REPORT ON THE EXECUTION OF THE CENTRAL AND LOCAL BUDGETS FOR 2020 AND ON THE DRAFT CENTRAL AND LOCAL BUDGETS FOR 2021

Fourth Session of the 13th National People’s Congress of the People’s Republic of China

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Ministry of Finance

The official Chinese version of this report will be released by Xinhua News Agency.
Esteemed Deputies,

The Ministry of Finance has been entrusted by the State Council to submit this report on the execution of the central and local budgets for 2020 and on the draft central and local budgets for 2021 to the present Fourth Session of the 13th National People’s Congress (NPC) for your deliberation and for comments from members of the National Committee of the Chinese People’s Political Consultative Conference (CPPCC).

I. Execution of the 2020 Central and Local Budgets

The year 2020 was an extraordinarily unusual year in the history of the People’s Republic of China. We were confronted with a challenging and complex international environment, arduous tasks in domestic reform, development, and stability, and the serious impacts of the Covid-19 epidemic. Amid these circumstances, the Central Committee of the Communist Party of China (CPC) with Comrade Xi Jinping at its core exercised overall control, maintained strategic resolve, accurately assessed the situation, created meticulous plans, adopted decisive measures, put in arduous effort, and promptly made major decisions for coordinating epidemic control with economic and social development. All regions and departments resolutely followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully applied the guiding principles of the 19th CPC National Congress and the second, third, fourth, and fifth plenary sessions of the 19th Party Central Committee, and fulfilled the decisions and plans of the Party Central Committee and the State Council. Responding to challenges and risks with calm composure and upholding high-quality development with firm resolve, we rigorously implemented the budgets reviewed and approved by the Third Session of the 13th NPC. We coordinated epidemic response with economic and social development, successfully ensured stability on six fronts,¹ and maintained security in six areas.²

¹ The six fronts refer to employment, the financial sector, foreign trade, foreign investment, domestic investment, and expectations.
² The six areas refer to job security, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments.
With quarter-on-quarter improvement, our economy gradually returned to normal, making China the world’s only major economy to achieve growth in 2020. We attained a complete victory in the fight against poverty, and we scored decisive achievements in securing a full victory in building a moderately prosperous society in all respects. Overall, we have performed in a manner worthy of the history books, earning the approval of our people and capturing worldwide attention.

Looking back on the past year, it is apparent that the Covid-19 epidemic brought difficulties and challenges to fiscal operations on a level that has not been seen for many years. In the first quarter, national fiscal revenue fell by 14.3% year-on-year due to the outbreak and spread of the virus, the first instance of negative growth since 2009. In February and March alone, revenue fell by 21.4% and 26.1% respectively, with 30 out of 31 provincial-level units seeing negative growth of fiscal revenue that led to glaring imbalances between government revenue and expenditure and particular difficulties in fiscal operations for local governments. Facing this grave state of affairs, finance departments resolutely carried out the requirements of the Party Central Committee and the State Council on pursuing a more proactive and impactful fiscal policy. While making every effort to ensure spending in key areas, we took prompt action to adjust and improve the budget and strengthen counter-cyclical regulation, established a mechanism for ensuring that new fiscal funds are directly allocated to primary-level governments, and leveraged opportunities to increase revenue and cut spending, thus keeping the budget balanced and fiscal operations stable. Through arduous efforts, and as the epidemic situation improved and the economy gradually recovered, fiscal operations picked up each quarter. Revenue bounced back in the second quarter with the size of the drop shrinking to 7.4%, went from negative to positive in the third quarter with an increase of 4.7%, and continued to improve in the fourth quarter with an increase of 5.5%. Consequently, budgetary targets for the year as a whole were largely met. Execution of both central and local budgets was satisfactory.

1. **Revenue and expenditure in the general public budget in 2020**

1) **National general public budget**

Revenue in the national general public budget was 18.289492 trillion yuan, representing 101.5% of the budgeted figure, a decrease of 3.9% compared with 2019.
Revenue included tax receipts of 15.431006 trillion yuan, a decrease of 2.3%, and non-tax revenue of 2.858486 trillion yuan, a decrease of 11.7%. Adding in 2.613332 trillion yuan of funds from other sources and utilized carryover and surplus funds (this includes funds transferred from the Central Budget Stabilization Fund and local budget stabilization funds, the budgets of central and local government-managed funds, and the budgets of central and local government state capital operations, as well as carryover and surplus funds used by local governments), total revenue came to 20.902824 trillion yuan.

Expenditure in the national general public budget was 24.558803 trillion yuan, representing 99.1% of the budgeted figure and an increase of 2.8%. With the addition of 104.021 billion yuan used to replenish the Central Budget Stabilization Fund, total expenditure rose to 24.662824 trillion yuan. Total expenditure exceeded total revenue, leaving a deficit of 3.76 trillion yuan, which is consistent with the figure projected.

2) Central general public budget

Revenue in the central government’s general public budget was 8.277108 trillion yuan, representing 100% of the budgeted figure and a decrease of 7.3%. Adding in the transfer of 530 billion yuan from the Central Budget Stabilization Fund and 358 billion yuan from the budgets of central government-managed funds and central government state capital operations, total revenue came to 9.165108 trillion yuan.

Expenditure in the central government’s general public budget totaled 11.841087 trillion yuan, representing 99.1% of the budgeted figure and an increase of 8.2%. This figure includes: central government expenditures of 3.509557 trillion yuan, representing 100.2% of the budgeted figure (mainly due to increased interest payments on government bonds) and a 0.1% decrease; and transfer payments to local governments of 8.33153 trillion yuan, representing 99.3% of the budgeted figure and a 12% increase. With the addition of 104.021 billion yuan contributed to the Central Budget Stabilization Fund, total expenditure reached 11.945108 trillion yuan. Total expenditure exceeded total revenue, leaving a deficit of 2.78 trillion yuan, which is consistent with the figure projected.

Main revenue items in the central government’s general public budget: Domestic value-added tax (VAT) revenue was 2.835298 trillion yuan, 98.8% of the budgeted figure. Domestic excise tax revenue amounted to 1.20281 trillion yuan, 96.1% of the
budgeted figure. Revenue from VAT and excise tax on imports totaled 1.453463 trillion yuan, 109.2% of the budgeted figure. Revenue from customs duties came to 256.42 billion yuan, 93.2% of the budgeted figure. Corporate income tax revenue was 2.325757 trillion yuan, 98.3% of the budgeted figure. Individual income tax revenue was 694.091 billion yuan, 109.3% of the budgeted figure. VAT and excise tax rebates on exports totaled 1.362898 trillion yuan, 112.3% of the budgeted figure.

Main expenditures in the central government’s general public budget: General public service expenditures reached 173.521 billion yuan, 100.8% of the budgeted figure, primarily due to increased spending on customs countermeasures for Covid-19. Diplomatic spending totaled 51.406 billion yuan, 94.7% of the budgeted figure. National defense spending was 1.267992 trillion yuan, 100% of the budgeted figure. Public security expenses totaled 183.59 billion yuan, 100.2% of the budgeted figure. Spending on education came to 167.365 billion yuan, 98.5% of the budgeted figure. Spending on science and technology amounted to 321.648 billion yuan, 100.6% of the budgeted figure. Spending on stockpiling grain, edible oils, and other materials was 122.457 billion yuan, 100.7% of the budgeted figure. Interest payments on debt totaled 553.895 billion yuan, 102.6% of the budgeted figure.

Central government transfer payments made to local governments: General transfer payments totaled 6.955723 trillion yuan, 99.2% of the budgeted figure. This figure includes transfer payments for shared fiscal powers of 3.218072 trillion yuan, 98.7% of the budgeted figure. Special transfer payments reached 776.592 billion yuan, 100.1% of the budgeted figure, primarily due to increased spending allocated from the proceeds of inter-provincial land quota adjustments on the basis of practical arrangements. Special-channel transfer payments totaled 599.215 billion yuan, 99% of the budgeted figure.

In 2020, a total of 104.021 billion yuan of extra revenue and unspent funds in the central general public budget was transferred in full to the Central Budget Stabilization Fund. Central government reserve funds budgeted for 2020 amounted to 50 billion yuan. Of this, actual spending was 14.641 billion yuan, which was mainly used in post-flood reconstruction and other areas. The 35.359 billion yuan surplus (already included in the aforementioned 104.021 billion yuan of surplus funds) was transferred in full to the Central Budget Stabilization Fund. At the end of 2020, the Central Budget Stabilization Fund had a balance of 113.131 billion yuan.
3) Local general public budget

Revenue in the local general public budget was 18.343914 trillion yuan. This figure includes 10.012384 trillion yuan in local government revenue, a decrease of 0.9% compared with 2019, and 8.33153 trillion yuan in transfer payments from the central government. With the addition of 1.725332 trillion yuan of funds transferred from local budget stabilization funds, local government-managed funds, and the local state capital operations budget as well as utilized carryover and surplus funds, total revenue reached 20.069246 trillion yuan. Expenditures in the local general public budget totaled 21.049246 trillion yuan, a 3.3% increase. Total expenditure exceeded total revenue, creating a local government deficit of 980 billion yuan, which is consistent with the figure projected.

2. Revenue and expenditure of government-managed funds in 2020

In accordance with regulations concerning the management of local government debt, revenue and expenditure generated from special local government debt are included in the budgets of government-managed funds. In accordance with regulations concerning the management of Covid-19 bonds, revenue and expenditure generated from Covid-19 bonds are included in the budgets of government-managed funds.

Revenue of China’s government-managed funds in 2020 was 9.348874 trillion yuan, representing 114.8% of the budgeted figure and an increase of 10.6%. This was mainly due to a significant increase in revenue from the local governments’ sale of state-owned land-use rights. Adding in 18.155 billion yuan carried over from 2019, 3.75 trillion yuan raised by local governments through special-purpose bonds, and 1 trillion yuan raised from Covid-19 bonds, total revenue amounted to 14.117029 trillion yuan. Expenditure of all government-managed funds was 11.799894 trillion yuan, representing 93.6% of the budgeted figure and an increase of 28.8%. This was mainly due to a significant increase in expenditure through local government special-purpose bonds.

Revenue of central government-managed funds was 356.158 billion yuan, representing 98.6% of the budgeted figure and a decrease of 11.8%. This was mainly due to a significant decrease in the revenue of certain funds affected by the epidemic, as well as the introduction of temporary exemption policies. With the
addition of 18.155 billion yuan carried forward from 2019 and 1 trillion yuan raised from Covid-19 bonds, total revenue came to 1.374313 trillion yuan. Expenditure of central government-managed funds totaled 1.043987 trillion yuan, representing 96.8% of the budgeted figure. Broken down, this figure includes 271.462 billion yuan of central government spending and 772.525 billion yuan of transfer payments to local governments. Funds transferred from central government-managed funds to general public budgets amounted to 300.25 billion yuan. Revenue of central government-managed funds exceeded expenditure by 30.076 billion yuan. Of this figure, 24.012 billion yuan was carried forward to 2021, while 6.064 billion yuan, comprising the portion of individual government-managed funds’ carryover that exceeded 30% of revenue in 2020, was contributed to the Central Budget Stabilization Fund in accordance with regulations.

Revenue of local government-managed funds was 8.992716 trillion yuan, an increase of 11.7%. Revenue from the sale of state-owned land-use rights accounted for 8.414229 trillion yuan of this figure, a 15.9% rise. Adding in transfer payments of 772.525 billion yuan from central government-managed funds and 3.75 trillion yuan raised by local governments through special-purpose bonds, total revenue came to 13.515241 trillion yuan. Expenditure of local government-managed funds totaled 11.528432 trillion yuan, an increase of 30.2%.

3. Revenue and expenditure of state capital operations in 2020

In accordance with relevant management regulations for the budgets of state capital operations, revenue from state capital operations is mostly collected as a certain proportion of the net profits of state-owned enterprises (SOEs) from the previous year, while expenditure is planned according to the principle of balance between expenditure and revenue.

Revenue of state capital operations nationwide was 477.782 billion yuan in 2020, representing 131.3% of the budgeted figure and an increase of 20.3%. This was mainly due to efforts to increase the amount of profits turned over by SOEs. Expenditure totaled 254.406 billion yuan, representing 97.3% of the budgeted figure and an increase of 10.8%.

Revenue of central government state capital operations was 178.561 billion
yuan, representing 105.6% of the budgeted figure and an increase of 9.1%. With the addition of 14.409 billion yuan carried over from 2019, total revenue was 192.97 billion yuan. Expenditure of central government state capital operations reached 93.906 billion yuan, representing 74.6% of the budgeted figure and a decrease of 15.3%. This included 87.369 billion yuan of central government spending and 6.537 billion yuan in transfer payments to local governments. The proportion of funds allocated from the central government state capital operations budget to the general public budget increased to 57.75 billion yuan. A sum of 41.314 billion yuan of revenue from these operations has been carried over to 2021.

Revenue of local government state capital operations reached 299.221 billion yuan, an increase of 28.1%. Adding in 6.537 billion yuan in transfer payments from the central government state capital operations budget to local governments and 8.049 billion yuan carried forward from last year, total revenue was 313.807 billion yuan. Expenditure of local government state capital operations was 167.037 billion yuan, an increase of 27.6%. The proportion of funds allocated from the local government state capital operations budget to the general public budget increased to 114.82 billion yuan. An amount of 31.95 billion yuan of revenue from these operations has been carried over to 2021.

4. Revenue and expenditure of social security funds in 2020

Revenue of social security funds nationwide was 7.211565 trillion yuan, representing 93.3% of the budgeted figure and a decrease of 13.3%. This significant decrease in revenue was due to the policy of temporarily reducing social insurance premiums. Revenue included 4.697369 trillion yuan in insurance premiums and 2.094694 trillion yuan in government subsidies. Adding in 50 billion yuan of special funds allocated from the National Social Security Fund to some localities to make up for shortfalls in enterprise employees’ basic old-age insurance funds, total revenue was 7.261565 trillion yuan. Expenditure of social security funds nationwide totaled 7.883482 trillion yuan, representing 95.8% of the budgeted figure and an increase of 5.5%. The deficit for 2020 of 621.917 billion yuan was rolled over, bringing the year-end balance to 9.032614 trillion yuan.

Revenue of the central government social security fund was 70.483 billion yuan, representing 50.9% of the budgeted figure. This includes 35.2 billion yuan in
insurance premiums and 31.775 billion yuan in government subsidies. With the addition of 737.955 billion yuan of basic old-age insurance funds allocated by local governments for central regulation and 50 billion of special funds from the National Social Security Fund, total revenue rose to 858.438 billion yuan. Expenditure of the central government social security fund was 70.842 billion yuan, representing 50.3% of the budgeted figure. Adding in 737.005 billion yuan of basic old-age insurance funds reallocated by the central government to local governments through central regulation and 50 billion yuan of special funds allocated to some localities to make up for shortfalls in enterprise employees’ basic old-age insurance funds, total expenditure came to 857.847 billion yuan. The surplus for 2020 of 591 million yuan was rolled over, bringing the year-end balance to 37.287 billion yuan. The budget execution rate for revenue and expenditure of the central government social security fund was on the low side, mainly because some government offices and public institutions had yet to complete the settling of accounts while preparing to implement the old-age insurance system. Revenue of central regulation funds exceeded expenditure by 950 million yuan, mainly because the Xinjiang Production and Construction Corps was subjected to local regulation though its revenue and expenditure were included in central budget, and interest of central regulation funds for previous years was allocated.

Revenue of local government social security funds was 7.141082 trillion yuan, which included 4.662169 trillion yuan in insurance premiums and 2.062919 trillion yuan in government subsidies. With the addition of 737.005 billion yuan of basic old-age insurance funds reallocated to local governments by the central government and 50 billion yuan of special funds allocated by the central government to some localities to make up for shortfalls in enterprise employees’ basic old-age insurance funds, total revenue rose to 7.928087 trillion yuan. Expenditure of local government social security funds was 7.81264 trillion yuan. Adding in 737.955 billion yuan of basic old-age insurance funds allocated for central regulation, total expenditure came to 8.550595 trillion yuan. The deficit for 2020 of 622.508 billion yuan was rolled over, bringing the year-end balance to 8.995327 trillion yuan.

At the end of 2020, outstanding central government debt was 20.890587 trillion
yuan, within the budgeted limit of 21.300835 trillion yuan approved by the NPC. Outstanding local government debt totaled 25.661465 trillion yuan, which included 12.7395 trillion yuan of general debt and 12.921965 trillion yuan of special debt. This figure was also within the NPC-approved budget limit of 28.80743 trillion yuan.

5. Implementation of the main fiscal and tax policies and other major fiscal work in 2020

In 2020, finance departments conscientiously implemented the decisions and plans of the Party Central Committee and the State Council; adhered to the Budget Law and its implementation regulations, and the Guidelines on People’s Congresses Expanding the Focus of Budget Review and Oversight to Expenditure Budgets and Policies; and worked as required by the outcomes of the NPC’s deliberations and their comments on the budgets. We developed and launched fiscal and tax policies to counter the impacts of the epidemic in a timely manner, supported efforts to ensure stability on the six fronts and maintain security in the six areas, and exerted our key role in stabilizing the economy. At the same time, we pushed forward fiscal and tax system reform at a faster pace, and provided strong guarantees for economic development and social stability.

- We devoted all-out efforts to supporting the fight against the Covid-19 epidemic.

Guaranteeing funds for epidemic prevention and control as a top priority

Setting our sights on epidemic prevention and control as our most important and urgent task, we acted according to the principle that extraordinary matters demand extraordinary measures, expediting the appropriation of funds to ensure that members of the public would not forgo medical treatment out of concern for the costs and that local authorities would not have to cut corners on medical treatment and prevention and control efforts due to lack of funding. We stepped up support for Hubei and other hard-hit areas. We strengthened oversight on the allocation and use of funds, while anti-epidemic expenditures from finance authorities at all levels exceeded 400 billion yuan, providing related work with firm support.

Strengthening fiscal and tax support policies for responding to the epidemic

We saw that Covid-19 patients were provided with free medical treatment funded by the government, and spared no cost to save lives. Frontline medical
workers and epidemic prevention workers were granted temporary work subsidies, and subsidy standards for Hubei Province (including medical teams sent to assist Hubei) were doubled. We reduced or waived the taxes and fees of key enterprises that produce epidemic prevention and control supplies, and provided funding support through preferential loan interest subsidies and other means. We implemented government-funded procurement and stockpiling of key medical materials that were in short supply. We actively supported scientific research related to epidemic prevention and control, and promoted medicine and vaccine R&D. At the same time, we vigorously supported the development of the public health system, the major epidemic containment and treatment system, and the emergency supply system in order to raise our capacity to handle major public health emergencies and ramp up the production of emergency supplies.

- We introduced and implemented broad policies for alleviating difficulties caused by the epidemic.

Offsetting the impact of the epidemic with stronger policies

We continued working to make our proactive fiscal policy more proactive and impactful, and adopted special measures for these unusual circumstances. The deficit-to-GDP ratio was raised to above 3.6%. The deficit increased by 1 trillion yuan, and an additional 1 trillion yuan of Covid-19 bonds were issued, with the total of 2 trillion yuan used primarily to ensure employment, meet basic living needs, and protect market entities. This includes support for efforts to cut taxes and fees, reduce rents and interest on loans, and increase consumption and investment. We issued an additional 1.6 trillion yuan worth of local government special-purpose bonds compared to the previous year, and expanded the scope of their use appropriately. We also raised the proportion of special bonds that could be used as project capital, thereby actively expanding effective investment.

Stepping up tax and fee cuts to help alleviate the operational difficulties of enterprises

Through a combination of temporary large-scale tax and fee cuts and institutional arrangements, we reduced the burden on market entities by more than 2.6 trillion yuan for the year. On the basis of implementing institutional policies such as VAT rates reductions, special additional deductions for individual income tax, and downward adjustments of enterprise contributions to old-age insurance schemes and according to the needs of the epidemic response, we launched and implemented 7 rounds of tax and fee reductions including 28 specific
policies. We promptly introduced temporary measures including exempting micro, small, and medium-sized enterprises from paying social insurance contributions and reducing or waiving VAT for small-scale taxpayers and certain industries, and postponed collection of income tax for small and micro businesses and self-employed individuals. With our focus on protecting market entities, we channeled support toward micro, small, and medium-sized enterprises, self-employed individuals, and enterprises in vulnerable industries.

*Increasing transfer payments to alleviate difficulties in fiscal operations at the primary level*

Transfer payments from the central government to local governments reached 8.33 trillion yuan, an increase of 895.5 billion yuan or 12% over the previous year. This was the largest increase in recent years in both rate and scale, with payments weighted toward the central and western regions and areas in need, in order to ensure the growth of primary-level governments’ fiscal capacity. The ratio of funds retained by local governments was raised temporarily, and differentiated allocation of funds was implemented. Local governments’ spending for ensuring people’s basic wellbeing, payment of salaries, and normal government functioning was ensured quite effectively.

- **We made decisive achievements in driving forward the three critical battles.**

  *Helping ensure victory in the battle against poverty on schedule*

  Poverty alleviation measures were implemented precisely with the focus on counties and people that remain in poverty. Central government funding earmarked for poverty alleviation increased by 20 billion yuan for the fifth year running and reached 146.1 billion yuan, with these funds weighted toward regions severely affected by the epidemic and areas that have been designated for supervision in their poverty eradication efforts. A one-time increase of 30 billion yuan in comprehensive fiscal capacity subsidies was implemented in order to help local governments remedy shortcomings in the battle against poverty. We provided greater support for poverty alleviation through the development of local industries and employment, and devoted focus to resolving prominent problems under efforts to guarantee the basic food and clothing needs of the rural poor population and ensure that they have access to compulsory education, basic medical services, and housing. We stepped up end-to-end oversight on the
performance of poverty alleviation programs, and refined mechanisms for the monitoring of funds featuring coordination between departments and central and local authorities.

Promoting noticeable environmental improvements

We supported the fight to keep our skies blue, our waters clear, and our lands pollution-free. We followed through with the implementation of pilot projects to protect and restore mountain, water, forest, farmland, lake, and grassland ecosystems. We continued to push forward forest and grassland ecological conservation and restoration, and bolstered efforts to protect biodiversity across the board. We guided the launch of trial compensation mechanisms for ecological conservation within the entire Yellow River basin, and encouraged provinces and autonomous regions along the river to work together in coordinating conservation and remediation efforts. We promoted the official launch of the national green development fund, and provided support to provinces and municipalities along the Yangtze Economic Belt for environmental protection and energy and resource conservation.

Capturing positive results in forestalling and defusing major risks

We refined mechanisms for regular debt oversight, strengthened policy coordination, and implemented joint supervision, thereby mitigating risks related to hidden local government debt. A total of 200 billion yuan from newly-issued local government special-purpose bonds was earmarked for helping to defuse risks for small and medium-sized banks.

- **We vigorously supported scientific and technological innovation.**

  We created new mechanisms for managing government funds with a view to supporting breakthroughs on core technologies in key fields and facilitating the launch of major projects for the Sci-Tech Innovation 2030 Agenda such as quantum communications, quantum computing, brain science, and brain-inspired intelligence research. We improved systems and mechanisms for supporting basic research and original innovation, intensified fiscal support for basic research, and provided the impetus to kick start independent innovation. We improved investment mechanisms coordinating the provision of support on an ongoing basis and a competitive basis, and intensified steady support for public scientific research institutions at the central level in their basic operations, research on independently selected topics, and development of research infrastructure. We
employed a variety of means to support the construction of national science and technology innovation bases, and exerted the role of these bases in supporting scientific innovation. Making it a priority to foster high-level talent, we promoted the cultivation of more world-class leaders and teams of innovators in science and technology. We supported eligible enterprises in taking on research under central government-funded science and technology programs (projects and funds), and guided enterprises in increasing their R&D investment so that they truly become the primary vehicles of technological innovation.

- **We focused support on transformation and upgrading of the real economy.**

  *Promoting high-quality development of the manufacturing sector*

  We gave full play to the leveraging role of government funds in guiding capital and resources toward key areas of strategic importance. We consolidated financial resources to set up special funds for supporting the enhancement of basic industrial capacities and the upgrading of industrial chains. We stepped up preferential tax benefits for industries including integrated circuits and software, and extended the policy of providing subsidies and waiving taxes for new-energy vehicle purchases to the end of 2022.

  *Vigorously supporting the development of small and medium-sized enterprises*

  We guided nongovernmental capital toward supporting innovation and development at growing small and medium-sized enterprises which were still in the seed or startup stages. We continued to support development zones focused on the real-economy in creating distinctive platforms for entrepreneurship and innovation, and pushed small and medium-sized enterprises to enhance their capacity for innovation and raise their level of specialization. We furthered implementation of the policy of providing rewards and subsidies to promote the reduction of financing guaranty fees for small and micro businesses, and worked to expand financing guarantee coverage and cut related fees. We made further progress in clearing overdue payments to private enterprises and small and medium-sized businesses.

  *Strengthening food and energy security guarantees*

  We increased rewards for major grain-producing counties, and refined policies for subsidizing corn, soybean, and rice producers. We backed the development of an additional 5.33 million hectares of high-standard cropland and the application
of conservation tilling techniques on 2.67 million hectares of chernozem soil in northeast China. We supported coordinated efforts to reduce excess stockpiles of grain and put them on the market, thereby optimizing the structure of reserves. We also expanded the scope of temporary loan interest subsidies for hog farming in order to help stabilize the production and supply of hogs. We refined policies for subsidizing the use of renewable energy for power generation, and worked to see that electricity generated from wind and solar power comes on the grid at reasonable prices. We encouraged the exploration and utilization of unconventional natural gas such as shale gas and coal seam gas, and supported the expansion of our energy reserve capacity.

- **We continued to ensure and improve public wellbeing.**
  
  **Focusing on stabilizing employment**

  We expanded channels for providing employment-related funding, and facilitated the implementation of policies supporting employment and entrepreneurship. We bolstered policies for refunding employment insurance premiums to help enterprises maintain stable employment and for subsidizing interest payments on guarantee loans for business startups, thereby helping to keep businesses and employment stable. We extended the coverage of unemployment insurance, and enhanced efforts to meet the basic needs of unemployed persons and help them find new employment.

  **Promoting the development of more equitable and higher-quality education**

  We stabilized investment in education, and optimized the structure of investment. We established a unified national benchmark for public funding per student in the compulsory education stage, putting the benchmark in the central and western regions on a par with that in the eastern region. We supported work to address weak links and boost capacity in compulsory education, largely eliminated the problem of excessively large class sizes in urban schools, and basically remedied deficiencies at small rural schools and boarding schools in counties and townships. We facilitated the expansion of public-interest preschool education resources through both public and private kindergartens, and consolidated and improved the financial assistance system for preschool-age children. We moved faster to advance universal senior secondary education, promoted high-quality development of vocational education, and stepped up support for higher education institutions in the central and western regions.
Raising social security benefits

Government subsidies for basic medical insurance for rural and non-working urban residents and basic public health services were increased to 550 yuan and 74 yuan, respectively, per person per year. Basic pension benefits for retirees were increased by around 5%, and the minimum basic pension benefit for rural and non-working urban residents rose to 93 yuan. The centrally-regulated share of enterprise employees’ basic old-age insurance funds was increased further to 4%, with 22 provinces in central and western regions and where old industrial bases are located receiving net benefits of 176.845 billion yuan from these funds. Pension benefits were paid on time and in full, and provincial-level collection and pay-out of enterprise workers’ basic old-age insurance funds was realized. Subsidies and living allowances were increased for entitled groups. Work by the central government to appropriate a portion of state capital to replenish social security funds was fully completed, with a total of 1.68 trillion yuan in state capital transferred from 93 central government enterprises and financial institutions. We supported efforts to foster and develop the rental housing market in 24 trial cities, and provided assistance for the renovation of 40,300 old urban residential communities. We strengthened public cultural services at the community level, and helped more than 50,000 public cultural facilities like museums and libraries offer free admission.

Working hard to meet people’s basic needs

We launched mechanisms for raising social assistance and benefit payments in step with price increases in a timely manner, implemented short-term increases of temporary price subsidies, and expanded the coverage of subsistence allowances and temporary assistance, thereby ensuring the basic living needs of people in financial difficulty.

- We created and implemented a new mechanism for the direct allocation of government funds.

A special-channel transfer payment mechanism was established for the 2 trillion yuan of new funds from the fiscal deficit and Covid-19 bonds to ensure that these funds went precisely where intended, going straight to prefecture and county governments and directly benefiting businesses and people.

Establishing a sound management system

We formulated management provisions and set clear requirements for the
distribution, utilization, allocation, and supervision of directly-appropriated funds to ensure that these funds were not diluted or withheld. We pushed and guided local authorities in rigorously implementing this system of management, ensuring that provincial-level finance departments act as involved intermediaries in their role of distributing funds rather than detached onlookers, and that a greater proportion of funds reaches the lower levels.

Rapidly delivering funds

Acting according to the principle of the central government divvying up funds and provincial authorities taking charge of specifics with rapid and direct allocation of funds following filing and approval, we pushed forward precise and effective delivery of funds to end users. Utilization of funds covered under the direct allocation mechanism was faster by one quarter or more compared to previous years.

Enforcing rigorous supervision over funds

We developed an oversight system for directly-allocated funds linking central, provincial, prefectural, and county-level finance departments, and set up a ledger system to trace every sum at every stage from its source to its end user. We strengthened interdepartmental coordination to form synergy in oversight. The direct allocation mechanism has run smoothly and effectively, promptly supplementing the financial resources of primary-level governments so that they can fulfill their tasks in maintaining security in the six areas, and providing timely support for market entities in overcoming difficulties.

- **We ensured that governments at all levels keep tightening their belts.**

  Central government departments took the lead in formulating strict budgets, and made rigorous efforts to keep overall expenditures, other than necessary additional expenditures including those for epidemic prevention and control and interest payments on national debt, within approved budgetary limits. Central government spending registered negative growth, with non-essential and non-obligatory expenditures cut by more than 50%. We carried out regular assessments of the belt-tightening efforts of central government departments, strengthened application of the outcomes of oversight on budget execution, and took steps to close loopholes in a timely manner and improve management. We pushed local authorities to practice strict economization and cut down on unnecessary meetings and training. All categories of idle funds from non-critical
expenditure items were recalled, and budgetary funds open for consolidation were promptly put to other uses, thus ensuring concrete execution of the requirement to tighten our belts.

- **We continued to improve fiscal management.**
  
  *Steadily advancing fiscal and tax reform*

  The revised regulations on implementation of the Budget Law were promulgated, and the Law on Deed Transfer Tax and the Law on Urban Construction and Maintenance Tax were successfully introduced. The draft law on stamp duty was submitted to the NPC Standing Committee for its first reading in accordance with due procedures. Plans for reforms targeted at clearly dividing the respective fiscal powers and expenditure responsibilities of central and local governments in areas including the environment, public culture, natural resources, and emergency relief services were published and implemented. We advanced the development of an integrated system for budget management, and introduced nationally unified operational norms and technical standards.

  *Continuously developing performance-based budget management*

  We took steps to further improve the performance-based budget management system, and introduced management provisions for performance reviews of expenditure items. Performance targets were rigorously managed, and key performance reviews were carried out in a thorough manner. A broader range of performance-related information was submitted to the NPC, and efforts were made to promote public access to this information.

  *Strengthening management over state-owned assets and government finance*

  We reported to the NPC Standing Committee on the management of state-owned assets. A total of 295 central government enterprises were added to state capital operations budgets. The scope of government financial statements was expanded to include 108 central government departments, with all government departments included at the local level.

  *Further tightening up fiscal discipline*

  We stepped up oversight on accounting and auditing, made focused efforts to improve auditing quality at accounting firms, and cracked down hard on financial fraud. We earnestly implemented fiscal and tax policies in areas such as poverty alleviation and the Yangtze River fishing ban, and exercised oversight on the use of relevant funds. We pressed for the rectification of problems in this regard, and
pushed forward supporting reforms.

*Accepting people's congress budget review and oversight in accordance with law*

We worked to see that the resolutions of the NPC and its Standing Committee on budgets were implemented, took prompt and concrete steps to correct problems discovered in auditing, worked for simultaneous progress on the resolution of problems and the development of permanent mechanisms, and made timely reports to the NPC Standing Committee on our efforts to rectify problems. We actively strengthened communications and links with NPC deputies, heard their opinions and suggestions, and responded to their concerns in a timely manner.

The year 2020 was the final year of the 13th Five-Year Plan. Over the past five years, our country has made new and historic achievements in economic and social development. Major targets set in the 13th Five-Year Plan have been successfully reached, while new progress has been made in fiscal reform and development.

**First,** our fiscal strength has been further enhanced, providing a solid material foundation for promoting healthy and sustained economic and social development. While large-scale tax and fee cuts were implemented, fiscal revenue during the 13th Five-Year Plan period totaled 88.88 trillion yuan. This was an increase of 38% over the previous five years, reflecting growth from a large base.

**Second,** fiscal spending has been kept at high intensity, providing strong guarantees for the advancement of the undertakings of our Party and country. We have worked hard to grow revenue streams, reduce expenses, and put both idle and additional funds to work. Fiscal expenditures during the 13th Five-Year Plan period reached 109.62 trillion yuan, up 56% over the previous five years, effectively ensuring spending in key areas.

**Third,** we have upheld a proactive fiscal policy to keep major economic indicators within an appropriate range. We were firm in choosing not to adopt a deluge of strong stimulus policies, and flexibly adjusted the deficit rate and the scale of government debts in light of new developments. We have leveraged various fiscal and tax policies and tools in an integrated manner, guided and improved market expectations, and struck the right balance between development and security imperatives.

**Fourth,** we have implemented unprecedented cuts of taxes and fees, and effectively promoted the development of market entities and the real economy. We have acted in the long-term interests of our country, integrated tax reform with tax
and fee cuts, and attached equal emphasis to institutional arrangements and temporary policies and to general-benefit tax cuts and structural tax cuts. During the 13th Five-Year Plan period, taxes and fees were cut by a total of 7.6 trillion yuan, which has played an important role in easing burdens on enterprises, unleashing vitality for innovation, improving the structure of the economy, spurring consumer spending, and expanding employment.

**Fifth**, we have only increased and not reduced spending on improving people’s living standards, and ensured that all the people enjoy more of the fruits of reform and development in a fairer way. No matter how difficult the fiscal situation has been, we have never cut spending in this regard. Over the last five years, central government funding for poverty alleviation has grown by an average rate of 25.9% per year. Government budgetary spending on education has been kept at a level of no less than 4% of GDP. The level of benefits from basic old-age insurance, basic medical insurance, and urban and rural subsistence allowances has been raised on a yearly basis.

**Sixth**, we have provided strong support for supply-side structural reform and major national strategic tasks, and consistently improved economic development in quality and effect. We have supported implementation of the innovation-driven development strategy, with nationwide government investment in science and technology increasing at an average annual rate of 9% over the past five years. The rural revitalization strategy has been put into effect, and development has grown more coordinated between urban and rural areas and between different regions. We have supported the implementation of the sustainable development strategy, and witnessed significant improvement in the overall quality and stability of our ecosystems. We have promoted the expansion of high-standard opening up, with the overall tariff level reduced from 9.8% to 7.5% over the past five years.

**Seventh**, we have steadily advanced fiscal and tax reform and put in place a basic framework for a modern public finance system. Budget management has become more science-based and standardized, and reforms for performance-based management have been carried out across the board. Major progress has been made in reform of taxes including VAT and individual income tax, and tax legislation has kept moving forward. Reform plans aimed at appropriately dividing fiscal powers and spending responsibilities between the central and local governments on a sector-by-sector basis have been successively introduced. The
state-owned assets management system has been consistently improved.

We owe these achievements to the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core; to the sound guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era; to the oversight and guidance of the NPC, the CPPCC National Committee, and their deputies and members; and to the concerted efforts of all regions, all departments, and the people of all our nation’s ethnic groups.

At the same time, we have yet to overcome the following difficulties and problems in budget execution and public finance work:

- Growth of fiscal revenue lacks momentum, making it more difficult to balance the budget and showing more apparent signs of a tight balance.
- The fiscal resources of different regions are imbalanced, with some local governments facing pronounced gaps between revenue and expenditure, and some cities and counties facing pressure in fiscal operations.
- Some localities have insufficient reserves of projects or are inadequately prepared for them, negatively impacting the implementation of relevant policies such as the expansion of effective investment.
- Existing projects in certain areas remain inflexible and inadaptable, and greater efforts are needed to adjust and improve the spending structure.
- Budget performance is not adequately managed in some departments and organizations, and the quality of full-process performance management needs to be enhanced.
- There are still cases of new hidden local government debt being added in violation of laws and regulations, and some local governments are carrying heavy debt burdens.
- The pressure on social security funds to maintain balance over the long term is increasing as population aging becomes more serious and insurance benefit standards steadily rise.

We must take these problems very seriously, and actively adopt measures to address them.

II. Draft Central and Local Budgets for 2021

The year 2021 is of special significance for China’s modernization drive. It is
the first year of the 14th Five-Year Plan and the start of the new journey to comprehensively build a modern socialist China. This makes the compilation of this year’s budgets and public finance work all the more important. We will follow the plans and requirements put forward by the Party Central Committee and the State Council, accurately assess the state of government revenue and expenditure, effectively perform budget compilation work, give full play to the role of public finance, and see that we take a solid first step and break new ground in forging a new pattern of development.

1. Analysis on the prospects for fiscal revenue and expenditure in 2021

At present and for some time to come, China remains in an important period of strategic opportunity for development, and has now shifted to a stage of high-quality development. Our economy remains favorable for long-term growth. We are equipped with distinct institutional strengths and improved governance capacity, and enjoy solid material foundations, abundant human resources, a vast market, strong development resilience, and overall social stability. All these provide advantages and conditions on many levels that are conducive to continued development. At the same time, however, the international environment is becoming more complex, with instability and uncertainty increasing markedly. The impacts of Covid-19 have been widespread and profound, and economic globalization has suffered setbacks. In China, the problems of unbalanced and inadequate development are still pronounced, and the tasks of reform in key sectors remain arduous. The foundations for a steady economic recovery are not yet solid enough, and there is still hard work that needs to be done to ensure stability on six fronts, maintain security in six areas, and ward off risks.

From a fiscal revenue perspective, the GDP growth rate and the fiscal revenue base decreased in 2020. It is estimated that growth of fiscal revenue will recover in 2021 as the economy gradually returns to normal and the price index rebounds. However, since additional revenue from one-time measures such as increasing fiscal deficits and using carryover and surplus funds of previous years will visibly decline and no additional Covid-19 bonds will be issued, growth of available funds will be rather modest. From a fiscal expenditure perspective, the need for funding has increased in various fields. Key and obligatory expenditures for implementing the 14th Five-Year Plan, forging a new pattern of development, rural revitalization, pollution prevention and remediation, education, science and technology,
emergency and disaster response, ensuring people’s basic living needs, payment of salaries, and normal government functioning at the primary level, national defense and the armed police, and interest payments on debt need to be backed by stronger guarantees. This indicates that growth of fiscal expenditures will be inevitable. **On the whole**, the outlook for government revenue and expenditure in 2021 appears quite grave, with even greater difficulty in balancing the budget and risks in key areas such as debt that cannot be overlooked. We must step up unified management of fiscal resources, make every effort to improve the spending structure, refine mechanisms for the allocation and utilization of funds, and substantially enhance fiscal sustainability.

2. **Overall requirements for the preparation of the 2021 budget and public finance work**

The overall requirements for the preparation of the 2021 budget and public finance work are as follows:

- Follow the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core
- Take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as our guide
- Fully implement the guiding principles of the 19th National Congress of the CPC, the second, third, fourth, and fifth plenary sessions of the 19th CPC Central Committee, and the Central Economic Work Conference
- Adhere to the general principle of pursuing progress while ensuring stability
- Focus on the new stage of development, apply the new development philosophy, and forge a new pattern of development
- Make high-quality development the theme, supply-side structural reform the main task, reform and innovation the fundamental driving force, and meeting the people’s growing needs for a better life the ultimate objective
- Adopt a systematic perspective to consolidate and build upon our achievements in controlling Covid-19 and pursuing economic and social development, balance development and security imperatives more effectively, and ensure stability on six fronts and maintain security in six areas
- Increase the quality, efficiency, and sustainability of our proactive fiscal policy and keep major economic indicators within an appropriate range
- Redouble efforts to improve the spending structure, practice strict economization, and scrutinize all expenditure items
- Tighten the government’s belt across the board, strengthen fiscal guarantees for major national strategic tasks, and make sure that every cent is used where it is needed most.

- Strengthen unified management of fiscal resources, push forward standardization of fiscal expenditure, make budgets more binding, intensify performance-based management, and strive to boost the efficiency of fiscal expenditure.

- Implement reform measures for dividing fiscal authority and spending responsibilities between central and local governments, deepen reform of the budget management system, steadily advance reform of the taxation system, and accelerate the establishment of modern fiscal and tax systems.

- Step up management of local government debt, make solid progress in defusing risks related to hidden local government debt, and promote sustainable fiscal development.

- Ensure a good start for the 14th Five-Year Plan, and celebrate the CPC’s centennial with outstanding achievements.

In line with the above requirements, we will focus on the following six principles:

- **Maintaining a proper level of spending intensity and increasing fiscal sustainability.** We will strike a balance between the need for macro regulation and the prevention of fiscal risks, and set the deficit-to-GDP ratio at a reasonable level. We will make greater efforts to put idle budgetary funds to good use, continue to maintain a proper level of spending intensity, increase fiscal guarantees for major national strategic tasks, and give full play to the important role of government funds in supporting scientific innovation, accelerating structural adjustment of the economy, and regulating income distribution. We will make proper arrangements for the scale of special local governments bonds, and actively guard against local government debt risks.

- **Continuing to cut taxes and fees and energizing market entities.** We will take into account both the coping capacity of government finance and the need to implement policy measures designed to help businesses, and keep tax and fee cuts at an appropriate level. Priority will continue to be given to micro and small enterprises and self-employed individuals, and greater policy support will be provided for scientific innovation. We will further enhance the effectiveness of tax
and fee cuts, work hard to ease tax burdens on enterprises, and unleash the vitality of market entities.

— **Establishing a regular mechanism for the direct allocation of funds and making government funding more efficient.** We will earnestly review experience related to the direct allocation mechanism, elevate effective practices to the level of institutional arrangements in a timely manner, and expand the range covered by directly allocated funds. We will refine the management of directly allocated funds and improve the processes through which they are distributed, ensuring that local governments fulfill their primary responsibility in this regard and fully mobilizing local enthusiasm to make the distribution of funds more sound. We will improve the monitoring of these funds by refining relevant systems, and adopt more specific and intensive regulatory measures. The distribution, pay-out, and use of directly allocated funds will be followed closely in order to further enhance the performance of government funds.

— **Contributing to industrial development and accelerating the development of a modern industrial system.** We will focus on enhancing the quality and effect of economic development, and support accelerated efforts to foster a complete domestic demand system. We will vigorously promote scientific innovation, increase investment in basic research, push for breakthroughs on core technologies in key areas, and support enhancement of our capacity for independent innovation in close coordination with economic development. We will promote faster development of a modern industrial system, and spur modernization of our industrial and supply chains. We will support the growth of foreign investment and foreign trade.

— **Setting reasonable standards for spending on public wellbeing and delivering guarantees and improvements in this regard.** Continuing to do everything possible within our means, we will rationally set policies for ensuring public wellbeing in line with the fiscal situation and actual needs, advance list-based management of related expenditures, and strengthen reviews on the coping capacity of government finance. We will put in place well-conceived incentive and constraint mechanisms, and make management of funds for public wellbeing more rational. The redistribution system will be improved, and greater efforts will be made to ensure basic needs among low-income groups. We will do everything possible to scale up transfer payments from the central government,
with priority given to areas facing financial difficulties and under-developed regions in order to boost capacity for ensuring basic needs.

— **Making sure that the government continues to tighten its belt and further improving the structure of government spending.** We will regard hard work and economization as basic principles to be upheld over the long term in budget compilation, and push Party and government bodies to tighten their belts. We will redouble efforts to improve the spending structure, keep budgetary spending under tight control, and further reduce general expenditures. New fiscal expenditures will be rigorously scrutinized, inefficient and ineffective expenditures will be cut or canceled, and thorough efforts will be made to find opportunities to reduce expenditures. We will strengthen unified management of fiscal resources, increase effective supplies of funds, and promote optimal allocation of fiscal resources.

3. **Fiscal policy in 2021**

Using funds better, more effectively, and more sustainably will be the goal of our proactive fiscal policy in 2021. On one hand, we will maintain the continuity and consistency of macro policies and keep offering necessary support for economic recovery. While giving equal emphasis to ensuring steady growth and preventing risks, we will make reasonable arrangements to deficits, debts, and expenditures with the appropriate timing, intensity, and efficiency, instead of taking a sharp turn. On the other hand, we will implement policies in a more targeted and effective manner, and devote more energy to adjusting and improving the composition of expenditures. By further refining mechanisms for implementing fiscal policies, we will make substantive efforts to boost the effectiveness of these policies and the use of funds. Priorities in fiscal policy in 2021 include the following:

*First, we will maintain a moderate level of spending intensity.* We will strengthen the unified management of funds by improving the alignment between general public budgets, government-managed fund budgets, state capital operations budgets, and social security fund budgets. Expenditure in the national general public budget is projected to be over 25 trillion yuan this year, up 1.8%. Total government expenditure will be higher than last year, and the focus will remain on enhancing support for ensuring employment, meeting basic living needs, and protecting market entities, on funding major national strategic tasks, and on
keeping major economic indicators within an appropriate range.

Second, we will continue to optimize and implement tax and fee cut policies. We will continue to implement systematic tax cut policies, extend the duration of several temporary policies such as VAT relief for small-scale taxpayers, and adopt new policies on structural tax reductions. The VAT threshold for small-scale taxpayers will be raised from 100,000 yuan to 150,000 yuan in monthly sales. On the basis of preferential policies already in force, we should further reduce income tax by half for small and micro enterprises and self-employed individuals on annual taxable income up to one million yuan. We will cancel port development fees and lower the required payments of airlines to the civil aviation development fund by an additional 20%.

Third, we will increase the scale of transfer payments from the central government to local governments. With limited augmentation of financial resources, the central government will cut its spending and make adjustments to its spending structure in order to increase transfer payments to local governments. A total of 8.337 trillion yuan will be transferred to local governments, a slight increase compared to 2020. Of this, general transfer payments to local governments will be increased by 7.8%, which is significantly higher than last year.

Fourth, we will set an appropriate deficit-to-GDP ratio. In view of the effective containment of Covid-19 and the gradual recovery of our economy, this year’s deficit-to-GDP ratio will be around 3.2%, slightly lower compared to last year, with a deficit of 3.57 trillion yuan, down 190 billion yuan compared with 2020. The central and local government deficit will be 2.75 trillion yuan and 820 billion yuan respectively. These arrangements not only show the proactive nature of our fiscal policy, but also send a clear signal that China is pursuing high-quality development rather than adopting a deluge of strong stimulus policies, while also leaving policy space for responding to new risks and challenges in the future.

Fifth, we will moderately reduce the scale of newly added special local government bonds. This year, 3.65 trillion yuan of special-purpose bonds will be issued, a 100 billion yuan decrease compared with last year. The main reason for this arrangement is that the scale of special bonds that have already been issued is large enough for these bonds to continue to have their intended policy effects this year. Moreover, a moderate reduction to the scale of newly added special bonds will be conducive to forestalling risks related to local governments’ legally prescribed
debts.

Sixth, we will no longer issue Covid-19 bonds. The issuance of government bonds for Covid-19 control was an extraordinary measure for an extraordinary period. One-time expenditures on items such as Covid-19 control have now dropped by a large margin, while spending on local public health and other infrastructure construction and on ensuring people’s basic wellbeing can be guaranteed through normal channels. Therefore, no further Covid-19 bonds will be issued. Correspondingly, we will also end special-channel transfer payments and return to the normal transfer payment system.

Seventh, we will see that governments at all levels tighten their belts. While curtailing government spending to serve the public interest and tightening the government’s belt, we will see that spending on people’s basic wellbeing is only increased and not cut. The expenditures of the central government will continue negative growth, with a significant cut to outlays on non-essential and non-obligatory items. Subsidies for key projects and policy-backed subsidies will be reviewed and arranged under the principles of enforcing strict and tight control and making cuts wherever possible. Local authorities will also need to further reduce general expenditures, freeing up precious financial resources to improve people’s basic wellbeing and support the development of market entities.

Eighth, we will put greater emphasis on a performance-oriented approach. By further improving the mechanism for the direct allocation of government funds, we will see that these funds are managed strictly and delivered in a flexible and targeted manner. In this way, government funds will be channeled precisely to wherever they are needed. We will accelerate the establishment of a multi-dimensional and full-process performance-based budgetary management system with total coverage, making performance-based management an essential part of budgetary management procedures and strengthening the management of relevant targets, so as to raise the quality of performance evaluations. We will put the outcomes of performance evaluations to better use, and make the most of limited government funds. Meanwhile, we will work to promote synergy between fiscal and monetary policies and employment, industrial, and regional policies.

The main policies regarding expenditures in 2021 are as follows:

1) Advancing innovation-driven development and industrial upgrading

We will support accelerated efforts to reach scientific and technological self-reliance.
Continuing to prioritize fiscal spending on science and technology, we will optimize the composition of fiscal spending in light of the country’s strategic needs. With our focus on bolstering China’s strategic scientific and technological strength, we will provide steady support for building and running national laboratories and for restructuring the system of key national laboratories. We will increase investment in basic research. In 2021, central government expenditures on basic research will increase by 10.6%. The majority of this funding will be put into the National Natural Science Fund and used to support research institutes, scientific and technological innovation centers, and talented personnel in the field of basic research. We will ensure adequate funding for the country’s major scientific and technological endeavors. We will support the use of mechanisms such as open competition to select the best candidates to lead key research projects in order to ensure solid progress for research on core technologies in key fields, and accelerate the advancement of major projects for the Sci-Tech Innovation 2030 Agenda. We will provide support for the establishment of regional and international science and technology innovation centers in localities with the requisite conditions. Funds will be earmarked in the central government budget for investing in scientific and technological innovation and structural adjustment. In addition, we will implement tax, asset management, government procurement, and financial policies to promote scientific and technological innovation. In an effort to promote the transfer and commercialization of advances in science and technology, the role of the national fund established for this purpose will be fully brought to bear. We will provide support for international cooperation on science and technology.

We will push forward the improvement and upgrading of industrial and supply chains. By coordinating related funds, we will support high-quality development of the manufacturing sector, make continued efforts to implement projects for rebuilding industrial foundations, and work faster to build independent, controllable, secure, and stable industrial and supply chains. We will refund all due VAT credits to advanced manufacturing enterprises on a monthly basis. We will refine the policy on insurance compensation for newly-developed major technological equipment, and continue to launch trials offering insurance subsidies for initial applications of new materials. While fully exerting the guiding role of government investment funds, we will encourage more nongovernmental investment, thereby speeding up the development of industries like integrated circuits, new materials, and
next-generation information technology.

We will work to unleash the creativity of enterprises and talented individuals. We will continue to implement the policy of granting an extra tax deduction of 75% on enterprises’ R&D costs, and raise this further to 100% for manufacturing enterprises, thus encouraging greater investment in R&D. We will actively encourage financial institutions to support technological innovations in enterprises with a view to promoting large-scale industrial application of new technologies. By fully integrating the efforts of enterprises, universities, and research institutes, we will support more enterprises in undertaking national research projects through means such as granting them subsidies after their research goals have been reached, thus guiding enterprises toward taking the main role in technological innovation. We will implement the policy of providing rewards and subsidies to promote the development of small and medium-sized enterprises that apply special, sophisticated techniques to produce unique and novel products. We will increase capital expenditures in state capital operations budgets to support SOEs in boosting their capacity for independent innovation and advancing the development of forward-looking and strategic industries. We will promote the development of inclusive finance, continue the policy of providing rewards and subsidies to reduce financing guaranty fees for small and micro businesses, and leverage the role of government guarantee institutions to help alleviate the difficulties faced by small and micro businesses in accessing affordable financing. We will increase incentives and guarantees for innovation, and establish a profit distribution mechanism that fully reflects the value of elements essential for innovation such as knowledge and technology, so as to arouse the enthusiasm of scientists and technologists to innovate and create.

2) Supporting implementation of the strategy of expanding domestic demand

We will work to stabilize and expand consumer spending. We will enlarge the role of taxation, social insurance, and transfer payments in regulating income, and work hard to achieve a better income distribution. Efforts will be made to raise incomes among low-income groups, expand the size of the middle-income group, and improve income distribution between urban and rural areas, between different regions, and between different groups. We will support the improvement of policies for developing education, elderly care, healthcare, and childcare services,
so as to make people less worried about spending money and more willing and able to spend. We will promote standardized and specialized management of government service procurement, and expand the scope and scale of procurement appropriately in order to meet the people’s needs for public services. We will support accelerated efforts to address deficiencies in the rural distribution system, step up the construction of facilities for storing and preserving agricultural products, facilitate the flow of industrial goods into rural areas and of agricultural products into the cities, and ensure effective linkage between production and sales. We will improve purchase subsidy policies for new-energy vehicles and support the construction of more charging infrastructure and the use of new-energy vehicles for urban public transport.

We will actively expand room for investment. We will ensure that local government special-purpose bonds are used effectively, and expand the reserve of high-quality projects. In line with the principle that funding should follow specific projects, we will appropriately relax time restrictions on the issuance of bonds, optimize the mix of bond maturities, reasonably expand the scope of their use, prioritize support for ongoing projects, and prohibit local governments from indiscriminately running up debts to launch new projects. A total of 610 billion yuan will be earmarked in the central government budget, an increase of 10 billion yuan over last year, for continuing to support major projects that promote coordinated regional development and for pushing ahead with other major projects such as the development of new infrastructure and new urbanization initiatives. We will optimize the way in which government investment is arranged, use government investment to stimulate private investment by injecting capital, develop a market-based system for increasing investment, and boost the sustainability of investment growth.

While expanding domestic demand, we will take active measures to promote a steady increase in imports and exports. We will improve the tariff structure and import tax policies, and increase imports of quality products and services as a necessary supplement to domestic supply, so as to meet domestic needs for consumption upgrading and economic growth. We will refine retail import tax policies on cross-border e-commerce, and guide the healthy development of cross-border e-commerce as a new form of business. The central government will allocate 11.7 billion yuan to support the development of foreign trade, an increase
of 10.2%, in order to spur innovative development in this regard. We will support steady development of the Hainan Free Trade Port.

3) Promoting coordinated regional development and new urbanization

We will work to further equalize access to basic public services. We will continue to scale up general transfer payments from the central government to local governments, while tilting such payments toward the central and western regions and focusing on increasing support for underdeveloped regions. General transfer payments will include: 1.9087 trillion yuan for ensuring equal access to basic public services, an increase of 11%; 337.9 billion yuan in rewards and subsidies for the mechanism to ensure basic funding for county-level governments, an increase of 13.4%; and 146.6 billion yuan for old revolutionary base areas, areas with large ethnic minority populations, and border areas, an increase of 10.1%. This will help localities accelerate their economic and social development.

We will help advance coordinated regional development. We will continue to exert the role of fiscal and tax policies in supporting the coordinated development of the Beijing-Tianjin-Hebei region, development of the Guangdong-Hong Kong-Macao Greater Bay Area, and integrated development of the Yangtze River Delta. We will move faster to formulate fiscal policies conducive to development of the Yangtze Economic Belt and ecological conservation and high-quality development in the Yellow River basin. Fiscal and tax policies will be also worked out to support economic and social development in Tibet and Xinjiang during the 14th Five-Year Plan period. We will provide support for creating a new pattern of large-scale development of the western region, achieving new breakthroughs in the revitalization of the northeast, accelerating the rise of the central region, and speeding up modernization of the eastern region. We will continue to support the transformation and development of resource-depleted areas, and deepen efforts to boost development in the border regions to benefit the people living there.

We will support the development of a new, people-centered type of urbanization. The central government will put in place a 35 billion yuan rewards fund for supporting the process of granting urban residency to people with rural household registration living in urban areas, improve mechanisms for sharing related costs, and ensure that these people have access to basic urban public services. We will support urban renewal initiatives, promote the renovation of old residential communities in urban areas and the development of the rental housing market,
and reduce the tax burden on rental housing.

4) Facilitating full implementation of the rural revitalization strategy

*We will work to guarantee national food security.* We will implement the food crop production strategy based on farmland management and the application of technology, support efforts to protect farmland and increase soil fertility, vigorously promote the development of high-standard farmland and farmland irrigation and water conservancy projects, and move forward with the plan to apply conservation tilling techniques on chernozem soils in northeast China. We will speed up independent innovation in the seed industry, and promote the industry’s development and the breeding of superior varieties of crops. We will stabilize subsidies for grain producers, raise the purchase prices for rice and wheat appropriately, improve the mechanism for subsidizing major grain-producing areas, and enhance China’s capacity to regulate the grain market. We will ensure that various supporting policies are implemented to consolidate the recovery of hog production.

*We will work to improve the quality and performance of agriculture.* We will increase subsidies for the purchase of agricultural machinery, and support R&D and manufacturing of high-end and smart agricultural machinery, as well as machinery for hilly and mountainous topography. We will support the development of family farms and farmer cooperatives and the cultivation of highly competent farmers, encourage the appropriate scaling of operations, improve the system of commercial services for agriculture, and focus on establishing a modern system of business operations in the agricultural sector. We will support the development of modern agriculture industrial parks, towns with particular agricultural strengths, and clusters of leading agro-industries with unique advantages, so as to drive strong development of rural industries. We will boost development of the system for spreading agricultural technology to villages, and raise the capacity of science and technology to support agriculture. We will do more to prevent and control agricultural pollution from non-point sources, and will encourage efforts to promote greener development of agriculture through means such as making use of livestock and poultry waste as resources, making comprehensive use of crop straw, replacing conventional fertilizers with organic alternatives, and recycling plastic sheeting used in agriculture.

*We will align efforts to consolidate and expand progress in poverty alleviation with*
We will ensure the overall stability of financial support policies and the scale of government funds. The central government will allocate 156.1 billion yuan in the follow-up rural revitalization assistance fund (formerly the special poverty alleviation fund), an increase of 10 billion yuan, with more funding tilted toward areas facing tough challenges in consolidating progress in poverty alleviation and limited foundations for rural revitalization. In the first three years of the transitional period, counties that have recently been lifted out of poverty will be allowed to integrate and coordinate the use of government funds for rural development. We will better guarantee inputs for backing rural revitalization, and direct more of the proceeds from land sales toward agriculture and rural areas. We will move faster to develop a skilled rural workforce. We will support the growth of collective village economies and strengthen funding safeguards for the operations of village-level organizations. We will continue to improve rural living environments, focusing on major issues such as renovating toilets and improving household waste management and sewage treatment, and explore ways to clean up black, malodorous water bodies in rural areas. We will support the development of rural infrastructure, and improve basic public services in rural areas.

5) Strengthening pollution prevention and control and ecological improvement

We will work to make solid progress in the battle against pollution. Acting on the understanding that lucid waters and lush mountains are invaluable assets, we will work to ensure budgetary inputs are commensurate with tasks in pollution prevention and control. The central government will continue to allocate funds for the prevention and control of air, water, and soil pollution. A total of 27.5 billion yuan will be allocated for the prevention and control of air pollution, an increase of 10%, with priority given to encouraging the use of clean energy sources for winter heating in northern China and keeping our skies blue. Another 21.7 billion yuan will be allocated for the prevention and control of water pollution, a rise of 10.2% over last year. The focus in this regard will be on the prevention and control of water pollution in the Yangtze River basin and other key river basins. We will allocate 4.4 billion yuan, an increase of 10%, for the prevention and control of soil pollution, supporting efforts to treat and restore contaminated soil.

We will promote ecological conservation and restoration in key ecosystem service zones.
We will allocate 88.2 billion yuan of transfer payments to key ecosystem service zones, an increase of 11%, which will help these zones protect the environment and provide ecological products. We will support a holistic approach to the conservation and restoration of mountain, water, forest, farmland, lake, and grassland ecosystems, back integrated efforts to protect and improve marine ecosystems, and work to improve and restore environments surrounding abandoned mining areas. We will support the implementation of the 10-year fishing ban on the Yangtze River, and strengthen the protection of fish stocks.

We will support efforts to reach a peak in carbon dioxide emissions and achieve carbon neutrality. We will promote improvement of the industrial structure and the energy mix. We will provide further support for the development of renewable energy such as wind and solar power and facilitate the exploration and utilization of unconventional natural gas in order to increase the supply of clean, renewable energy. We will move ahead with major projects to protect natural forests and return marginal farmland to forest and grassland, and strengthen the conservation and restoration of forests, grasslands, and wetlands as well as the remediation and restoration of desertified land. We will support the development of a nature reserve system composed mainly of national parks. We will support large-scale afforestation, and enhance the capacity of carbon sinks. Meanwhile, we will expand the catalog of corporate income tax credits for saving water and energy and protecting the environment, and work to cultivate and strengthen industries committed to energy conservation and environmental protection.

6) Making greater efforts to meet people’s basic living needs

We will implement the employment-first policy. We will make every effort to stabilize and expand employment, and to improve the system of employment support for key groups. The central government will allocate 55.9 billion yuan in employment subsidies, an increase of 2 billion yuan, with a view to helping local governments implement various policies to support employment and entrepreneurship. We will expedite the use of special funds for upskilling programs and vigorously promote vocational skills training in order to alleviate structural problems related to employment and help create more rewarding and higher quality jobs. We will continue to implement the policy of expanding the coverage of unemployment insurance, and give full play to their role in ensuring basic living standards, preventing job losses, and promoting employment.
We will promote the high-quality development of education. We will work hard to adjust the spending structure, and promote the development of a high-quality education system. The central government will allocate 177 billion yuan as subsidies for compulsory education in urban and rural areas, an increase of 4.3%. This will help consolidate and refine the unified, rurally-focused funding mechanism for compulsory education in urban and rural areas, as well as promote high-quality, balanced development and urban-rural integration in compulsory education. We will work to further improve weak links in compulsory education and enhance capacity in this regard, and step up efforts to address inadequacies related to conditions in rural schools. We will strengthen the training of rural teachers. The central government will allocate 19.8 billion yuan in support of the development of preschool education, an increase of 5.3%, which will be used to increase the supply of public-interest preschool education resources. Subsidies for improving conditions at regular senior secondary schools will reach 6.4 billion yuan, an increase of 8.4%. Central government funding for initiatives devised to enhance the quality of modern vocational education will reach 27.7 billion yuan, an increase of 7.7%, with a focus on improving conditions in schools and bolstering the ranks of teachers, as well as on deepening integration between industry and vocational education and cooperation between colleges and businesses. We will accelerate the development of world-class universities and disciplines through a categorized approach, and support the reform and development of universities, especially those in the central and western regions. A total of 66 billion yuan will be allocated for student financial aid to support ethnic minority education and special needs education, an increase of 16.3%. While increasing transfer payments to local governments, the central government will push them to increase funding for education, so as to meet the requirement that government spending on education as a percentage of GDP is generally no lower than 4%. We will facilitate efforts to refine long-term mechanisms for ensuring that teachers receive their pay packages in full, and work to improve benefits for rural teachers.

We will work to make steady progress in the area of social security. We will continue to increase basic pension benefits for retirees. We will raise the proportion of basic old-age insurance funds for enterprise employees under central regulation to 4.5%. After unifying the collection and spending of old-age insurance funds at the provincial level, we will move faster to bring these funds under unified national
management in order to ensure that pension benefits are paid on time and in full across all regions. We will support the development of a system for the coordinated provision of elderly care at home, through communities, and by institutions that meets different medical and health care needs. The central government will allocate 147.3 billion yuan in aid subsidies for groups in need, in an effort to help local governments provide subsistence allowances, assistance to people in extreme poverty, temporary assistance, and assistance to vagrants and beggars, ensure the basic living needs of orphans, and meet the basic needs of people facing financial difficulty. We will support the development of programs for people with disabilities, deepen reform of the management system for the investment and operation of social security funds, and continue to increase the scale of strategic reserve funds.

We will increase investment in healthcare services. We will make protecting people’s health a strategic priority, support efforts to build a Healthy China, and carry out extensive patriotic health campaigns. We will continue to effectively execute tasks related to epidemic prevention and control, provide subsidies for Covid-19 vaccine and inoculation fees covered by medical insurance funds, and help implement the policy of providing vaccinations free of charge. We will further reform the disease prevention and control system, and push forward improvement of the public health emergency response system. We will step up support for public hospitals and community-level healthcare institutions as well as for the development of healthcare personnel. We will deepen the comprehensive reform of public hospitals to promote their high-quality development. We will enhance the capacity of community health centers, township medical centers, and village clinics for providing health services. We will build up the ranks of primary-level healthcare personnel with a focus on training general practitioners. We will increase per capita government subsidies for basic medical insurance for rural and non-working urban residents by 30 yuan, to a figure of 580 yuan per person per year. Personal contributions to medical insurance will be raised by 40 yuan, to 320 yuan per person per year, and can be applied as tax deductions in accordance with regulations. Stable mechanisms for guaranteeing inputs for public health undertakings will be gradually put in place. Annual per capita government subsidies for basic public health services will be raised by 5 yuan to reach 79 yuan per person per year. We will support localities in providing basic public health
services to promote health management and greater awareness of health-related issues. We will ensure that unified management of basic medical insurance funds at the prefectural-level is fully implemented, and proceed with putting provincial-level unified management in place. We will support vigorous development of traditional Chinese medicine. Trials for long-term care insurance schemes will be steadily advanced.

_We will support the development of cultural programs and industries._ We will continue to advance overall development of the public cultural service system in urban and rural areas, and boost the coverage and impact of cultural projects designed to benefit the people. We will improve mechanisms for managing capital and funds in the cultural sector, facilitate the production of more fine artistic works, and support the flourishing development of socialist literature and art. In order to carry forward China’s fine traditional culture, we will boost efforts to protect and utilize cultural relics, preserve and pass on China’s intangible cultural heritage, and press ahead with the construction of national cultural parks. We will support preparatory work for the 2022 Winter Olympics and Paralympics in Beijing and Team China’s preparations for the coming Olympic Games, and move faster to build China into a country strong on sports.

_We will strengthen natural disaster prevention, mitigation, and relief work._ We will allocate 28.4 billion yuan in subsidies for agricultural insurance premiums, an increase of 10.2%. We will see that full-cost insurance and income insurance trials for the three main grain crops of rice, wheat, and corn are carried out in more areas, gradually expand the scope of trials to replace subsidies with rewards on insurance for distinctive local agricultural products, and improve the agricultural reinsurance system, thus increasing the agricultural sector’s capacity to withstand risks. We will earmark 9.3 billion yuan in subsidies for the development of the natural disaster prevention and mitigation system, and back the development of key projects for enhancing our capabilities in this regard. We will appropriate 13 billion yuan to the central natural disaster relief fund to support initiatives providing major natural disaster relief and assistance to disaster victims.

7) **Supporting national defense, diplomacy, and judicial and law enforcement work**

We will provide stronger financial guarantees to vigorously support the modernization of national defense and the armed forces, and help China’s defense
capabilities rise in step with its economic strength. We will ensure that demobilized military personnel receive their due benefits, support work related to the settlement of retired military officers and the employment of demobilized military personnel, and continue to increase subsidies and living allowances for entitled groups. We will support the development of major country diplomacy with Chinese characteristics, deepen cooperation and exchange with other major economies and international organizations, pursue high-quality development of the Belt and Road, and work to make the global economic governance system more just and equitable. We will support the improvement of China’s capacity to ensure public safety on all fronts, and carry out the Peaceful China initiative more effectively. We will facilitate the effective provision of public legal services.

4. General public budgetary revenue and expenditure for 2021

1) Central general public budget

Revenue in the central government’s general public budget is projected at 8.945 trillion yuan, up 8.1% over the actual figure in 2020. Adding in 95 billion yuan from the Central Budget Stabilization Fund and 98.5 billion yuan from the budgets of central government-managed funds and central government state capital operations, total revenue is expected to be 9.1385 trillion yuan. Expenditures in the central general public budget are projected to be 11.8885 trillion yuan, an increase of 0.4%. Total expenditure will exceed total revenue, leaving a deficit of 2.75 trillion yuan, which is 30 billion yuan lower than in 2020.

Expenditures in the 2021 central general public budget comprise central government expenditures, transfer payments to local governments, and payments to central government reserve funds.

(1) Central government expenditures are projected at 3.5015 trillion yuan, down 0.2%, showing negative growth for the second consecutive year. This is primarily due to the central government taking the lead in tightening its belt and cutting down considerably on central expenditures in order to provide greater financial support to local governments. The breakdown of this spending is as follows: 147.025 billion yuan on general public services, down 14.1%; 50.414 billion yuan on foreign affairs, a drop of 1.9%; 1.355343 trillion yuan on national defense, up 6.8%; 185.092 billion yuan on public security, up 0.7%; 166.344 billion yuan on education, basically the same as the year before (national spending, which includes local outlays, will increase by 5.2%); 322.71 billion yuan on science and technology,
roughly equivalent to the previous year (national spending, which includes local outlays, will rise by 3.3%); 122.473 billion yuan on stockpiling grain, edible oils, and other materials, basically the same as in 2020; and 599.824 billion yuan on debt interest payments, up 8.3%.

(2) A total of 8.337 trillion yuan will be transferred to local governments, a slight increase over 2020. This represents an increase of 7.8% in real terms after special-channel transfer payments are deducted. General transfer payments to local governments will total 7.501834 trillion yuan, up 7.8%. Of this amount, transfer payments for shared fiscal powers will increase by 6.1% to total 3.415904 trillion yuan. These payments will mainly be used to support local governments in implementing policies pertaining to shared fiscal powers in the areas such as education, elderly care, and medical insurance, so as to ensure equal access to basic public services. The remaining portion of general transfer payments will reach 4.08593 trillion yuan, an increase of 9.2%, which is 9.4 percentage points higher than the projected growth of total central government expenditures. This shows that our policies are oriented toward boosting the central government’s financial support for local governments and raising the fiscal capacity of regions facing economic difficulties. Special transfer payments to local governments (including central government budgetary investment) will rise by 7.5% to 835.166 billion yuan in total. Transfer payments will be used primarily for guiding local governments in carrying out the major decisions and plans of the Party Central Committee and the State Council.

(3) A total of 50 billion yuan will be appropriated for central government reserve funds, which is consistent with the budgeted figure for 2020. The reserve funds in use will be counted as either central government expenditures or transfer payments to local governments, according to their use in practice.

2) Local general public budget

Revenue in the local general public budget is projected to be 10.82 trillion yuan, up 8.1%. Adding in 8.337 trillion yuan in transfer payments from the central government and 1.4835 trillion yuan transferred from other local sources and utilized carryover and surplus funds, total revenue is expected to be 20.6405 trillion yuan. Expenditure in the local general public budget is projected to be 21.4605 trillion yuan, up 1.9%. This will create a deficit of 820 billion yuan at the local level, a decrease of 160 billion yuan compared with 2020, which will be
supplemented through the issue of general-purpose local government bonds.

3) National general public budget

Revenue in the national general public budget, combining the general public budgets of both the central and local governments, is projected to be 19.765 trillion yuan, an increase of 8.1%. With the addition of 1.677 trillion yuan transferred from other sources and utilized carryover and surplus funds, total revenue is calculated at 21.442 trillion yuan. Expenditure in the national general public budget is projected at 25.012 trillion yuan (including 50 billion yuan for central government reserve funds), an increase of 1.8%. This will create a deficit of 3.57 trillion yuan, a decrease of 190 billion yuan compared with 2020.

5. Budgetary revenue and expenditure of government-managed funds for 2021

Budgetary revenue of central government-managed funds is projected at 382.085 billion yuan, up 7.3%. Adding in 24.012 billion yuan carried forward from last year, total revenue is calculated at 406.097 billion yuan. Budgetary expenditure of central government-managed funds is expected to total 405.997 billion yuan. This figure consists of 332.586 billion yuan of central government spending, and 73.411 billion yuan in transfer payments to local governments. A projected 100 million yuan will be transferred into the general public budget.

Budgetary revenue of local government-managed funds is projected at 9.070577 trillion yuan, up 0.9%. Of this figure, proceeds from the sale of state-owned land-use rights account for 8.4143 trillion yuan, roughly the same as in 2020. Adding in 73.411 billion yuan in transfer payments from the budget of central government-managed funds and 3.65 trillion yuan of revenue generated from special local government debt, total revenue is expected to be 12.793988 trillion yuan. Budgetary expenditure of local government-managed funds is expected to total 12.793988 trillion yuan, an increase of 11%.

Budgetary revenue of government-managed funds nationwide, combining central and local government-managed funds, is projected at 9.452662 trillion yuan, an increase of 1.1%. Adding in 24.012 billion yuan carried over from last year and 3.65 trillion yuan of revenue generated from special local government debt, total revenue of government-managed funds nationwide is calculated at 13.126674 trillion yuan. Budgetary expenditure of government-managed funds nationwide is projected at 13.126574 trillion yuan, up 11.2%. A projected 100 million yuan will be transferred into the general public budget.
6. Budgetary revenue and expenditure of state capital operations for 2021

Budgetary revenue of central government state capital operations is projected at 175.191 billion yuan, a decrease of 1.9%. Adding in 41.314 billion yuan carried over from last year, total revenue is calculated at 216.505 billion yuan. Budgetary expenditure of central government state capital operations is expected to total 118.105 billion yuan, up 25.8%. This figure consists of 107.953 billion yuan of central government spending, and 10.152 billion yuan in transfer payments to local governments, an increase of 55.3%. A total of 98.4 billion yuan will be transferred into the general public budget.

Budgetary revenue of local government state capital operations is projected at 212.514 billion yuan, a drop of 29%. This is mainly because profits of local SOEs fell significantly as affected by the epidemic in 2020. Adding in 10.152 billion yuan in transfer payments from the central government state capital operations budget and 31.95 billion yuan carried over from last year, total revenue is calculated at 254.616 billion yuan. Budgetary expenditure of local government state capital operations is estimated at 156.832 billion yuan, down 6.1%. A projected 97.784 billion yuan will be transferred into the general public budget.

Revenue in the state capital operations budgets of both the central and local governments is projected at 387.705 billion yuan, a drop of 18.9%. Adding in 73.264 billion yuan carried over from last year, the total budgetary revenue of state capital operations nationwide is calculated at 460.969 billion yuan. Budgetary expenditure of state capital operations nationwide is estimated at 264.785 billion yuan, up 4.1%. A projected 196.184 billion yuan will be transferred into the general public budget.

7. Budgetary revenue and expenditure of social security funds for 2021

Budgetary revenue of the central government social security fund is projected at 155.073 billion yuan, an increase of 120%. This includes 87.643 billion yuan in insurance premiums and 63.941 billion yuan in government subsidies. Adding in 830.2 billion yuan of basic old-age insurance funds allocated for central regulation by local governments, total revenue is calculated at 985.273 billion yuan. Expenditure of the central government social security fund is estimated at 157.912 billion yuan, up 122.9%. Adding in 829.3 billion yuan to be reallocated through central regulation to replenish the basic old-age insurance funds of local governments, total expenditure is calculated at 987.212 billion yuan. Considerable increases in revenue and expenditure in this regard is primarily attributable to the
settlement of accounts by central Party and government offices and public institutions in the preparation period for old-age insurance reform. With a projected deficit of 1.939 billion yuan, the year-end balance will be 35.348 billion yuan after the balance from 2020 has been rolled over.

Budgetary revenue of local government social security funds is projected at 8.763002 trillion yuan, up 22.7%, which includes 6.231492 trillion yuan in insurance premiums and 2.210234 trillion yuan in government subsidies. Adding in 829.3 billion yuan of basic old-age insurance funds reallocated to local governments through central regulation, total revenue comes to 9.592302 trillion yuan. Expenditure of local government social security funds is estimated at 8.483356 trillion yuan, up 8.6%. Adding in 830.2 billion yuan of basic old-age insurance funds allocated by local governments for central regulation, total expenditure comes to 9.313556 trillion yuan. With a projected surplus of 278.746 billion yuan, the year-end balance will be 9.274073 trillion yuan after the balance from 2020 has been rolled over.

Counting both central and local government budgets, revenue of social security funds nationwide is calculated at 8.918075 trillion yuan, an increase of 23.7%. This includes 6.319135 trillion yuan in insurance premiums and 2.274175 trillion yuan in government subsidies. Budgetary expenditure of social security funds nationwide is expected to total 8.641268 trillion yuan, up 9.6%. With a projected surplus of 276.807 billion yuan, the year-end balance will be 9.309421 trillion yuan after the balance from 2020 has been rolled over.

In 2021, the ceiling for outstanding central government debts is 24.050835 trillion yuan; the ceiling for outstanding local government general debts is 15.108922 trillion yuan; and the ceiling for outstanding local government special debts is 18.168508 trillion yuan.

It should be noted that as local budgets are formulated by local people’s governments and submitted for approval to the people’s congresses at their respective levels, the relevant data is still being compiled. All projected figures for local revenue and expenditure in this report have been compiled based on the preliminary calculations of the central finance authorities.

In accordance with the Budget Law, after the beginning of a new budget year and prior to the approval of that year’s draft budgets by the National People’s Congress, arrangements may be made for the following expenditures: carryover
expenditures from the previous fiscal year; the basic expenditures and project expenditures of government departments and transfer payments to lower-level governments that must be made in the current year, which are to be arranged with reference to the budgetary expenditure amount for the same period over the previous year; expenditures mandated by law, and expenditures for dealing with natural disasters and other emergencies.

In line with the above stipulations, expenditures in the central general public budget totaled 1.1886 trillion yuan in January 2021, including 171.8 billion yuan in expenditures at the central level and 1.0168 trillion yuan in transfer payments to local governments.

**III. Fiscal Reform and Development in 2021**

1. **Implementing the Budget Law and its implementation regulations**

   We must ensure strict compliance with the Budget Law and its implementation regulations in order to make budget management more standardized and law-based. We will strengthen the development of complementary institutions for implementation regulations of the Budget Law, overhaul and revise existing regulations and rules on budget management in a timely manner, and work out specific and practical provisions and requirements for complementary institutions. We will improve exhaustive management of budgets, refine the system of standards for budgetary expenditure, and make the compilation of budgets more holistic and scientific. We will tighten budgetary constraints and intensify oversight and analysis on the execution of budgets to ensure that budgets approved by the NPC are rigorously executed. We will accelerate the release of budgetary funds, enforce stringent control on adjustments and additions to budgets, and continue to regulate the management of special fiscal accounts. We will speed up the development of integrated budget management, and standardize and unify the procedures, factors, rules, and data involved in budget management. We will take further steps to make budgets more transparent and accessible to the public and readily accept oversight from all sides. We will take steps to boost legal awareness among finance officials in order to ensure that fiscal work always proceeds in line with the law.

2. **Ensuring thorough and effective implementation of tax and fee reduction policies**
We will implement the major decisions and plans of the Party Central Committee and the State Council on tax and fee reduction without compromise so as to generate a stronger sense of fulfillment among enterprises and the public. We will boost coordination and collaboration between departments, and promote the sharing of information on tax and fee reduction. We will monitor and analyze the effects of these policies, and promptly look into and address salient problems reported by enterprises. We will take steps to publicize and explain these policies more effectively in order to raise awareness and help enterprises get the most out of them. We will continue to improve tax services, streamline the procedures required for enjoying preferential tax policies, and clear out the key final hurdles to tax and fee cuts. We will levy taxes and fees in strict accordance with laws and regulations, and strengthen guidance and oversight over local governments. We will ensure strict compliance with working discipline concerning organizational revenue, and resolutely prohibit collection of taxes and fees not prescribed by law as well as actions that could detract from the benefits brought by our policies, such as demanding payment of longstanding arrears in a lump sum or collecting arbitrary charges. We will continue to intensify efforts to rectify all kinds of irregular charges on enterprises, and strictly curb any unreasonable growth in non-tax revenue. These efforts will allow us to ensure that all tax and fee reduction measures are effectively executed.

3. Setting up a permanent mechanism for the direct provision of government funds

In line with principles of expanded scope, refined functions, strict oversight, and strong support, we will expand the direct provision of central government funds under the condition that the existing fiscal system and limits of authority over the management of funds are maintained and that principal responsibility remains stable. General transfer payments to ensure basic funding for primary-level governments, transfer payments for fiscal powers shared between central and local governments which can be allocated at the beginning of the year, and special transfer payments that meet relevant conditions will be incorporated under the scope of the direct allocation mechanism, involving a total of 2.8 trillion yuan from the central government. This will ensure that the central government’s subsidies for public wellbeing cover all areas concerned. We will further improve management over directly-allocated funds, improve procedures for their distribution, and enhance analysis of their execution. We will refine the monitoring
system for directly-allocated funds and strengthen its early warning and analysis functions, addressing problems as soon as they are discovered. This will ensure that all funds get where they need to go quickly, and that they are used in a standardized, secure, and efficient manner.

4. Further reinforcing sustainable implementation of public-wellbeing policies

We will enhance funding and benefit adjustment mechanisms for basic old-age insurance and basic medical insurance schemes, and continue to build a multi-tiered social security system that is sustainable, fair, and unified and covers the entire population in both urban and rural areas. Focusing on meeting people’s basic living needs, we will ensure public-wellbeing expenditures are commensurate with economic development and fiscal capacity so as to ensure that policies do not become divorced from reality and that we are not spending beyond our means. We will fully analyze the short-term and long-term effects of public wellbeing policies on fiscal expenditures and intensify assessment of fiscal capacity so as to ensure fiscal sustainability. We will promote the establishment of a list-based management system for public-wellbeing expenditures, and ensure that local governments file their own policies on such expenditures in line with relevant procedures so as to make the management of public-wellbeing expenditures more standardized and transparent. We will develop innovative means for providing public services, supporting private actors in boosting the supply of non-basic public services to meet people’s diverse needs.

5. Instituting solid guarantees for the three priorities of people’s basic wellbeing, payment of salaries, and normal government functioning at the local level

We need to firmly maintain worst-case scenario thinking, strengthen accountability at all levels, and ensure that the three priorities are effectively guaranteed at the local level. On the basis of significantly increasing fiscal support for local governments, the central government will follow and monitor treasury balances at all levels in a timely manner, conduct monitoring and early warning checks concerning county governments’ capacity to ensure salary payments on a daily basis, and deliver monthly reports on local governments’ capacity to guarantee treasury balance. Taking stock of local governments’ revenue and expenditure operations as well as their capacity to guarantee treasury balance, the central government will enhance support for regions in financial difficulty by making meticulous calculations and allocating funds in a differentiated manner.
We will push provincial-level governments to diligently execute their principal role, improve the fiscal system at and below the provincial level, optimize the distribution of financial resources, intensify efforts to channel financial resources to lower-level governments, and strengthen the monitoring of county governments’ efforts to guarantee the three priorities, so as to ensure that funds are allocated and utilized precisely and effectively. We will take rigorous steps to ensure that county-level governments assume responsibility for guaranteeing the three priorities, and hold to account anyone who diverts relevant funds for non-designated uses in violation of laws and regulations.

6. Working to defuse risks from hidden local government debt

With safeguarding overall national security and maintaining sustainable economic and fiscal development as our objectives, we must make persistent efforts to defuse risks from hidden local government debt. We will keep a close watch on the situation, and strictly forbid any increase in hidden debt. Any instances of borrowing in violation of laws and regulations will be investigated immediately, and those involved will be held accountable. We will ensure that provincial-level Party committees and governments assume overall responsibility for debt risks within their jurisdictions, and intensify our efforts to guide and push local governments to establish market- and law-based mechanisms for dealing with debt default, thereby mitigating existing hidden debts in an active yet prudent manner. We will enhance information sharing and coordinated oversight between departments, facilitate cross-checking of data, promptly uncover and effectively handle relevant risks, and refine the institutional framework for long-term oversight.

7. Accelerating the establishment of modern fiscal and tax systems

Fully exerting the trailblazing and pacesetting role of reform, we will continue to deepen reform of the fiscal and tax systems while thinking in big-picture, systematic terms, and strengthen investigations and assessments on reform. We will deepen reform of the budget management system, and make relevant systems more integrated, coordinated, and efficient. We will strengthen medium-term fiscal planning and management. We will implement the reform plans for dividing fiscal powers and spending responsibilities between central and local governments. We will improve local tax systems, prudently advance reforms to collect excise tax on certain items during a further downstream stage of the production-to-consumption
process, and steadily hand over collection of such taxes to local governments. We will ensure taxation is administered in accordance with the law, and actively promote legislation on stamp duty and tariffs. Through the authorization of tax legislation, we will appropriately expand the authority of provincial-level governments to manage taxes. We will push forward state capital and SOE reforms, and implement the three-year action plan for SOE reform. We will take gradual steps to improve the fiscal and financial oversight systems to effectively prevent and control financial risks. We will refine the system for authorized operation of state capital as well as relevant incentive and constraint mechanisms, and promote reform of key state-owned financial institutions. We will continue to refine the mechanism for reporting on the management of state-owned assets, and enhance the application of relevant outcomes.

This year, the Ministry of Finance will willingly accepting the lawful oversight of people’s congresses and the democratic oversight of CPPCC committees, actively work with the NPC in its reform initiatives to enhance review and oversight of government budgets, act in line with the resolutions and comments of the NPC and its Standing Committee on budgets and final accounts, and promptly report on relevant measures and progress, in a continued effort to raise budget management capacity. Meanwhile, we will earnestly listen to opinions from NPC deputies and members of the CPPCC National Committee, respond to their concerns in a timely manner, and make greater efforts to strengthen routine communication with them, improve the compilation of budget execution reports and draft budgets, and raise the quality with which their suggestions and proposals are handled, with a view to better supporting and serving the deputies and members as they perform their duties in accordance with the law.

Esteemed Deputies,

As the timeframes of the Two Centenary Goals converge, the only thing for us to do is work hard. We must rally more closely around the Party Central Committee with Comrade Xi Jinping at its core, hold high the banner of socialism with Chinese characteristics, and follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. We must boost our consciousness of the need to maintain political integrity, think in big-picture terms,
follow the leadership core, and keep in alignment with the central Party leadership; stay confident in the path, theory, system, and culture of socialism with Chinese characteristics; and uphold General Secretary Xi Jinping’s core position on the Party Central Committee and in the Party as a whole, and uphold the Party Central Committee’s authority and its centralized, unified leadership. We will willingly accept the oversight of the NPC, solicit comments and suggestions from the CPPCC National Committee, and work to carry out all public finance initiatives effectively, so as to greet the centenary of the Communist Party of China with outstanding achievements. Let us all work together with perseverance to develop China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful, and to realize the Chinese Dream of national rejuvenation!