, boosting consumption, stabilizing market expectation and expanding employment, and has thus lent strong support to the steady development of the real economy. In order to support the implementation of tax and fee cut policy, governments at all levels have vigorously reduced general expenditures, raised funds through multiple

channels to make up for the revenue shortfall, and strived to achieve budgetary balance. The central government has increased transfer payment to local governments, and tilted toward grass-root level areas with financial difficulties and areas heavily affected by tax and fee cut when allocating equalization transfer payment and rewards and subsidies to enhance the fiscal capacity of county-level governments. We have also established and implemented a mechanism for safeguarding, monitoring and assessing the risks of county-level government payroll, coordinated fiscal revenue and expenditure with treasury management, reasonably arranged expenditure priorities, and effectively strengthened the “three protection” at the county-level.

Second, continue to support the fight against the three critical battles. (1) Strongly support poverty eradication. Implement and improve the targeted poverty alleviation measures, concentrate efforts on ensuring the “two assurances and three guarantees”, and increase investment in poverty alleviation; introduce policies that allow enterprises to deduct expenses on poverty alleviation donations from corporate income tax, allow in-kind donations to be exempted from VAT, deploy government procurement to support poverty alleviation, and promote performance management of

poverty alleviation projects. (2) Actively support pollution prevention and control. Take pollution prevention and control as a key and priority area of expenditure, and support the battle against air, water, soil and other major pollution. Expand the scope of the winter clean heating pilot program in the northern region. Continue to implement incentive policies for ecological protection and restoration of the Yangtze River Economic Belt, and accelerate the campaign on Yangtze River protection. Promote the pilot project of ecological protection and restoration of mountains, water bodies, forest, lakes and grassland. Implement the “Blue Bay” remediation action and the comprehensive treatment of the Bohai Sea to support marine ecological protection and restoration. Allow the qualified third-party enterprises engaged in pollution prevention and control to pay corporate income tax at a reduced rate of 15%. Actively promote the establishment of a national green development fund.(3) Prevent and resolve fiscal and financial risks. Coordinate local government bond issuance and use with risk prevention and control in line with the principle of “opening the front door and blocking the back door”. Urge local governments to strictly enforce relevant budget management regulations and requirements on debt and accept the NPC’s supervision over the entire process of local governments’ debt borrowing, use and repayment. Strictly enhance

the debt repayment responsibility of the special bond issuers in accordance with the principle of “users being held responsible for bond issuance”, and rigorously prevent the risk of special bonds. Improve the regular monitoring mechanism and strengthen the accountability of local governments for violation of rules of debt financing.

Third, support the deepening of the supply-side structural reforms. Promote the high-quality development of manufacturing industry. Expand the scope of industries applicable to accelerated depreciation of fixed assets to all manufacturing sectors. Promote the pilot reform of funding for scientific research projects to grant scientific research institutions and personnel greater autonomy and promote the commercialization of scientific and technological findings. Improve the subsidy system for scientific research funding, and encourage enterprises to take the lead in undertaking national scientific and technological programs. Stimulate the vitality of market players. Work to resolve outstanding problems such as arrears in payment to private enterprises and small and medium-sized enterprises.

Fourth, promote and expand investment and consumer demand. Focus on supporting affordable housing projects, rural and agricultural development, major infrastructure

construction, innovation-driven growth and structural adjustment, social undertakings and social governance, energy conservation, and environmental protection. Allow local governments to use the funds raised from special bonds as capital for eligible major projects, and strengthen the funding support for key ongoing projects. Increase tax and fee concessions for community service industries such as elderly care, childcare, and domestic services, and promote the upgrading of cultural, tourism and leisure consumption. Support the promotion and application of new energy vehicles, subsidize the operation of new energy buses, and incentivize local construction of charging infrastructure. Carry out demonstration program for the roll-out of e-commerce in rural areas to cover all national-level poor counties. Subsidize the development of agricultural product supply chain system, with a focus on supporting the construction of post-production commercial processing facilities for agricultural products and the development of agricultural product cold chain logistics.

Fifth, promote the coordinated development of urban and rural areas. Support the implementation of rural revitalization strategies. Disburse reward funds to major hog-producing counties and subsidy funds for mandatory culling of hogs infected with African swine fever to

support stable hog production and supply. Further improve the agricultural machinery purchase subsidy policy. Increase rewards for major grain-producing counties. Support the development of modern agricultural industrial parks and towns with strong agricultural industry, and promote the deep integration of rural primary, secondary and tertiary industries. Include the funds for repair and maintenance of rural drinking water facilities into the scope of areas supported by central public finance, with a particular focus on granting subsidies to central and western regions. Carry out the three-year action for the improvement of the rural living environment, and support the advancement of rural toilet revolution. Promote the implementation of major regional strategies. Formulate and implement targeted fiscal and tax policies to support the development of the Guangdong-Hong Kong-Macao Greater Bay Area, further promote the revitalization of the northeastern region in the new era, and strengthen environmental protection in the Yangtze River Economic Belt. Study and implement relevant fiscal policies to support the advancement of the Coordinated Development of Beijing-Tianjin-Hebei region, Yangtze River Delta Integration and other major national development strategies, as well as the development of the Xiong'an New District, the Yellow River Basin ecological protection and high-quality development, and the rise of the

central region. Study and formulate the fiscal and tax policy system of Hainan Free Trade Port. Substantially increase the scale of central-to-local transfer payment, with a tilt toward the central and western regions and areas with financial difficulties, in order to further enhance the level of equalization of basic public services between regions. Support the accelerated development of old revolutionary base areas, ethnic minority areas, border areas, and poverty-stricken areas.

Sixth, steadily improve the basic living standards of people. Promote the expansion of employment. Support the implementation of employment-first policy. Increase the tax deductions for self-employed veterans and key group of people who start their own business, and expand the scope of enterprises enjoying preferential policies. Continue to increase fiscal investment in education. Consolidate the unified compulsory education funding guarantee mechanism with a particular focus on rural areas, and promote the development of pre-school education, vocational education and higher education. Start the implementation of the program to improve and strengthen the weak links in compulsory education, and expedite the elimination of the “large classes” in urban areas. Establish national scholarships for secondary vocational education, expand the coverage of scholarships and

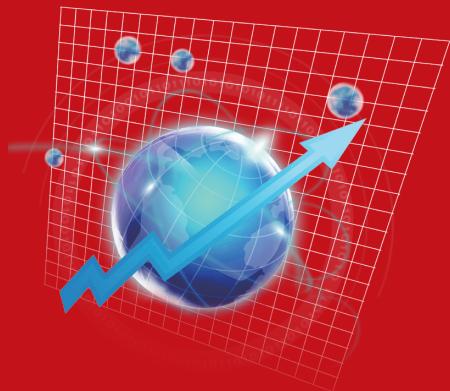
financial aid in higher vocational colleges, and raise the subsidy standards. Improve the level of pension security. Introduce an overarching plan to reform and improve the basic pension insurance system and promote provincial-level adjustment of pension insurance. Promote the development of Healthy China initiative. Enact VAT exemption and reduction policies for drugs treating rare diseases and support the inclusion of hypertension and diabetes outpatient medicines in medical insurance reimbursement, so as to deliver benefits to more than 300 million patients. Strengthen the protection of people's basic livelihood. Continue to increase the level of social assistance such as urban and rural minimum living allowance and the subsidy standards for people eligible for special care. Introduce policies for ensuring the continuity of social insurance of veterans. Increase basic housing security. Carry out pilot projects for the central finance authorities to support the development of the housing rental market. Promote the development of cultural and sports undertakings. Support the inheritance and development of fine traditional Chinese culture and strengthen the protection of cultural heritage.

Seventh, deepen the reform of fiscal and tax system. Further rationalize the fiscal relations between the central and local governments. Actively promote the reform of the division of

fiscal powers and expenditure responsibilities between the central and local governments in specific fields, and introduce programs for such reform in education, science and technology, transportation and other fields. Promote the reform of the sharing of revenues between central and local governments, keep the “50-50” sharing of VAT revenue stable, adjust and improve the VAT rebate sharing mechanism, back-load the collection of consumption tax, and allow local governments to retain such revenue. Improve the budget management system. Increase the coordination between the governmental fund budget and the general public budget, and further expand the implementation scope of the central state-owned capital operating budget. Fully carry out budget performance management, improve performance indicators and standard system, continue to expand the scope of key performance evaluation, and increase the application of evaluation results. Continue to advance the market-oriented reform of treasury bond management and optimize the term structure of treasury bonds. Further deepen the reform of government procurement system. Comprehensively standardize and strengthen the administration of government purchase of services. Focus on advancing tax reform. Improve the VAT system, and basically establish a personal income tax system on comprehensive and classified basis. The Resource Tax Law has

been reviewed and approved by the Standing Committee of the National People's Congress, and the draft of the Urban Maintenance and Construction Tax Law and the Deed Tax Law have been submitted to the Standing Committee of the National People's Congress for initial review in accordance with procedures. Study and gradually improve a stable and sustainable

local tax system. Actively promote the reform of state-owned assets and state-owned enterprises. Actively advance the formation of state-owned capital investment and operation companies, and complete the restructuring of China State Railway Group Co., Ltd. and China Post Group Co., Ltd.. Further rationalize the state-owned financial capital management system.



CHINA FINANCE MONTHLY