**REPORT ON THE EXECUTION OF THE CENTRAL AND**

**LOCAL BUDGETS FOR 2018 AND ON THE DRAFT CENTRAL**

**AND LOCAL BUDGETS FOR 2019**

*Second Session of the 13th National People’s Congress of*

*the People’s Republic of China*

*March 5, 2019*

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 2018 and on the draft central and local budgets for 2019 to the present Second 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 2018 Central and Local Budgets**

The year 2018 was the first year of fully implementing the guiding principles from the 19th National Congress of the Communist Party of China (CPC). Under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, all localities and departments followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, thoroughly put into practice the guiding principles from the Party’s 19th National Congress and the second and third plenary sessions of the 19th Party Central Committee, and remained committed to the general principle of pursuing progress while ensuring stability. With due consideration to the requirements of high quality development, we implemented the policy decisions and plans of the CPC Central Committee and the State Council, and acted in strict accordance with the budgets reviewed and approved by the First Session of the 13th NPC. As a result, we have maintained sustained and healthy economic development and overall social stability, and have taken new strides toward achieving our goal of building a moderately prosperous society in all respects. Execution of both central and local budgets was satisfactory.

1. *General public budgetary revenue and expenditure in 2018*

**1) National general public budget**

Revenue in the national general public budget reached 18.335184 trillion yuan, representing 100.1% of the budgeted figure and an increase of 6.2% over 2017. With the addition of 1.477277 trillion yuan of funds from other sources and utilized carryover and surplus funds (namely, 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; and carryover and surplus funds used by local governments), the total revenue rose to 19.812461 trillion yuan.

Expenditure in the national general public budget reached 22.090607 trillion yuan, representing 105.3% of the budgeted figure and an increase of 8.7%. With the addition of 101.854 billion yuan used to replenish the Central Budget Stabilization Fund, the total expenditure rose to 22.192461 trillion yuan. Total expenditure therefore exceeded total revenue, leaving a deficit of 2.38 trillion yuan, which is consistent with the figure projected.

Throughout 2018, China was able to achieve overall economic stability while also ensuring progress, and revenue in the national general public budget saw continued growth. The growth rate was 12.9% from January to April. As a combined result of measures on reducing value added tax (VAT) effective from May 1, preferential tax policies issued to support the development of small and micro businesses, the rise of the individual income tax threshold (basic standard deduction) and application of the new tax rate table starting from October 1, and new downward pressure on the economy, the revenue growth rate from May to December slowed to 2.6%. In terms of revenue composition, tax revenue totaled 15.640052 trillion yuan, an increase of 8.3% and rising to 85.3% as a proportion of national general public budget revenue; non-tax revenue totaled 2.695132 trillion yuan, a decrease of 4.7% and accounting for 14.7% of revenue in the national general public budget.

**2) Central general public budget**

Revenue in the central government’s general public budget reached 8.544734 trillion yuan, representing 100.1% of the budgeted figure and an increase of 5.3% over 2017. Adding in contributions of 213 billion yuan from the Central Budget Stabilization Fund and 32.3 billion yuan from the budgets of central government-managed funds and central government state capital operations, the total revenue amounted to 8.790034 trillion yuan.

Expenditure in the central government’s general public budget totaled 10.23818 trillion yuan, representing 99.1% of the budgeted figure and an increase of 7.7%. Within this total figure, central government expenditure reached 3.270781 trillion yuan, representing 100.7% of the budgeted figure and an increase of 8.8%; tax rebates and transfer payments from central to local governments reached 6.967399 trillion yuan, representing 99% of the budgeted figure and an increase of 7.2%. With the addition of 101.854 billion yuan contributed to the Central Budget Stabilization Fund, the total expenditure reached 10.340034 trillion yuan. Total expenditure exceeded total revenue, leaving a deficit of 1.55 trillion yuan, which is consistent with the figure projected.

*Main revenue items in the central government’s general public budget:* Domestic VAT revenue was 3.075304 trillion yuan, 104% of the budgeted figure. Domestic excise tax revenue amounted to 1.063175 trillion yuan, 100.6% of the budgeted figure. Revenue from VAT and excise tax on imports totaled 1.687875 trillion yuan, 98.9% of the budgeted figure. Revenue from customs duties came to 284.775 billion yuan, 90.7% of the budgeted figure. Corporate income tax revenue was 2.224181 trillion yuan, 101.6% of the budgeted figure. Individual income tax revenue was 832.441 billion yuan, 107.4% of the budgeted figure. VAT and excise tax rebates on exports totaled 1.591345 trillion yuan, 107.7% of the budgeted figure.

*Main expenditures in the central government’s general public budget*: General public service expenditures reached 150.368 billion yuan, 103.4% of the budgeted figure. Spending on foreign affairs totaled 58.337 billion yuan, 97.1% of the budgeted figure. National defense spending was 1.10697 trillion yuan, 100% of the budgeted figure. Public security expenses totaled 204.151 billion yuan, 102.5% of the budgeted figure. Spending on education came to 173.123 billion yuan, 101.2% of the budgeted figure. Spending on science and technology amounted to 312.027 billion yuan, 100.2% of the budgeted figure. Spending on stockpiling grain, edible oils, and other materials was 137.564 billion yuan, 100.3% of the budgeted figure. Interest payments on debt reached 416.165 billion yuan, 97.1% of the budgeted figure.

*Central government tax rebates and transfer payments made to local governments*: Tax rebates came to 798.786 billion yuan, 98.2% of the projected figure. General transfer payments reached 3.875904 trillion yuan, making up 99.4% of the budgeted figure and rising to 62.8% as a proportion of total transfer payments. Special transfer payments reached 2.292709 trillion yuan, 98.8% of the budgeted figure.

In 2018, the extra 9.034 billion yuan of revenue in the central general public budget and the 92.82 billion yuan underspent were transferred in full to the Central Budget Stabilization Fund. Central government reserve funds budgeted for 2018 amounted to 50 billion yuan. Of this, actual spending was only 1.748 billion yuan, which was mainly used to support local governments in strengthening prevention and control of African swine fever, and in other areas. The 48.252 billion yuan surplus (already included in the aforementioned 92.82 billion yuan underspent) was transferred in full to the Central Budget Stabilization Fund. At the end of 2018, the Central Budget Stabilization Fund had a balance of 376.399 billion yuan.

**3) Local general public budget**

Revenue in the local general public budget reached 16.757849 trillion yuan. This figure included 9.79045 trillion yuan in local government revenue, which is an increase of 7% over 2017, and 6.967399 trillion yuan in tax rebates and transfer payments from the central government. With the addition of 1.231977 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, the total revenue reached 17.989826 trillion yuan. Expenditures in the local general public budget totaled 18.819826 trillion yuan, representing an increase of 8.7%. Total expenditure exceeded total revenue, creating a local government deficit of 830 billion yuan, which is consistent with the figure projected.

*2. Budgetary revenue and expenditure of government-managed funds in 2018*

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

Revenue of China’s government-managed funds in 2018 reached 7.54045 trillion yuan, a rise of 22.6%. Adding 38.559 billion yuan carried over from 2017 and 1.35 trillion yuan raised through local government issuance of special purpose bonds, the total revenue amounted to 8.929009 trillion yuan. Expenditure of government-managed funds totaled 8.056207 trillion yuan, an increase of 32.1%.

Revenue of central government-managed funds reached 403.265 billion yuan, representing 104.4% of the budgeted figure and an increase of 4.2%. With the additional 38.559 billion yuan carried forward from 2017, the total revenue rose to 441.824 billion yuan. Expenditure of central government-managed funds totaled 402.155 billion yuan, representing 94.7% of the budgeted figure and an 8.4% increase. Broken down, this figure included 308.929 billion yuan of central government spending and 93.226 billion yuan of transfer payments to local governments. Funds transferred from central government-managed funds to the general public budget amounted to 146 million yuan. Revenue of central government-managed funds exceeded expenditure by 39.523 billion yuan. Of this figure, 35.824 billion yuan was carried forward to 2019, and 3.699 billion yuan, comprised of any portion of carryover funds from individual government-managed funds exceeding 30% of that fund’s revenue in 2018, was contributed to the Central Budget Stabilization Fund in accordance with regulations.

Revenue of local government-managed funds reached 7.137185 trillion yuan, an increase of 23.8%. Revenue from the sale of state-owned land-use rights accounted for 6.509585 trillion yuan of this figure, a 25% rise. Adding in the transfer payments of 93.226 billion yuan from central government-managed funds and 1.35 trillion yuan raised through local government issuance of special purpose bonds, the total revenue rose to 8.580411 trillion yuan. Expenditure of local government-managed funds totaled 7.747278 trillion yuan, a rise of 32.9%; of this spending 6.994104 trillion yuan was funded by revenue from the sale of state-owned land-use rights, an increase of 34.2%.

*3. Budgetary revenue and expenditure of state capital operations in 2018*

In accordance with relevant management regulations for the budgets of state capital operations, budgetary 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. In 2017, Chinese SOEs and enterprises with state-held controlling stakes (not including class one state-owned financial enterprises) had a total business revenue of 53.75 trillion yuan, and their net profits reached 2.35 trillion yuan, of which 1.42 trillion yuan belonged to the owners of their parent companies; by the end of that year, their asset value totaled 183.52 trillion yuan and their total debt reached 118.46 trillion yuan.

Budgetary revenue of state capital operations nationwide totaled 289.995 billion yuan in 2018, an increase of 9.8%, while expenditure totaled 215.926 billion yuan, an increase of 6.7%.

Budgetary revenue of central state capital operations was 132.531 billion yuan, representing 96.3% of the budgeted figure and an increase of 1.6%. With the added 11.359 billion yuan carried over from 2017, the total revenue was 143.89 billion yuan. Budgetary expenditure of central state capital operations reached 111.173 billion yuan, representing 95.1% of the budgeted figure and an increase of 10.1%. This expenditure included 102.485 billion yuan of central government spending and 8.688 billion yuan in transfer payments to local governments. A total of 32.154 billion yuan was transferred into the central general public budget, with the transfer proportion being raised to 25%; 563 million yuan of budgetary revenue from these operations has been carried over to 2019.

Budgetary revenue of local state capital operations reached 157.464 billion yuan, a rise of 17.8%. Adding in the transfer payments of 8.688 billion yuan to local governments from the central state capital operations budget, the total revenue was 166.152 billion yuan. Budgetary expenditure of local state capital operations amounted to 113.441 billion yuan, a drop of 9.2%. This drop was mainly due to the proportion of funds allocated from the local state capital operations budget to the local general public budget being increased to 43.245 billion yuan.

*4. Budgetary revenue and expenditure of social security funds in 2018*

To coordinate the burden of enterprise employees’ basic aged-care pension among different regions and ensure sustainable development of the basic aged-care insurance system, in 2018 we put in place a central regulation system for enterprise employees’ basic aged-care pension funds to be used inter-provincially. Through central regulation, we can proportionately allocate the surplus funds of provinces with a good balance of payments to those provinces with shortfalls, ensuring that pension benefits are paid across all regions on time and in full.

Revenue of social security funds nationwide reached 7.264922 trillion yuan, an increase of 24.3%; the increase would be 7.3% after deducting the basic aged-care pension funds for employees of Party and government offices and public institutions. This revenue included 5.25432 trillion yuan in insurance premiums and 1.677683 trillion yuan in government subsidies. Expenditure of social security funds nationwide totaled 6.458645 trillion yuan, representing an increase of 32.7%; the increase would be 12.7% after deducting the basic aged-care pension funds for employees of Party and government offices and public institutions. The social security fund surplus for 2018 was 806.277 billion yuan, which was rolled over to make the year-end balance 8.633713 trillion yuan.

Revenue of central government social security funds reached 58.211 billion yuan, which included 30.184 billion yuan in insurance premiums and 27.47 billion yuan in government subsidies. With the addition of 241.33 billion yuan contributed by local governments to come under central regulation, the total revenue rose to 299.541 billion yuan. Expenditure of central government social security funds reached 53.213 billion yuan. Adding in 240.68 billion yuan reallocated to local governments through central regulation, the total expenditure rose to 293.893 billion yuan. The surplus for 2018 was 5.648 billion yuan, which was rolled over to make the year-end balance 31.549 billion yuan.

Revenue of local government social security funds reached 7.206711 trillion yuan, which included 5.224136 trillion yuan in insurance premiums and 1.650213 trillion yuan in government subsidies. Adding in 240.68 billion yuan of local government funds reallocated by the central government, the total revenue rose to 7.447391 trillion yuan. Expenditure of local government social security funds was 6.405432 trillion yuan. After adding 241.33 billion yuan of local government funds reallocated by the central government, the total rose to 6.646762 trillion yuan. The local government social security fund surplus for 2018 was 800.629 billion yuan, which was rolled over to result in a year-end balance of 8.602164 trillion yuan.

At the end of 2018, outstanding central government debt stood at 14.960742 trillion yuan, well within the budgeted limit of 15.690835 trillion yuan approved by the NPC. Total outstanding local government debt was 18.386152 trillion yuan, which included 10.993875 trillion yuan of general debt and 7.392277 trillion yuan of special debt, and fell within the NPC-approved budget limit of 20.99743 trillion yuan.

During the course of implementing the budgets, in accordance with the unified arrangement for deepening reform of Party and state institutions, we promptly allocated the necessary funds for newly set up departments and made appropriate budget transfers between relevant departments. These efforts ensured that those departments were able to operate normally in the performance of their duties, and that the reforms could progress smoothly. We examined and approved all the budgets of central government departments within the statutory time frame.

For a more detailed account of the budget execution in regard to the above items, please refer to the Chinese language version of the Report on the Execution of the 2018 Budgets of the People’s Republic of China and the 2019 Draft Budgets.

*5. Implementation of main fiscal and tax policies and other major fiscal work in 2018*

In 2018, finance departments conscientiously implemented the policy decisions and plans of the CPC Central Committee and the State Council, followed the Budget Law and the Guidelines on People’s Congresses Expanding the Focus of Their Budget Review and Oversight to Cover Expenditure Budgets and Policies, and acted on the requirements in the budget resolution adopted at the NPC. We have enforced a proactive fiscal policy with the focus on concentrating fiscal strength and boosting fiscal efficacy, increased support for the three critical battles against potential risk, poverty, and pollution, weighted spending toward innovation-driven development, agriculture, rural areas, rural residents, and the improvement of living standards, deepened reform of the fiscal and tax systems, and worked vigorously to improve management of budget execution.

* **We took strong measures to cut taxes and fees.**

*Improving the VAT system*

We lowered VAT rates in industries such as manufacturing, transportation, construction, and basic telecommunication services as well as for agricultural products and other goods, and adopted a unified annual sales threshold of 5 million yuan for small-scale VAT payers. The end-of-tax-period VAT credit was refunded in one lump sum to qualified enterprises in equipment manufacturing and other advanced manufacturing industries and in research and development (R&D) and other modern service industries, as well as to power grid enterprises.

*Implementing individual income tax reform*

Implementing the revised Individual Income Tax Law, we raised the individual income tax threshold and optimized the structure of tax rates, starting from October 1, 2018. On this basis, we formulated the interim measures for special additional deductions for individual income tax, creating six special additional deduction items including children’s education, and amended the implementation regulations for the Individual Income Tax Law, which officially went into effect on January 1, 2019. This represents a major shift from a system of classified taxes to a system of taxation that is based on both adjusted gross income and specific income types, benefiting approximately 80 million taxpayers.

*Increasing tax support for small and micro businesses*

More low-profit small businesses now enjoy halved corporate income tax, with the upper limit of taxable annual income raised from 500,000 yuan to 1,000,000 yuan. We raised the single-client credit line on which the interest income is eligible for VAT exemption from 1 million yuan to 10 million yuan in loans made to qualified small and micro businesses and self-employed people.

*Encouraging enterprises to increase investment in research and development*

We abolished the restrictions on additional tax deductions for R&D costs for those enterprises who entrust their R&D work to overseas contractors. The policy of additional tax deductions for 75% of R&D expenses for small and medium sci-tech enterprises was extended to cover all enterprises. The period for rollover of losses was extended from 5 years to 10 years for new- and high-tech enterprises and small and medium sci-tech enterprises. A one-off tax deduction in the year of purchase will be offered to enterprises for new instrument or equipment purchases of less than 5 million yuan in unit price.

*Adjusting and improving import and export tax policies*

Export rebate rates were raised for over 4,000 productsin two batches and the rebate rate structure was simplified. We accorded zero tariff treatment to the vast majority of imported medicine including anticancer drugs, and lowered import tariffs for whole vehicles and auto parts, as well as for some non-durable consumer goods and manufactured goods. China’s overall tariff level has been lowered from 9.8% in 2017 to 7.5% in 2018.

*Taking further steps to tidy up regulations for the levying of charges on enterprises*

A number of administrative charges were abolished, including the processing fee paid by first-time applicants for citizen identity cards. We lowered the required payments to some government-managed funds such as the major water conservancy projects fund. Further, we extended the validity period of the policies of temporarily reducing social insurance premiums and lowering the proportion that enterprises contribute to the housing provident fund. These efforts to reduce taxes and fees led to a relief of burdens by around 1.3 trillion yuan over the year.

* **We achieved significant success in the three critical battles.**

*Strengthening prevention and control of local government debt risk*

Actions were taken to impose ceilings on local government debt and incorporate them into budget management, and the work on issuing local government bonds to replace outstanding debt was basically completed. We supported the issuance and use of special bonds by local governments and attained the goal of issuing 1.35 trillion yuan of special bonds two months ahead of schedule. We have improved management measures to put under strict control the risks related to special bonds within the statutory debt ceilings. We rolled out measures for the disclosure of local government debt information and guided local governments in the orderly release of information regarding the remaining balance of debt ceilings, bond issuance and arrangements for fund usage, and repayment of principal and interests. We further refined oversight and regulatory policies for hidden debt-related risks facing local governments, and further strengthened risk prevention and control at the supply end of funds and at the source of project construction. Intensifying oversight and accountability and setting up mechanisms for lifelong accountability and the retroactive investigation of liability, we organized investigations into illegal and regulation-breaking borrowing by some cities, counties, and financial institutions, publicly exposing those cases. We improved the statistical and monitoring mechanisms and gave timely warnings about debt risk, and we urged local governments to perform their due responsibilities within their geographical jurisdiction and succeeded in forestalling systemic risks.

*Providing strong support in the fight against poverty*

The central government allocated 106.095 billion yuan to subsidize local poverty alleviation funds, an increase of 20 billion yuan, or 23.2%, over 2017. The increase in funds was mainly directed to areas of extreme poverty such as the three regions and the three prefectures[[1]](#footnote-1). We advanced trials across the country to integrate different rural development funds in poverty-stricken counties with merged funds surpassing 300 billion yuan for the year. We strictly controlled financing risks related to poverty alleviation, and replaced loans used to relocate people from inhospitable areas and other financing forms with a unified form of financing through issuance of local government bonds. We explored the establishment of mechanisms for dynamic monitoring of budgetary funds for poverty alleviation and strengthened management of government poverty alleviation funds of all kinds and at all levels. We formulated measures for performance-based management of budgetary funds in poverty alleviation projects, and basically achieved full coverage of performance targets, involving around 110,000 projects with an amount of over 800 billion yuan. A total of 13.86 million rural people were lifted out of poverty over the year.

*Intensifying pollution prevention and control efforts*

Around 255.5 billion yuan was allocated from the central budget to support the critical battle against pollution; this was a year-on-year increase of 13.9% and it included the largest investment toward addressing air, water, and soil pollution in recent years. We expanded the range of central government-financed trials to promote clean energy sources for winter heating across northern China, put in place incentivizing policies for the protection and restoration of ecosystems along the Yangtze Economic Belt, and established a compensation system for fishing bans in key waters of the Yangtze River basin. We launched models for treatment of black, malodorous water bodies in urban areas, and supported the enhancement of quality and efficacy in urban sewage treatment in the central and western regions. We entered 14 trial projects, including those at the eastern foot of the Helan Mountains in Ningxia and in the Wumeng mountainous areas in Guizhou, into the third group of pilot projects under the initiative to protect and restore mountain, water, forest, farmland, lake, and grassland ecosystems. Together with the previous two groups of 11 trial projects, these projects basically cover the key zones of the two ecological shields and three ecological belts[[2]](#footnote-2).

* **We supported the deepening of supply-side structural reform.**

*Promoting capacity building for scientific and technological innovations*

The central general public budget saw a 10.3% increase in expenditure on science and technology. We supported the implementation of major national science and technology programs and conducted trials on selected programs of a “green channel” based on integrity and performance. We supervised management reform of the funding for central government-funded scientific and technological research projects, launching a series of new measures to optimize project and economic management, reduce report forms and process reviews, and promote performance evaluation. We encouraged institutions of higher learning and research institutes in the Hong Kong and Macao special administrative regions to take part in the organization and implementation of central government-funded science and technology programs (projects and funds).

*Supporting the transformation and upgrading of the manufacturing sector*

We promoted the development of smart manufacturing, strong foundations for industry development, green manufacturing, and the industrial internet, and supported manufacturing innovation centers in improving their capacities. We implemented the policy on piloting insurance compensation for newly-developed major technological equipment, supporting and promoting a total of 1,087 projects with over 150 billion yuan worth of equipment.

*Stimulating the drive for innovation and entrepreneurship*

We supported 100 real-economy development zones at national and provincial levels in developing platforms with distinctive features and we facilitated the efforts of small and medium-sized enterprises to upgrade the national initiative to promote business startups and innovation. We set up a national financing guaranty fund to enhance our capacity to serve small and micro businesses and serve agriculture, rural areas, and rural residents. We provided rewards and subsidies to regions that achieved clear results in expanding the scale of financing guaranties and reducing guaranty fees for small and micro businesses.

*Carrying out the five priority tasks[[3]](#footnote-3)*

We introduced policies on further cutting overcapacity and restructuring the debts of “zombie enterprises,” and continued to support the de-escalation of overcapacity in the steel and coal industries. Active progress was made in the central government’s efforts to address “zombie enterprises” and improve those enterprises in particular difficulty. We redoubled efforts to strengthen key areas of weakness, fully exerting central government investment in infrastructure.

We regulated and promoted the application of the public-private partnership (PPP) model in an orderly fashion. By the end of 2018, of all the projects in the database of the national information platform for multiple PPP models, 4,691 were in progress, involving an aggregate investment of 7.2 trillion yuan, and accounting for 54.2% of the total.

*Promoting coordinated development between regions and between urban and rural areas*

To consistently strengthen support for central and western regions, the central government increased transfer payments to help equalize access to basic public services by 9.2%, and increased payments for old revolutionary base areas, areas with large ethnic minority populations, border areas, and poor areas by 15.7%. We set up a policy system for financial support to Xiongan New Area in its initial stage of planning and construction, and conducted studies on fiscal policies to support major regional strategies such as comprehensively deepening reform and opening up in Hainan Province. We established and implemented sound mechanisms for guaranteeing government funding for the implementation of the rural revitalization strategy. We put in place mechanisms for national coordination of newly-added cropland and for inter-provincial adjustment of quotas produced by linking newly-added cropland quotas with the amount of land used for construction. We accelerated our efforts to reduce excess stockpiles of grain, refined price-setting mechanisms for rice and other types of grain, promoted development of the quality grain project in all its aspects, and supported the deepening of supply-side structural reform in agriculture.

* **People’s lives continued to improve.**

*Implementing a more proactive employment policy*

We implemented policies on subsidies for employment and business start-ups, and strengthened capacity building for providing better public employment services. The central budget’s employment subsidies totaled 46.878 billion yuan, a rise of 6.8%; a total of 13.61 million new urban jobs were created over the year.

*Promoting reform and development in education*

A total of 84.4% of the central budget’s transfer payments for education went to the central and western regions, and were weighted especially toward poor areas. This has resulted in exemption of all tuition and miscellaneous fees and free textbooks for around 145 million students in compulsory education around the country, living allowances for 13.92 million boarding students from financially disadvantaged families, 14 million children living with migrant worker parents in cities being able to have their fiscal outlays for education transferred along with them, and 37 million students receiving subsidies for nutritious meals. Funding support was also provided for the development of preschool education, regular senior high schools, vocational education, and higher education.

*Ensuring the basic wellbeing of the people*

Basic pension payments for retirees of enterprises, Party and government offices, and public institutions were raised by around 5%. The minimum basic pension benefits for rural and non-working urban residents under the basic aged-care insurance scheme were raised to 88 yuan per person per month, and mechanisms were established to set standards on and regularly adjust basic aged-care insurance benefits. Work was carried out to transfer a portion of state capital to top up social security funds; this work was basically completed on a trial basis in five central government enterprises and in Zhejiang and Yunnan provinces, and is ongoing in 19 central government enterprises. This has promoted the establishment of an operating mechanism for combining transferring a portion of state capital with efforts to gradually make up for shortfalls in enterprise employees’ basic aged-care pension funds. The government subsidy for basic medical insurance for rural and non-working urban residents was raised to 490 yuan per person per annum, with half of the 40-yuan increase being allocated to the serious disease insurance scheme. Annual per person government subsidies for basic public health services were raised to 55 yuan.

We supported the provision of subsistence allowances and of assistance and aid to people living in extreme poverty or facing financial difficulties. Subsidies and living allowances were increased for entitled groups, benefiting over 8.6 million people around the country. We continued to provide support for the rebuilding of housing in run-down urban areas and for the development of supporting infrastructure for public rental housing, funding the rebuilding of 6.26 million housing units in run-down urban areas and 1.9 million dilapidated rural houses. We deepened our efforts to bring cultural benefits to the people, subsidizing over 50,000 public cultural facilities to keep them free and open to the public.

* **We intensified fiscal and tax reforms.**

*Accelerating reform of the fiscal system*

We released reform plans on defining the respective fiscal powers and expenditure responsibilities of central and local governments for basic public services and for the medical and healthcare sector. Looking forward, we are actively advancing these reforms in fields like education, science and technology, and transportation.

*Deepening reform* *of the budget management system*

We implemented the CPC Central Committee and the State Council’s Guidelines on Implementing Comprehensive Performance-Based Budget Management, and established an initial management system of this kind for project outlays of the central budget, covering the whole budget process from performance targets to execution oversight and performance self-evaluation for all central government projects and special transfer payments to local governments. We also put in place a mechanism to ensure the regular performance evaluation of key budgets, and during 2018 organized performance evaluations by third-party organizations on 38 key policies regarding public wellbeing and major projects, involving a total of 551.3 billion yuan; the evaluation results have been used to improve management, budget arrangement, and relevant polices. Central government budgets and final accounts were released in more detail, and further progress has been made in advancing the disclosure of budgets and final accounts of local governments and their departments at the provincial, city, and county levels. The trial preparation of government financial statements was expanded.

*Improving the tax system*

Amid tax and fee cuts, we took initial steps to establish an individual income tax system based on both adjusted gross income and specific types of income, and reformed and improved the VAT system. We pressed for tax legislation, for the smooth implementation of the Environmental Protection Tax Law, Vessel Tonnage Tax Law, and Tobacco Leaf Tax Law, for the deliberation and adoption by the NPC Standing Committee of the Tax Law on Farmland Used for Non-agricultural Purposes and the Vehicle Purchase Tax Law, and for the submission as per procedure of the Resource Tax Law to the NPC Standing Committee for its first reading.

*Deepening the reform of state capital and SOEs*

For the first time, we presented to the NPC Standing Committee a comprehensive report on the management of all state-owned assets and a specific report on state-owned assets in financial enterprises. We drove forward the issuance of guidelines on piloting reforms in state capital investment and management companies, on piloting unified oversight and supervision over state-owned productive assets of central Party and government offices and public institutions, and on improving the management of state-owned financial capital, and we made steady and solid progress in ensuring their implementation. We made major progress in relieving SOEs of their obligations to operate social programs and in resolving their other longstanding issues.

* **We continued to improve fiscal management.**

*Strengthening basic work on fiscal management*

Through a combination of measures, we accelerated the pace of budget execution, and improved the preparation and allocation of funds for transfer payments to local governments. In addition to this, we supported local governments in their efforts to ensure payment of salaries, normal operations, and the basic wellbeing of the people, to ensure that rural migrant workers get paid, and to clear up overdue payments to private enterprises. Work on conducting dynamic monitoring of budget execution was accelerated, and mechanisms for the dynamic monitoring of budget execution were established in 36 provincial-level budget institutions and in most city- and county-level governments. We built an online platform to enable online reimbursement of official travel expenses. We strengthened control over suspense payments of local governments, and basically completed the work of reviewing and overhauling local governments’ special accounts. A basic system of governmental accounting principles and institutions was established, and internal control standards and systems for administrative agencies and public institutions were improved.

*Tightening up financial discipline*

We stepped up oversight and compliance checks around the implementation of major fiscal and tax policies, and inspected local governments’ debt management, their financial support for poverty alleviation, their use of funds for pollution prevention and control, and their implementation of preferential tax policies for economic development zones. We strengthened oversight of governmental accounting and government procurement agencies and strictly dealt with violations of laws and regulations.

*Conscientiously rectifying problems uncovered in auditing*

We put strong emphasis on rectifying problems discovered through the auditing process such as the proportion of transfer payments for specific purposes being too high and the coverage of performance-based budget evaluation being too narrow, determined responsibility for correction, produced detailed rectification measures, and made steady progress in resolving the issues. At the same time, we earnestly studied and adopted suggestions from auditing bodies and, with a focus on applying lessons learned from experience, established institutions and mechanisms for solid corrective results.

Overall, budget execution in 2018 was satisfactory and we achieved new outcomes in the reform and development of public finance, which gave strong impetus to sustained and healthy economic and social development. We owe

these achievements to the firm 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 of the NPC and the CPPCC National Committee together with 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 main problems and challenges in budget execution and public finance work:

* The foundation for revenue growth is fragile, while expenditures remain inflexible; some city- and county-level governments face serious budgetary constraints in ensuring payment of salaries, normal operations, and the basic wellbeing of people in their jurisdictions.
* Accuracy in budget compilation still requires improvement and budgets are less binding than they should be; there are a number of weak links in budget allocation and management, and internal controls need to be further strengthened; and some local governments and departments fail to provide a solid foundation for budget execution, and their slow implementation leads to funds sitting idle.
* Mechanisms for exit of special transfer payments need to be improved, and the coverage of periodic assessments is too narrow.
* The execution of some projects under government-managed fund budgets is too slow, leading to a large carry-over; budget compilation has yet to cover all state capital operations; and enterprise employees’ basic aged-care pensions have not been placed under nationally coordinated management, mechanisms for ensuring sustainable funding and benefit adjustments for medical insurance schemes need improvement, and there are challenges in ensuring sustained financing for social security funds.
* Some local governments make promises beyond their financial capacity and in disregard of the actual situation, which harms their fiscal sustainability.
* Some local governments are still guarantying debt or making borrowings in breach of regulations, making it hard to keep debt risk under control.
* Poor implementation of some policies is masking any sense of benefit that enterprises and the public would otherwise be feeling.

We attach the utmost importance to these problems and will adopt strong measures for their resolution.

**II. Draft Central and Local Budgets for 2019**

The year 2019 marks the 70th anniversary of the founding of the People’s Republic of China, and represents a key year for completing the building of a moderately prosperous society in all respects and thus realizing the first Centenary Goal. With this in mind, we believe the compilation of this year’s budgets and other public finance work is of major significance. In line with the guiding principles of the recent Central Economic Work Conference, we will draw up the draft budgets for 2019 and study and make appropriate arrangements for revenue, expenditures, transfer payments, deficit, and the scale of debt, thereby ensuring implementation of the major policy decisions and plans made by the Party Central Committee and the State Council.

1. *Analysis on the prospects for fiscal revenue and expenditure in 2019*

China is still in an important period of strategic opportunity for development and will remain so for a long time to come. It has ample resilience, enormous potential, and great creativity to unleash. Our economy’s long-term positive momentum remains, and will continue to remain, unchanged. At the same time, profound and complex changes are taking place both in the international environment and in domestic conditions, and we are faced with more and greater risks and challenges, foreseeable and otherwise; as a result the stability of our economic performance has seen some changes, some of which have caused concern. Our economy faces a complex and severe external environment in which trade protectionism and unilateralism are mounting, the impetus for global economic growth is weakening, and factors of instability and uncertainty are increasing. Domestically, deep-seated structural problems and issues are becoming ever-more pronounced due to the impact of external events, the growth of demand is slowing down, the real economy is facing growing numbers of difficulties, and market confidence and expectations have all been affected. There are inevitably some difficulties and challenges in advancing supply-side structural reform.

In terms of fiscal revenue, the rate of growth in 2019 is projected to be slower due to mounting downward pressure on the economy, larger-scale tax and fee cuts, and the decline in government revenue as a result of the carryover effect of some tax and fee reduction policies. In terms of fiscal expenditure, the need for government funding across various fields is considerable, with priority assurance required in the areas of deepening supply-side structural reform, ensuring success in the three critical battles against potential risk, poverty, and pollution, implementing the rural revitalization strategy, promoting technological innovation and breakthroughs in key technologies, developing a number of projects for improving natural disaster prevention and control capabilities, increasing funding for areas related to people’s basic wellbeing, supporting diplomacy and national defense, and strengthening public finance guarantees for primary-level government.

Taking all factors into account, fiscal revenue faces a grim situation in 2019 and there will be great pressure to keep the budget balanced. It is imperative that we firmly maintain worst-case scenario thinking, stay keenly aware of potential problems, enhance risk prevention and control capability, balance the needs for stabilizing growth and guarding against risks, continue to strengthen coordination in fiscal policy-making and use of government funds, and maintain fiscal sustainability while increasing tax and fee cuts and ensuring funding for key areas.

1. *Overall requirements for the preparation of the 2019 budgets and public finance work*

In accordance with the Party Central Committee and the State Council’s policy decisions and plans, in 2019 the government will coordinate all work to maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, and ensure stability, see that the economy operates within an appropriate range, and devote more efforts to ensure stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations.

To help achieve these goals, we need to act on the following overall requirements for the preparation of this year’s budgets and public finance work:

* Follow the strong leadership of the Party Central Committee with Comrade Xi Jinping at its core.
* Follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.
* Comprehensively follow all guiding principles from the Party’s 19th National Congress, and the second and third plenary sessions of the 19th Party Central Committee.
* Coordinate efforts to implement the five-sphere integrated plan[[4]](#footnote-4) and four-pronged comprehensive strategy.[[5]](#footnote-5)
* Remain committed to the general principle of pursuing progress while ensuring stability, to the new development philosophy, and to high-quality development.
* Continue to regard supply-side structural reform as our main task, deepen market-oriented reform and advance higher-level opening up, and accelerate the building of a modernized economy.
* Continue to fight the three critical battles against potential risk, poverty, and pollution.
* Focus on keeping micro-entities energized while developing and improving new ways of macro regulation.
* Coordinate efforts to maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, and ensure stability.
* Increase the intensity and effectiveness of our proactive fiscal policy, carry out tax and fee cuts on a larger scale, and ensure substantive VAT reductions.
* Optimize the spending structure, tighten our belts, strictly reduce general expenditure, increase support for key areas, allocate funds more efficiently, and effectively lighten the burden on businesses.
* Expedite the building of a modern public finance system, and establish a fiscal relationship between the central and local governments built upon clearly defined powers and responsibilities, appropriate financial resource allocation, and greater balance between regions.
* Implement comprehensive performance-based budget management, and work faster to put in place a comprehensive system for such management that covers all sectors, projects, and budget types, as well as the whole budgetary process.
* Strengthen local government debt management, considerably expand the scale of local government special purpose bonds, and take active steps to forestall and defuse local government debt risk.
* Promote sustained and sound economic growth and overall social stability, lay a decisive foundation for completing the building of a moderately prosperous society in all respects, and celebrate the 70th anniversary of the founding of the People’s Republic of China by achieving outstanding results.

In line with these requirements, we will focus our work on five areas:

**First, stepping up tax and fee cuts and promoting development of the real economy.** We will roll out tax cuts on a larger scale and push ahead with more visible fee reductions, adopt both general-benefit and structural tax cuts, focus on easing tax burdens in the manufacturing industry and on small and micro businesses, reduce government-imposed transaction costs, and improve the business environment. We will lower contribution rates for social insurance schemes, and keep the current method of payment for contributions stable.

**Second, increasing investment in key areas and making spending more targeted**. In implementing the Party Central Committee and the State Council’s major policies and plans, we will orient spending more toward the public good and universal benefit, continue to adjust and optimize the government spending structure, and make budgetary investment more targeted. We will focus on increasing the funding for poverty alleviation, the development of agriculture, rural areas, and rural residents, structural adjustment, scientific and technological innovation, ecological and environmental protection, and the improvement of living standards. Further, we will prioritize efforts to deepen supply-side structural reform, strengthen innovation and technological breakthroughs, implement the rural revitalization strategy, and promote coordinated regional development and military-civilian integration.

**Third, keeping our belts tightened and strictly limiting general expenditures.** To help ease burdens on businesses, governments at all levels must tighten their belts, practice thrift and spend money where it can be used most efficiently, make a major push to reduce general expenditure, strictly control budgeted spending on official overseas visits, official vehicles, and official hospitality, cancel inefficient or ineffectual expenditure, and review and recall funds that have been idle for a long period of time. The central finance authorities should lead the way in exercising strict management over departmental spending, cutting general expenditure by a margin of no less than 5% and further reducing spending on official overseas visits, official vehicles, and official hospitality by approximately 3%. Local finance authorities should follow this lead by strictly controlling the expenditure of administrative agencies and institutions.

**Fourth, deepening reform of the fiscal and tax systems and accelerating the establishment of a modern public finance system.** In accordance with the requirements to boost the vitality of micro-entities and mobilize the initiative of local governments, we will improve systems integration, pay close attention to overall planning and coordination, and solidly advance key reforms regarding the fiscal system, budget management system, and tax system.

**Fifth, opening wider the “front door” for local governments to raise funds in compliance with regulation, while barricading the “back door” of borrowing money via illegal and against-regulation methods.** We will improve standard mechanisms for local governments to secure financing, properly address local governments’ existing hidden debts, and resolutely contain the rise in hidden debt, opening more widely the “front door” while closing up the “back door” even more firmly. We will increase the scale of local government special purpose bonds by a fairly large margin to ensure adequate funding for ongoing projects and the strengthening of weak points. We will also better utilize these special bonds to have them serve multiple purposes such as deepening supply-side structural reform, advancing ongoing projects, and defusing hidden debt-related risks.

*3. Fiscal policy for 2019*

We will increase the intensity and effectiveness of our proactive fiscal policy in 2019. We will fully leverage counter-cyclic adjustments, make regulation more forward-looking, targeted, and effective, and strengthen policy coordination, to promote high-quality economic development.

**We will implement tax and fee cuts on a larger scale and increase spending.**

*On cutting taxes and fees:* We will deepen VAT reform, reducing the current rate of 16% in manufacturing and other industries to 13%, lowering the rate in the transportation, construction, and other industries from 10% to 9%, and ensuring that tax burdens in our main industries are meaningfully reduced. The lowest bracket rate will remain unchanged at 6%, but the adoption of supporting measures, like increased tax deductions for producer and consumer services, will guarantee that in all industries tax burdens only go down, not up. We will make continued efforts toward cutting the number of tax brackets from three to two and streamlining our tax system. We will ensure that the general-benefit tax cut policies issued at the start of the year for small and micro businesses are put into effect.

The revised Individual Income Tax Law will come into full effect, as will the policy on six special additional individual income tax deduction items. At the same time, we will significantly reduce enterprise contributions to social insurance schemes. Starting from May 1, 2019, we will lower the share borne by employers for urban workers’ basic aged-care insurance, enabling all localities to reduce contributions to 16%. Further, we will continue polices on reducing in stages the premiums for unemployment insurance and workers’ compensation insurance, to ensure substantial reductions in enterprise contributions to social insurance schemes, particularly for small and micro businesses. We will continue to review and standardize government administrative charges. The above measures will reduce the tax burdens and social insurance premium contributions of enterprises by nearly 2 trillion yuan. To support tax and fee cuts on a larger scale, we will find workable means of raising funds, the central finance authorities will increase profits turned in by certain state-owned financial institutions and enterprises directly under the central government, and local finance authorities should also tap into their potential to put all kinds of funds and assets to good use through multiple avenues.

*On increasing spending:* We will further increase the scale of government expenditure. The government deficit for 2019 is projected to be 2.76 trillion yuan, an increase of 380 billion yuan over 2018, and the deficit-to-GDP ratio will rise moderately from 2.6% to 2.8%. At the same time, we plan to issue 2.15 trillion yuan worth of local government special bonds, an 800 billion yuan increase over 2018. These arrangements meet the demands of spending across various areas, send a signal of proactive and vigorous fiscal policy, help to better guide enterprise expectations, more strongly boost market confidence, and also take into consideration the importance of keeping policy options open in case there is a need to respond to risks in the future.

**We will increase the efficiency of allocating and using fiscal funds.**

*On fund allocation:* We will work hard to adjust and optimize the spending structure, maintain expenditure in some areas while reducing it in others, ensure that all essential items receive sufficient funding while non-essential items are cut, continue to put idle funds to good use, strengthen unified management of funds, and focus on enhancing our capacity to support China’s overall economic and social development.

*On fund use:* We will prioritize the implementation of comprehensive performance-based budget management and see that it permeates throughout the entire process of budget compilation and execution. Moreover, we will accelerate the pace of budget execution, strengthen oversight of budget performance, and promptly rectify errors, to ensure fiscal funds can play their part as soon as possible and fiscal policies are implemented and deliver results.

The main revenue and expenditure policies for 2019 are as follows:

*1) Vigorously supporting efforts to deepen supply-side structural reform*

Resolutely upholding supply-side structural reform as the main task, we will make greater use of reforms and means reliant on the market and the law to focus on consolidating, strengthening, upgrading, and ensuring unimpeded flows:

* **We will consolidate the gains made in the five priority tasks.**

We will step up efforts to cut ineffective supply, foster new growth drivers, and reduce costs in the real economy. We will put to good use special funds for rewards and subsidies to encourage structural adjustments in industrial enterprises, continue to handle the issue of “zombie enterprises,” promote faster clean-up in more industries with overcapacity, and ensure people’s basic wellbeing during adjustments of the industrial structure. Preferential tax policies will be implemented regarding enterprises’ restructuring and reorganization, cutting of overcapacity, and structural adjustments, to encourage competition among enterprises. We will continue to relieve SOEs of obligations to operate social programs and help them resolve other longstanding issues.

* **We will strengthen the dynamism of micro entities.**

We will greatly relax restrictions on low-profit small businesses eligible for corporate income tax relief and provide them greater tax preferences. The VAT threshold for small-scale taxpayers will be raised from 30,000 yuan to 100,000 yuan of sales per month. Local governments will be allowed to reduce resource tax, urban construction and maintenance tax, property tax, urban land-use tax, stamp duty (excluding stamp duty on securities transactions), tax on farmland used for nonagricultural purposes, education surcharges, and local education surcharges within a range of no more than 50% of the respective total tax amount. The range of preferential tax policies for investment in sci-tech start-ups will be expanded.

* **We will upgrade industrial chains.**

We will use a variety of methods, including risk compensation and post-project subsidies, to guide enterprises in increasing their investment into R&D and to promote commercialization and industrial application of scientific and technological advances. We will support more real-economy development zones in developing different types of specialized platforms for innovation and business startups. We will make full use of the national fund for the development of small and medium-sized enterprises and the national seed fund for investing in emerging industries, and increase support for innovative enterprises which are still in the early or middle stages of development, so as to foster more drivers for growth. We will provide individual income tax incentives related to venture capital, and carry out trials of appropriately raising the corporate income tax-free threshold for resident enterprises on income derived from technology transfer.

* **We will ensure unimpeded flows in the economy.**

We will use a combination of methods such as credit enhancement, rewards in place of subsidies, and tax relief, to encourage financial institutions to increase support for private enterprises and small and medium businesses, and thus mitigate difficulties faced by the latter in accessing affordable financing. We will speed up the operation of the national financing guaranty fund, and adopt a unified fee policy mandating that cases involving a single-client guarantee amount of 5 to 10 million yuan are to be charged the same as those below 5 million yuan, with the fee rate reduced from no higher than 0.5% of the risk liability to 0.3%, and we will encourage cooperating institutions to gradually lower their average guarantee fee to below 1%. We will support 30 cities in piloting comprehensive reforms of financial services for private companies and small and micro businesses, and encourage them to reduce overall financing costs of enterprises. We will speed up the operation of the national financing guaranty fund. Rewards and subsidies will be given to provincial-level governments where the annual rate of guarantee fee for small and micro businesses is no more than 2%. We will strengthen the capacity of the financial system to serve the real economy, and promote the forming of a positive cycle between the financial sector and the real economy.

*2) Continuing support for the three critical battles*

* **We will work to forestall and defuse fiscal and financial risks.**

We will continue to use both channeling and blocking measures to effectively prevent and control risks related to local governments’ hidden debt. The ceiling for newly-incurred local government debt is set at 3.08 trillion yuan, within which 930 billion yuan is general debt and 2.15 trillion yuan is special debt. This acts as a funding guarantee for major projects and also creates more favorable conditions for forestalling and defusing hidden debt-related risks of local governments. We will continue to issue local government bonds to replace those debts that meet policy regulations, and ensure full replacement of all outstanding debts. We will take prudent measures to address existing hidden debts, and urge high-risk cities and counties to reduce the scale of their hidden debts as rapidly as possible, so as to lower the level of debt risk. We will encourage financial institutions and financing platform companies to discuss and adopt market-based approaches and use financial instruments with appropriate maturity to address the hidden risks of existing maturing debts, with a view to avoiding breaks in the project funding chain. We will advance market-oriented transformation of financing platform companies.

We will resolutely control hidden debt expansion, and strengthen risk monitoring and analysis. Any illegal or against-regulation debt financing will be dealt with immediately, those responsible held accountable, and the case reported to relevant authorities; we will enforce lifelong accountability and retroactive investigation of liability. We will improve the management of special bonds and implement a management model wherein the scale of bonds is strictly controlled and must not exceed the set ceiling; related government-managed funds set in the budget must first of all be used to repay the principal and interests of mature special bonds; special bonds must strictly correlate to project assets and profits; the responsibility for bond repayment must be clearly defined in accordance with the law. All of the above management measures will help ensure against the emergence of risk with regard to special bonds.

* **We will firmly support the fight against poverty.**

Working toward the goal of poverty alleviation and adhering to the current poverty line, we will further guarantee funding and step up efforts to enable areas of extreme poverty and particular groups of people living in poverty to move out of their current situation. The central government will specially allocate 126.095 billion yuan to fund poverty alleviation, an increase of 18.9%, and these additional funds will be used mainly in areas of extreme poverty. Other related transfer payments and bond fund allocation will also continue to be channeled toward impoverished areas, especially those affected by extreme poverty. We will prioritize addressing the prominent issues of guaranteeing the basic needs of food and clothing for those living in poverty and ensuring that they have due access to compulsory education, medical care, and safe housing; we will step up efforts to alleviate poverty by developing local industries and boosting employment, education, healthcare, social security, and cultural activities. We will continue to invigorate people’s confidence in their ability to eliminate poverty and help them develop the skills they need to do so, thereby strengthening the internal drive and capacity for self-development within those impoverished areas and groups living in poverty.

We will continue to advance the trial integration of various funds for rural development in poor counties, ensure that provincial-level governments assume overall responsibility, and promote targeted investment and use of poverty alleviation funds. We will move faster to set up a mechanism for dynamic monitoring of government funds for poverty alleviation, place under real-time dynamic monitoring all types of budgetary funds for poverty alleviation at all levels, and carry out performance-based management of poverty alleviation project funds throughout the whole process of project implementation. Outcomes of the allocation of provincial, prefectural, and county-level poverty alleviation funds as well as information on township-level and village-level poverty alleviation projects and spending will all be released to the public. We will work resolutely to prevent any misappropriation of poverty alleviation funds. Support policies applying to counties and populations that have recently been lifted out of poverty will be maintained for a period to consolidate progress in poverty alleviation.

* **We will provide full support for pollution prevention and control.**

We will focus on winning the seven key campaigns[[6]](#footnote-6) in pollution prevention and control, and greatly increase the scale of fiscal input. Top priority will be keeping our skies blue; the central government will allocate 25 billion yuan to prevent and control air pollution, an increase of 25%. Continued support will be provided for trials to promote clean winter heating in northern China. With efforts centering on the elimination of black, malodorous water bodies in our cities, we will allocate 30 billion yuan to prevent and control water pollution, a rise of 45.3% over last year. In full support of the action plan to prevent and control soil pollution, we will allocate 5 billion yuan, an increase of 42.9%, for strengthening detailed surveying of soil pollution and treatment and restoration of polluted land. We will strengthen reward policies for ecological conservation and restoration along the Yangtze Economic Belt, and help relevant provinces to establish trans-provincial and intra-provincial compensation mechanisms for ecological conservation. We will advance pilot projects under the initiative to protect and restore mountain, water, forest, farmland, lake, and grassland ecosystems. We will support large-scale afforestation, improve the system for protecting natural forests, expand the scope of work to turn marginal land back into forest or grassland, strengthen cultivation, management, and protection of forest resources, boost protection and restoration of wetlands, and support closing off desertified land for its protection. We will continue to implement reward and subsidy policies for grassland ecological conservation. We will allocate 81.1 billion yuan of transfer payments to key ecosystem service zones, an increase of 12.5%, which will help local governments to strengthen ecological conservation and develop a system of nature reserves composed mainly of national parks.

*3) Maintaining commitment to innovation-driven development*

* **We will promote high-quality development of the manufacturing industry.**

We will give full play to the leveraging role of government funds in guiding capital and resources toward key areas of strategic importance, to help shore up weaknesses in major equipment manufacturing and create new service platforms in key industries, and promote innovations and breakthroughs in key strategic areas. Focusing our tax reductions on the manufacturing industry, we will substantially lower VAT rates, reducing the rate applying to the manufacturing industry from 16% to 13%, and gradually establish a system to refund end-of-tax-period VAT credit, with the goal of effectively reducing enterprise costs. The preferential policy of accelerated depreciation of fixed assets will be extended to all sectors of manufacturing. We will improve the government procurement policy to support innovation and green development. We will fully exert the function of policies on newly-developed major technological equipment, and provide greater support to the manufacturing industry, particularly major equipment and key products.

* **We will increase scientific and technological support for development.**

Adopting problem-oriented and demand-oriented approaches, we will provide full support for basic research including application-oriented basic research, and step up our support to achieve breakthroughs in core technologies for key fields. We will boost China’s strategic scientific and technological strength, advance the building of national laboratories, optimize the layout of our science and technology innovation centers, promote the open sharing of scientific research facilities and equipment, and implement major national science and technology projects and the programs for the Sci-Tech Innovation 2030 Agenda. We will increase our steady support for research institutes, and step up human resources development in science and technology. We will redouble our efforts to ensure effective implementation of policies including reform of fund management for central government-funded science and technology initiatives, and begin piloting project management reform based on performance, integrity, and capacity, to form more effective incentive mechanisms for innovation.

We will promote the establishment of an innovation mechanism, with enterprises as the main players, that integrates the efforts of enterprises, universities, and research institutes, and we will support enterprises in heading up major science and technology programs. We will use a combination of means including risk compensation, post-project subsidies, and venture capital guidance, to encourage enterprises to increase investments in science and technology and promote the commercialization and industrial application of advances in science and technology. We will support efforts to strengthen all-round protection of intellectual property rights.

*4) Encouraging the formation of a strong domestic market*

* **We will work hard to expand consumer spending.**

We will refine the related fiscal and tax policies to support non-governmental provision of services in education, culture, sports, elderly care, healthcare, and other sectors, and foster new areas of consumption growth. We will expedite the reform of government service procurement in key areas to expand the scope and scale of the procurement and upgrade the quality of public services. We will support the development of the new-energy vehicle industry by prioritizing assistance to enterprises with the greatest strength and advantages, continue to waive vehicle purchase tax for new-energy vehicles, adjust and improve policies on purchase subsidies, and encourage more rapid construction of charging facilities and use of new-energy vehicles for urban public transport. We will promote the establishment of a modern supply chain system and the improvement of logistics infrastructure. We will strongly advance comprehensive demonstrations for introducing e-commerce into rural areas to encourage the flow of agricultural products to urban areas and of industrial products to the countryside.

* **We will give full play to the key role of investment.**

The central government has earmarked 577.6 billion yuan for investment into infrastructure, an increase of 40 billion yuan over 2018. We will optimize the direction and structure of this investment, strengthen performance evaluation, and use the funds mainly for areas including development of agriculture, rural areas, and rural residents, major infrastructure construction, innovation-driven development and structural adjustments, government subsidized housing projects, social programs and social governance, energy conservation, environmental protection, and ecological improvement. We will strengthen development in transportation, water conservancy, energy, ecological and environmental protection, agriculture and rural areas, and other key sectors and weak links, and increase the support capacity of infrastructure like information networks and modern logistics. We will continue to support follow-up work in the Three Gorges Reservoir region. We will strongly support central departments and local governments in carrying out major projects for

natural disaster prevention and response. We will advance the planning and construction of the Sichuan-Tibet railway. We will take further steps to standardize and popularize the use of the PPP model and strive to expand the involvement of private capital.

* **We will more effectively leverage the role of local government bonds.**

In accordance with the relevant authorization decisions of the Seventh Session of the 13th NPC Standing Committee, the State Council has issued in advance a total ceiling amount of 1.39 trillion yuan for new local government debt in 2019, which is comprised of a 580 billion yuan limit for general bonds and an 810 billion yuan limit for special bonds. The issuance of debt ceilings prior to NPC approval is within the scope of authorization. We will appropriately expand the scope of use for special bonds, ensure sound and reasonable distribution among different regions and investment structures, quicken the pace of bond issuance, and give priority to financing on-going projects in the use of funds raised through the issuance of special bonds so as to prevent the occurrence of half-done projects. Furthermore, we will allow funds from the treasury to be allocated in advance to expedite projects that are to be funded by special bonds.

*5) Promoting coordinated regional development*

* **We will support the implementation of major national strategies for promoting regional development.**

Giving primary consideration to major strategies such as jointly pursuing the Belt and Road Initiative, the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area, and the integrated development of the Yangtze River Delta, we will push for integrated development of major national strategies regarding regional growth, based on the development of the western, northeastern, central, and eastern regions of China. We will continue with the current policy on corporate income tax relief for the western region after its expiration. We will continue to provide firm support for high-standard development of the Xiongan New Area, for comprehensively deepening reform and opening up in Hainan Province, and for implementing other major national strategies for regional development. Meanwhile, we will offer support for implementation of the strategy to build China into a maritime power, development of the marine economy and marine science and technology, protection of the marine environment, and strengthening ecological restoration of islands, sea areas, and coastlines.

* **We will further equalize access to basic public services among regions.**

In order to fully exert the role of transfer payments, we will arrange a considerable increase in the scale of transfer payments from central to local governments, and weight the increase toward the central and western regions. The central government will allocate 1.5632 trillion yuan of transfer payments to ensure equal access to basic public services, an increase of 10.9%. Transfer payments to old revolutionary base areas, areas with large ethnic minority populations, border areas, and impoverished areas will reach 248.905 billion yuan, a rise of 14.7%, to increase support for these areas. A total of 270.9 billion yuan in rewards and subsidies will be allocated for the mechanism to ensure county-level governments’ basic funding, an increase of 10%. A total of 40 billion yuan in subsidies will be allocated to support policies for meeting people’s basic needs, so as to help regions in financial difficulty better ensure basic public wellbeing. We will 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 improve the fiscal system at and below the provincial level, guide the flow of financial resources toward lower levels of government, and strengthen the capacity of governments at and below the provincial level to guarantee the provision of basic public services.

* **We will improve the system for mutual assistance and interest sharing between regions.**

We will fully leverage the mechanisms that allow for national coordination in offsetting farmland between provinces and for surplus quotas produced by linking newly-added cropland quotas with the amount of land used for construction to be adjusted inter-provincially, and all profit therefrom will be used to fight poverty and support rural revitalization. The eastern region will be encouraged to gradually increase investment in line with its growing finances as part of deep collaboration on poverty alleviation between the eastern and western regions. We will enhance the provision of targeted and all-around one-on-one assistance programs, and encourage sustained and sound economic and social development in Xinjiang and Tibet as well as in the four Tibetan ethnic areas in the provinces of Qinghai, Sichuan, Yunnan, and Gansu.

* **We will advance the development of the new type of urbanization.**

A 30 billion yuan rewards fund will be put in place by the central government to support the process of granting urban residency to people with rural household registration living in urban areas. We will further improve transfer payment methods, ensure a reasonable sharing of costs in the residency-granting process, and ensure that basic public services are accessible to all permanent residents. We will provide timely subsidies to trial construction of “sponge cities” and urban underground utility tunnels, to support local governments in pursuing higher quality urban development.

*6) Implementing the rural revitalization strategy*

* **We will promote the high-quality development of agriculture.**

The central government will continue to increase financial support for the development of agricultural production, and the subsidy fund for agricultural resources protection and ecological conservation. We will strongly implement the food crop production strategy based on farmland management and technological application, support the development of cropland and water conservancy projects such as high-standard farmland and efficient water-saving irrigation, expand trials in crop rotation and letting land lie fallow, step up reform and innovation in agricultural science and technology, broaden the application of advanced and appropriate agricultural technology, and increase overall agricultural production capacity. We will make all-around efforts to advance comprehensive use of straw from crops. We will support the protection and use of germplasm resources, and accelerate our efforts to experiment with and spread the application of new, eco-friendly varieties. We will move forward with the work on compensation for fishing bans in key waters of the Yangtze River basin. We will lend our support to new types of agribusiness, carry out programs to train new types of professional farmers, and build up the system of commercial services for agricultural production. We will advance the establishment of modern agriculture industrial parks and the initiatives to invigorate villages and strengthen counties through developing local industries, and encourage deeper integration of primary, secondary, and tertiary industries in rural areas. We will provide active support for animal epidemic prevention and control.

* **We will provide strong support for rural development.**

We will support the improvement of rural living environments with our focus on garbage and sewage treatment, agricultural production waste recycling, the Toilet Revolution, and the improvement of village appearance. We will promote rural power grid upgrades, step up the building and maintenance of roads and other infrastructural facilities in rural areas, and raise the level of public services across the board. We will accelerate the implementation of programs to consolidate and build on progress already made in providing safe drinking water in rural areas. We will refine government reward and subsidy

mechanisms for rural public works projects, and support efforts to bring the beautiful countryside initiative to the next level and the growth of collective village economies. We will strengthen the capacity of rural community-level organizations to provide guarantees for rural development.

* **We will deepen agricultural and rural reforms.**

We will move more quickly to develop policies that support and protect a new type of agriculture. Upholding green development and ecological conservation as our guiding principles, we will continue to reform the system for agricultural subsidies. Rural development funds will be further integrated and used in a coordinated way. We will remain committed to carrying out market-oriented reforms, adjust and refine minimum purchase price policies, and stabilize the level of fiscal support for rice, wheat, and other major grain varieties. We will improve the policy on subsidizing corn and soybean production. Trials on agricultural catastrophe insurance will be expanded. We will improve the policies on reducing excess grain stockpiles, and maintain an appropriate tempo and intensity of reduction based on different varieties of grain. We will work hard to implement the quality grain project and increase the supply of high quality green produce. Reform of pricing for water used in agriculture will be advanced across the country, and trials and experiments for comprehensive rural reform will progress steadily.

*7) Doing more to ensure and improve living standards*

* **We will actively promote employment and business startups.**

The central government will allocate 53.878 billion yuan for employment subsidies, which is an increase of 14.9%, and great support will be provided to boost employment and business startups through adjustment of spending structures in such areas as unemployment insurance funds. Inclusive policies for employment and entrepreneurship will be implemented, and we will provide support for the employment of key groups like university graduates, rural migrant workers, and demobilized military personnel. Enterprises hiring staff from rural poor populations or from the urban registered unemployed population for a minimum period of six months will be entitled to a fixed amount of tax and fee deductions for three years. We will offer greater financial support to subsidize interest payments on guarantee loans for business startups, raising the loan ceilings to 150,000 yuan for qualified individuals and 3 million yuan for small and micro businesses. We will encourage enterprises to step up on-the-job training by raising the ceiling on deductible expenses for employee

education. We will support large-scale vocational skills training, the introduction of new types of apprenticeships in enterprises across the board, and implementation of the national plan to cultivate highly-skilled personnel, so as to help raise the level of workers’ employment skills and alleviate the structural problems of the labor market.

* **We will prioritize the development of education.**

We will consolidate and build on the unified funding mechanism for compulsory education in urban and rural areas, with a focus on rural areas. We will support the strengthening of weak links and improvement of abilities in compulsory education, focus on eliminating extremely large class sizes in urban schools, step up the development of small-scale schools in villages and boarding schools in counties and townships, and ensure access to education for children living with their migrant worker parents in cities. We will continue work to ensure the full payment of pay packages to teachers working in compulsory education, and step up efforts to strengthen the teacher workforce in rural areas.

In support of the development of preschool education, the central government will allocate 16.85 billion yuan, an increase of 13.1%, for the expansion of inclusive preschool education resources including both public and private schools. Central government funding for initiatives devised to improve the quality of modern vocational education will reach 23.721 billion yuan, a rise of 26.6%, as part of an effort to support reform and development of vocational education, and promote integration between industry and vocational education and cooperation between colleges and businesses. We will expand the coverage of scholarships and grants for vocational college students and raise the level of financial assistance. A state scholarship for secondary vocational education will be established.

We will improve the budgetary appropriation system for institutions of higher learning directly under the central government, support the reform and development of local universities, and accelerate the pace of developing world-class universities and world-class disciplines. We will support the development of quality education for ethnic minority groups and people with special needs. We will improve the system of financial aid for students from families in financial difficulty, making such aid more targeted.

* **We will increase the level of guarantee for aged-care pensions.**

Starting from January 1, 2019, we have raised basic pension payments for retirees of enterprises, government offices, and public institutions by an average of 5%. We will increase the centrally-regulated share of basic aged-care pension funds for enterprise employees to 3.5%, accelerate efforts in advancing overall planning of aged-care pension schemes at the provincial level, and urge local authorities to further unify policies and the collection and spending of funds, to create the right conditions for overall planning at the national level. We will continue to appropriate a portion of state capital to replenish social security funds.

* **We will make progress in building a Healthy China.**

We will support the establishment of unified basic health and unified major disease insurance schemes for rural and non-working urban residents across the country, and increase government subsidies for medical insurance for rural and non-working urban residents by 30 yuan to reach 520 yuan per person per annum, with half of the 30 yuan to be used for strengthening the guarantee for major disease insurance, while at the same time raising the rates for individual contributions by an appropriate amount. We will support further reform of payment methods for basic health insurance and the building of health insurance information systems, increase the efficiency of the use of insurance funds, and strengthen oversight of such funds. Per capita government subsidies for basic public health services will rise by 5 yuan, and adding a 9 yuan subsidy from the original funding for major public health services, government subsidies will reach 69 yuan per person per year. The entirety of the increases in subsidies for basic public health services will be used for villages and communities. We will deepen comprehensive reform of the public hospital sector, refine the policies on government investment into public hospitals, and consolidate the progress we have made in halting the practice of charging high medicine prices to compensate for low medical service fees in public hospitals. We will advance the development of regional medical service centers, support actions toward cancer prevention and treatment, and step up the cultivation and training of healthcare personnel. We will support the preservation, innovation, and development of traditional Chinese medicine.

* **We will strengthen basic housing security.**

The central government will allocate 143.3 billion yuan for government-subsidized housing projects in urban areas, an increase of 12.4%. We must be strict in determining the scope and standards for redeveloping run-down areas; our efforts should focus on dirty, disorderly, and unsanitary parts of old city centers and on run-down state-owned industrial and mining areas, forest regions, and land reclamation zones. We will support the development of public-rental housing and renovation of old residential communities in cities, and conduct trials on development of the housing rental market. Central government funding for dilapidated rural housing renovation will reach 29.85 billion yuan, increasing by 12.9%, with priority given to registered poor households, recipients of subsistence allowances, people in extreme poverty who live at home on government assistance, and financially disadvantaged families of people with disabilities. The increased funds are to be used primarily for upgrading rural housing in areas of high seismic activity to make them more earthquake resistant.

* **We will strengthen policies to ensure people’s basic living needs are met.**

We will coordinate efforts to build a social assistance system. The central government will allocate 146.697 billion yuan, a 5.1% increase over the previous year, in aid subsidies for groups in difficulty, to support local governments in providing subsistence allowances, assistance to people in extreme poverty, temporary assistance, and assistance to beggars and the homeless, and in ensuring basic living conditions for orphans. Out of that amount, per capita subsistence allowances will grow by an average of 5% for urban beneficiaries, and 8% for rural beneficiaries. Central government funding for medical aid subsidies will total 27.101 billion yuan, and the level of medical assistance will be increased as appropriate. We will provide a better level of protection for children in difficult situations and those left behind in rural areas. We will refine the policies on providing living allowances to people with disabilities who face financial difficulties and on granting care subsidies to people with serious disabilities, and provide financial support for programs that benefit people with disabilities.

* **We will promote the development of cultural programs.**

The central government will allocate 14.71 billion yuan in subsidies for the development of systems for local public cultural services, an increase of 14%. We will accelerate the establishment of a modern public cultural services system, and work to expand the coverage of basic public cultural services and better adapt them to meet specific local needs. We will advance efforts to protect and utilize cultural relics and protect and pass on Chinese cultural heritage, and we will support the flourishing development of socialist literature and arts. Promoting the integrated development of media, we will strengthen capacity building for international communication. Stronger support through market-based approaches will be provided to facilitate the development of the cultural sector. We will improve public sports facilities in both rural and urban areas and support extensive fitness-for-all activities. We will contribute our part to the preparatory work for the 2022 Winter Olympics and Paralympics in Beijing.

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

We will support national defense and military reform, and push forward defense and military modernization across the board. We will work faster to intensify civil-military integration, providing financial support and improving supporting policies. We will improve our systems for the provision of benefits to entitled groups, work to ensure demobilized military personnel receive their due benefits and care, and improve polices on basic aged-care insurance and basic medical insurance for demobilized military personnel. The central government will continue to increase funding for subsidies for army officers transferred to civilian jobs, settlement of demobilized military personnel, and entitled groups. We will support the development of China’s diplomacy as a major country, fully participate in the reform and development of the global governance system, and stand firm in safeguarding and advancing national interests. We will support deeper reform of the national supervisory system and judicial system. We will improve the crime prevention and control system, strengthen the provision of legal aid, and further pursue the Peaceful China and rule of law initiatives.

*4. Revenue and expenditure in the general public budgets for 2019*

**1) Central general public budget**

Revenue in the central general public budget is expected to be 8.98 trillion yuan, an increase of 5.1% over the actual figure for 2018 (as detailed below). Adding in 280 billion yuan from the Central Budget Stabilization Fund and 39.4 billion yuan from the budgets of central government-managed funds and central government state capital operations, the total revenue for 2019 will be 9.2994 trillion yuan. Expenditure in the central general public budget is projected to reach 11.1294 trillion yuan, an increase of 8.7%. Total expenditure is projected to exceed total revenue, leaving a deficit of 1.83 trillion yuan, an increase of 280 billion yuan over last year. The Central Budget Stabilization Fund is projected to carry a balance of 96.399 billion yuan.

In 2019, in accordance with the requirements of establishing a fiscal relationship between the central and local governments built on clearly defined powers and responsibilities, appropriate financial resource allocation, and greater regional balance as stated in the report to the Party’s 19th National Congress, and combined with the oft-encountered reality of fiscal powers in China being shared between central and local governments, the central government will take items subject to shared fiscal powers covered by transfer payments to set up integrated transfer payments under shared fiscal powers, and include them into general transfer payments. This will fully reflect the expenditure responsibilities of the central government under shared fiscal powers, strengthen guarantees of adequate funding under shared fiscal powers, and better promote the equalization of access to basic public services. At the same time, central government tax rebates to local governments and subsidies of fixed amounts will be merged, and included into general transfer payments. After making the above adjustments, the items and scales of general transfer payments and special transfer payments have changed greatly, which is reflected in the 2019 budgets.

The 2019 expenditures in the central general public budget are divided into central government expenditures, transfer payments to local governments, and payments to central government reserve funds.

(1) Central government expenditures will total 3.5395 trillion yuan, up 6.5%. This can be broken down as follows: General public service spending will total 199.046 billion yuan, down by 3.1%. Spending on foreign affairs will total 62.71 billion yuan, up 7.4%. National defense spending will amount to 1.189876 trillion yuan, up 7.5%. Public security expenses will total 179.78 billion yuan, up 5.6%. Spending on education will reach 183.513 billion yuan, up 6%. Spending on science and technology will be 354.312 billion yuan, up 13.4%. Spending on stockpiling grain, edible oils, and other materials will total 117.715 billion yuan, a reduction of 14.2%, which is mainly due to the remarkable progress made in reducing excess stockpiles of corn and soybeans and a corresponding reduction in spending on subsidizing interest payments on loans for their stockpiling. Interest payments on debt will total 499.423 billion yuan, up 20%.

(2) A total of 7.5399 trillion yuan will be transferred to local governments, up 9%. General transfer payments to local governments will total 6.77631 trillion yuan, up 7.5%. Of this amount, transfer payments under shared fiscal powers will be 3.184569 trillion yuan and mainly used for ensuring the implementation of relevant policies on shared fiscal powers in education, healthcare, social security, agriculture and rural areas, energy conservation and environmental protection, and other areas. Special transfer payments to local governments will total 763.59 billion yuan, an increase of 8.1% after deducting the expenditure allocated from the proceeds of inter-provincial land quota adjustments and the subsidies for establishing an integrated prevention and control system for natural disasters. These special transfer payments will be mainly used to ensure implementation of the major policy decisions and plans of the Party Central Committee and the State Council on pollution control, rural revitalization, and the development of key areas.

(3) Central government reserve funds total 50 billion yuan, which is consistent with the budgeted figure for 2018. The use of reserve funds will be counted as either central government expenditure or transfer payments to local governments, as the situation requires.

**2) Local general public budget**

Revenue in the local general public budget is projected to be 10.27 trillion yuan, up 4.9%. Adding in 7.5399 trillion yuan in transfer payments from the central government and 1.195 trillion yuan transferred from other local sources and utilized carryover and surplus funds, the total revenue is expected to reach 19.0049 trillion yuan. Expenditure in the local general public budget is projected to be 19.9349 trillion yuan, an increase of 6.2%. This will create a deficit of 930 billion yuan at the local level, an increase of 100 billion yuan over 2018, which will be made up for through local government issuance of general bonds.

**3) National general public budget**

Revenue in the national general public budget is projected to total 19.25 trillion yuan, an increase of 5%. With the addition of 1.5144 trillion yuan transferred from other sources and utilized carryover and surplus funds, the total revenue is expected to reach 20.7644 trillion yuan. Expenditure in the national general public budget is 23.5244 trillion yuan (including 50 billion yuan for central government reserve funds), an increase of 6.5%. This will leave a deficit of 2.76 trillion yuan, an increase of 380 billion yuan over 2018.

*5. Budgetary revenue and expenditure of government-managed funds for 2019*

Revenue of central government-managed funds is projected to be 419.315 billion yuan, up 4%. Adding in 35.824 billion yuan carried forward from last year, the total revenue will reach 455.139 billion yuan. Expenditure of central government-managed funds is expected to total 454.716 billion yuan, up 13.1%. This figure consists of 339.555 billion yuan of central government expenditure, an increase of 9.9%, and 115.161 billion yuan in transfer payments to local governments, an increase of 23.5%. A projected 423 million yuan will be transferred into the central general public budget.

Revenue of local government-managed funds is projected to be 7.375456 trillion yuan, up 3.3%. Of this figure, proceeds from selling state-owned land-use rights account for 6.707739 trillion yuan, an increase of 3%. Adding in 115.161 billion yuan in transfer payments from central government-managed funds and 2.15 trillion yuan of revenue generated from local government special debt, revenue of local government-managed funds is projected to total 9.640617 trillion yuan. Expenditure of local government-managed funds is expected to total 9.640617 trillion yuan, up 24.4%. This figure includes 6.465696 trillion yuan of expenditure funded by the proceeds from selling state-owned land-use rights (not including expenditure on the issuance of special bonds), an increase of 15.3%.

Revenue of the government-managed funds nationwide is projected to be 7.794771 trillion yuan, an increase of 3.4%. Adding in 35.824 billion yuan carried forward from last year and 2.15 trillion yuan of revenue generated from local government special debt, the total revenue is projected to be 9.980595 trillion yuan. Expenditure of government-managed funds nationwide is projected to be 9.980172 trillion yuan, up 23.9%.

*6. Budgetary revenue and expenditure of state capital operations for 2019*

Budgetary revenue of central government state capital operations is projected to be 163.811 billion yuan, up 23.6%. Adding in 563 million yuan carried forward from last year will bring the projected total to 164.374 billion yuan.

Budgetary expenditure of central government state capital operations is expected to be 125.397 billion yuan, up 12.8%. This figure consists of 113.597 billion yuan of central government expenditure, which is an increase of 10.8%, and 11.8 billion yuan in transfer payments to local governments. A projected 38.977 billion yuan will be transferred into the central general public budget, an increase of 21.2%, further raising the proportion of funds in the central government’s state capital operations budget transferred into its general public budget to 28%.

Budgetary revenue of local government state capital operations is projected to be 172.773 billion yuan, up 9.7%. Adding in 11.8 billion yuan in transfer payments from the central government state capital operations budget, the total revenue will be 184.573 billion yuan. Budgetary expenditure of local government state capital operations is estimated to be 126.488 billion yuan, up 11.5%. A projected 58.085 billion yuan will be transferred into the local general public budget.

Revenue in the state capital operations budgets of both the central and local governments is projected to be 336.584 billion yuan, up 16.1%. Adding in 563 million yuan carried over from last year, the total budgetary revenue of state capital operations nationwide will be 337.147 billion yuan. Budgetary expenditure of state capital operations nationwide is expected to be 240.085 billion yuan, up 11.2%. A projected 97.062 billion yuan will be transferred into general public budgets.

*7. Budgetary revenue and expenditure of social security funds for 2019*

Revenue of central government social security funds is projected to be 70.923 billion yuan, up 21.8%, which includes 37.754 billion yuan in insurance premiums and 32.425 billion yuan in government subsidies. Adding in 482.66 billion yuan paid by local governments to be under central regulation, the total revenue will reach 553.583 billion yuan. Expenditure of central government social security funds is expected to reach 69.634 billion yuan, up 30.9%. Adding in the 481.36 billion yuan to be reallocated to local governments through central regulation, the total expenditure is expected to be 550.994 billion yuan. With this year’s projected surplus of 2.589 billion yuan, the year-end balance will be 34.138 billion yuan after the balance from 2018 has been rolled over.

Revenue of local government social security funds is projected to be 7.896831 trillion yuan, up 9.6%, which includes 5.661619 trillion yuan in insurance premiums and 1.914471 trillion yuan in government subsidies. Adding in 481.36 billion yuan from local social security funds to be under central regulation, the total revenue will reach 8.378191 trillion yuan. Expenditure of local government social security funds is expected to be 7.355595 trillion yuan, up 14.8%. Adding in the 482.66 billion yuan from local social security funds to be reallocated by the central government, the total expenditure is expected to be 7.838255 trillion yuan. With this year’s projected surplus of 539.936 billion yuan, the year-end balance will be 9.1421 trillion yuan after the balance from 2018 has been rolled over.

Counting both central and local government budgets, revenue of social security fund budgets nationwide is projected to be 7.967754 trillion yuan, up 9.7%. This includes 5.699373 trillion yuan in insurance premiums and 1.946896 trillion yuan in government subsidies. Expenditure of social security funds nationwide is expected to total 7.425229 trillion yuan, up 15%. With this year’s projected surplus of 542.525 billion yuan, the year-end balance will be 9.176238 trillion yuan after the balance from 2018 has been rolled over.

In 2019, the ceiling for outstanding central government bonds is 17.520835 trillion yuan; the ceiling for outstanding local government general bonds is 13.308922 trillion yuan; and the ceiling for outstanding local government special bonds is 10.768508 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 in lieu of the final projections by the central finance authorities.

For a detailed account of the above budget arrangements, please refer to the Chinese language version of the Report on the Execution of the 2018 Budgets of the People’s Republic of China and the 2019 Draft Budgets.

In accordance with the Budget Law, after the beginning of a new budget year and prior to the approval of these draft budgets by the National People’s Congress, arrangements may be made for the following expenditures: carryover expenditures from the previous fiscal year; government department basic expenditures and program expenditures, and transfer payments to lower-level governments, that must be made in the current year after referring to the amount of budgetary expenditures for the corresponding period over the previous year; expenditures mandated by law, and expenditures for dealing with natural disasters and other emergencies. Based on the above stipulations, in January 2019, expenditures in the central general public budget totaled 1.3453 trillion yuan, including 210.4 billion yuan spent at the central level and 1.1349 trillion yuan in transfer payments made to local governments.

**III. Fiscal Reform and Development in 2019**

Economic and social development in 2019 is faced with arduous tasks and many challenges. We must fully implement the policy decisions and plans of the Party Central Committee and the State Council, focus on the new elements of important strategic opportunities and take advantage of such opportunities, take coordinated action that covers all sectors and focus on clear priorities, and take well-targeted steps to carry out all work related to fiscal reform and development. In this way, we will achieve new success in economic and social development.

1. *Ensuring strict compliance with the Budget Law*

We will firmly establish awareness of the rule of law in the execution of the budgets, fully implement the Budget Law, release the revised regulations on implementation of the Budget Law at the earliest possible date, and further improve standardization of fiscal revenue and expenditure management. We will study how to further expand the scope of state capital operations budgets, strengthen management of budgets, revenue, and expenditure for social security funds, and promote the application of information technology. We will do more to release budgets and final accounts, expanding the scope and content of information that is made publicly available. We will make budget compilation more scientific and accurate, and deepen the reform of departmental budgets by moving faster to establish a sound system of standards for budgetary expenditure, and making departmental budgets more comprehensive, standard, and transparent.

We will strictly implement the budgets approved by people’s congresses, emphasize the primary responsibility of budget institutions for budget execution, strengthen management and oversight of budget execution, make budgets more binding, and make necessary budgetary adjustments in accordance with the law. We will improve operating mechanisms for centralized treasury payments and the dynamic monitoring system for government funds, ensuring that budget institutions use these funds safely. We will strengthen management of local government suspense deposits and see to it that no expenditures shall be produced based on accrual accounting except surplus from centralized treasury payments. We will strictly regulate the scope, time limits, and approval procedures of suspense payments, closely control expansion of such payments, and reduce the existing number of such payments. We will tighten oversight and management of government investment funds, government funding for enterprises, and funds aimed at improving the people’s wellbeing, and make a push for effective action on fiscal and tax policies and a serious tightening up of financial discipline.

1. *Deepening fiscal and tax system reform*

We will lose no time in drawing up plans for reforms that facilitate clear division of respective fiscal powers and expenditure responsibilities of central and local governments in areas including emergency relief services and natural resources. We will steadily reform the division of revenue between central and local governments while maintaining general stability in their respective fiscal strength. We will improve the transfer payments system, optimizing the system for transfer payments from central to local governments, expanding the scale of general transfer payments, and improving the mechanisms for regular evaluation and exiting of special transfer payments. We will deepen VAT reform. We will implement an individual income tax system that is based on both adjusted gross income and specific types of income, and work on creating an individual income and property ownership information system. We will steadily improve local tax systems, and study the possibility of collecting excise tax on certain items during a further downstream stage of the production-to-consumption process.

We will ensure taxation is administered in accordance with the law, and intensify efforts to promote tax legislation and relevant work. We will accelerate development of a modern government procurement system featuring clearly defined duties and responsibilities of procurement entities, well-conceived and effective trading rules, sound oversight mechanisms, a full array of policy functions, an improved system of laws, and advanced technological support. We will improve management of local government bond issuance, make issue prices more market-based, and encourage more parties to invest. We will implement the system of governmental accounting principles and further expand the scope of the trial preparation of government financial statements. Trial reforms in state capital investment and management companies will be advanced. We will establish a sound reporting system for state-owned asset management, and accomplish our work regarding comprehensive reporting on state-owned assets and special reporting on state-owned assets of government administrative offices and public institutions for the year 2018.

1. *Implementing measures to cut taxes and fees*

All regions and government departments at all levels need to work together, coordinate their actions, and intensify their efforts to jointly reduce taxes and fees. We will promptly formulate simple, feasible, and practicable implementation plans for tax and fee cuts, and promulgate them as soon as possible. In so doing, we will facilitate the formation of stable and positive expectations, and ensure effective action on all arrangements set forth at the Central Economic Work Conference regarding the implementation of larger-scale tax and fee cuts.

We will strengthen organization and guidance and plan carefully to ensure our policies bring benefits to enterprises as soon as possible. We will raise our awareness of services, and help businesses understand and make the best of our policies by publicizing and explaining them in various ways, communicating with entrepreneurs, and offering more training and policy guidance to financial personnel in businesses. We will closely follow the implementation of policies on tax and fee cuts, and promptly study and resolve any problems that may arise during the course of implementation, in an effort to constantly improve our policy measures. We will step up development of a comprehensive national listing system for government-managed funds, administrative charges, and business and services fees set by the government, and improve the system for accepting and handling reports and complaints of illegitimate charging. Oversight and supervision will be strengthened to ensure effective implementation of all measures, so as to enable enterprises and people to feel a true sense of gain.

1. *Improving the system for managing expenditures aimed at improving quality of life*

We will coordinate our efforts for economic development and improving people’s lives, consistently do everything within our power to meet basic needs, help those in the greatest difficulty, and do more to ensure and improve living standards, so that the people feel a greater sense of benefit. We will improve the mechanism for implementing central authorities’ policies on improving public wellbeing, and local government budgets need to prioritize meeting the requirements of such policies so that they may be effectively implemented. Based on the people’s needs for basic public services, we will explore establishing a list-based management system for expenditures aimed to improve living standards, which will clarify relevant policies, policy coverage, expenditure standards, and filing procedures. Local governments should commit to file their own policies for improving the people’s wellbeing in line with procedure.

We will intensify debate and evaluation prior to introduction of public-wellbeing policies, take into full account the financial resources of governments at all levels, especially those of county and township levels and of regions facing financial difficulties, and comprehensively analyze the present and long-term influences of these policies on government expenditure, avoiding the adoption of policies that harm fiscal sustainability. We will improve funding management of transfer payments made to local governments, and support county and township governments in improving their capacity to guarantee spending on public wellbeing. We will improve monitoring and early-warning systems for expenditures aimed at raising living standards, strengthen assessment of comprehensive fiscal capacity, and promptly put a stop to policies and projects that are unaffordable or divorced from reality.

1. *Implementing comprehensive performance-based budget management*

We will further improve measures and procedures for a performance-based budget management system, and improve the multi-tiered system of core performance indicators and standards for individual industries and fields. We will push for upgraded and more extensive performance-based budget management that will eventually cover all budgetary funds as well as all primary-level organizations and funding end users. Trial performance evaluations will be conducted on the overall expenditure of central departments. We will expand performance-based budget management from follow-up evaluation to include pre- and ongoing review, to raise the level of soundness and accuracy in budget compilation, and to guard against loss and wastage during the process of allocating and using financial resources.

We will fully mobilize the initiative of departments and fund-using institutions, and encourage deeper integration of financial and business management and of budgetary and performance-based management. We will strengthen the responsibility for performance-based management, establish well-conceived incentive and constraint mechanisms for using performance evaluation results, link such results to budget arrangements, and cut all inefficient and ineffectual expenditures. We will take measured steps to encourage every level of government to report their performance targets and performance evaluation results for major policies and projects to the people’s congresses of the same level, making them publicly available along with their government budgets and final accounts.

1. *Supporting and cooperating with people’s congresses in their review and oversight of government budgets*

We will further act on the requirements in the Guidelines on People’s Congresses Expanding the Focus of Their Budget Review and Oversight to Cover Expenditure Budgets and Policies, to raise the level of design and efficiency of budgetary expenditures and policies. Improvements will be made around the implementation of major policy decisions and plans of the Party Central Committee and the State Council, with due consideration to major and difficult issues of shared concern to people’s congress deputies and the general public, pronounced problems discovered in auditing, and key issues hindering our development. The resolutions on budgets and final accounts of people’s congresses and their standing committees will be fully implemented, and relevant work arrangements and progress will be promptly reported to them in order to make this implementation more effective. We will step up efforts to rectify problems discovered during auditing, and establish a sound long-term mechanism to address such issues.

We will work to ensure that services for deputies to people’s congresses and CPPCC committee members are improved, that their comments and suggestions are studied and drawn upon, and that routine communication with them is strengthened. More efforts will be made to improve compilation of reports on budget execution and draft budgets, raise the quality of the handling of deputies’ and members’ suggestions and proposals, and resolve any practical concerns they might have.

Esteemed Deputies,

Accomplishing the fiscal and budgetary work for 2019 is highly significant. We will unite ever more closely around the CPC Central Committee with Comrade Xi Jinping at its core, uphold Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as our guide, willingly accept the oversight of the NPC, welcome the comments and suggestions of the CPPCC National Committee, rise to challenges and pioneer forth, solidly carry out all fiscal and budgetary work, and give full play to the role of public finance. In this way, we will promote sustained and sound economic development as well as overall social stability, lay a stable foundation to complete the building of a moderately prosperous society in all respects, and uphold our outstanding achievements as celebration of the 70th anniversary of the founding of the People’s Republic of China.

1. The three regions refer to Tibet, the four prefectures of southern Xinjiang—Hotan, Aksu, Kashi, and Kirgiz Autonomous Prefecture of Kizilsu, and the areas of Sichuan, Yunnan, Gansu, and Qinghai provinces with large Tibetan populations; the three prefectures refer to Liangshan in Sichuan, Nujiang in Yunnan, and Linxia in Gansu. [↑](#footnote-ref-1)
2. The two ecological shields refer to the Qinghai-Tibet Plateau ecological shield and the Loess Plateau-Sichuan-Yunnan ecological shield; the three ecological belts refer to the northeast China forest belt, the northern China desertification-prevention belt, and the southern China mountainous belt. [↑](#footnote-ref-2)
3. The tasks are to cut overcapacity, reduce excess inventory, deleverage, lower costs, and strengthen areas of weakness. [↑](#footnote-ref-3)
4. The five-sphere integrated plan is a plan to promote coordinated economic, political, cultural, social, and ecological advancement. [↑](#footnote-ref-4)
5. The four-pronged comprehensive strategy is a strategy of comprehensive moves to finish building a moderately prosperous society in all respects, deepen reform, advance law-based governance, and strengthen Party self-governance. [↑](#footnote-ref-5)
6. The seven key campaigns in pollution prevention and control refer to efforts to keep our skies blue, control pollution caused by diesel trucks, clean up black, malodorous water bodies in cities, improve the water environment in the Bohai Sea area through comprehensive measures, strengthen protection and restoration in the Yangtze River basin, protect water sources, and control pollution in agriculture and rural areas. [↑](#footnote-ref-6)