

**REPORT ON THE IMPLEMENTATION OF THE CENTRAL
AND LOCAL BUDGETS FOR 2014 AND ON THE DRAFT
CENTRAL AND LOCAL BUDGETS FOR 2015**

Third Session of the Twelfth National People's Congress

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Ministry of Finance

The official version of this report will be released by Xinhua News Agency.

Fellow Deputies,

The Ministry of Finance has been entrusted by the State Council to submit this report on the implementation of the central and local budgets for 2014 and on the drafts of the central and local budgets for 2015 to the Third Session of the Twelfth National People's Congress (NPC) for your deliberation and for comments from the members of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

I. Implementation of the Central and Local Budgets for 2014

Faced with a complex and changing international environment and formidable tasks of domestic reform, development, and stability in 2014, the Central Committee of the Communist Party of China (CPC) and the State Council have grasped the overarching trend of development, adhered to the general principle of seeking progress while keeping performance stable, deepened reform in all respects, continued to develop new ideas and methods for exercising regulation at the macro level, and effectively implemented proactive fiscal policy and prudent monetary policy. As a result, the economy has performed within an appropriate range, and development has become more balanced and sustainable. Both the central and local government budgets were well implemented.

1. Implementation of the NPC's budget resolution

In accordance with the resolution of the second session of the Twelfth NPC and the review by the NPC's Financial and Economic Affairs Commission of the report on both the implementation of the central and local budgets for 2013 and the drafts of the central and local budgets for 2014, we have deepened reform of the fiscal and tax systems, strengthened budgetary management, and made full use of the role of public finance.

Major progress has been made in reforming the fiscal and tax systems.

The overall plan for deepening reform of the fiscal and tax systems was deliberated over and passed at a meeting of the Political Bureau of the CPC Central Committee.

First, substantive progress has been made in reforming the budget management system. We cooperated with the NPC on revising the Budget Law and saw the completion of its revision, and moved faster to revise the regulations on its enforcement. We issued the decision on deepening reform of the budget management system. We formulated the guidelines on carrying out medium-term fiscal planning, and began work on developing a national three-year fiscal plan on a rolling basis. We drew up the proposal on reforming and improving the system of transfer payments

from the central to local governments and optimized the structure of payments, cutting the number of items receiving special transfer payments by over one third compared with the previous year and increasing transfer payments to old revolutionary base areas, areas with concentrations of ethnic minorities, and border areas by 12.1%.

Second, systematic progress has been made in the reform of the tax system. We further extended the trials to replace business tax with VAT to include, on a national scale, the railway transport, postal, and telecommunications industries. We drew up a plan for the reform of consumption tax and improved policies on this tax. We implemented nationwide reform to levy a price-based resource tax on coal, adjusted the rates of resource tax on crude oil and natural gas, and cleared up and standardized administrative charges and government funds related to coal, crude oil, and natural gas. We cooperated with the work of the NPC on tax-related legislation, including preparatory work on legislation on environmental protection tax, and submitted to the NPC a suggested timetable for work on the implementation of the law-based taxation principle.

Third, with a view to creating a better fit between government powers and spending responsibilities, we made a systematic review of how powers and expenditure responsibilities are allocated in mature market economies, investigated the current allocation of powers and spending responsibilities in sectors including national defense, public security, and food and drug regulation, and achieved initial results in our research on fiscal structural reform.

In addition, we published the guidelines on improving and strengthening management of central government-funded research programs and their funding. We formulated a plan for deepening reform of the management of science and technology initiatives (projects and funds) financed by the central government, restructuring the system of management for such initiatives (projects and funds), dividing them into five categories, and gave impetus to the transformation of the government's functions of managing science and technology and the ways it exercises management. We carried out pilot reforms on management of the use and transfer of scientific and technological advances and the way profits are derived from them. We finished formulating the regulations on the enforcement of the Government Procurement Law. We drew up regulations for managing the government procurement of services and organized the launching of trials for governments to procure services. We also gave our support to reforms in state-owned enterprises (SOEs) and in the judicial, state asset, financial, and other important sectors.

Constraints on budgets were tightened.

We worked diligently to implement NPC-approved budgets and maintain their authority. Despite a slowdown in the growth of government revenue and mounting pressure on expenditure, the deficit was kept at the same level as the figure budgeted

in early 2014. We examined and approved the budgets of central government departments within the stipulated time frame, kept under strict control additional items in their budgets for which funds may be appropriated and the time frames within which such appropriations may be made, and reduced adjustments to departmental budgets. We sped up the process of making central government transfer payments available to local governments, shortening the time needed for general transfer payments from within 90 days to within 30 days of the approval of a budget. We improved the methods for evaluating the progress of implementation of budgetary expenditures by local governments, and promptly urged localities where spending had fallen behind schedule to speed up their implementation. We intensified efforts to develop an accurate picture of carryover and surplus funds, and launched ten specific policies and measures to make better use of available government funds. We thoroughly reviewed and standardized local governments' special accounts and closed approximately 12,000 accounts that ran counter to regulations.

Fiscal and budgetary management was made more standardized.

We reviewed and standardized preferential policies in taxation and other areas. The implementation of any preferential policy that was in breach of laws or regulations was, as of December 1, 2014, terminated without exception, while those that were retained after the review, along with any new preferential policies are all to be brought under permanent mechanisms and standardized management. We further standardized the management of budgets for government-managed funds, and established a mechanism for moving funds for which use should come under overall planning from the budgets of government-managed funds to the general public budgets. We improved management of state capital operations budgets and further raised the share of profits from the operations of central government enterprises turned over to the central government. Funds transferred from the budgets for central state capital operations to general public budgets were increased to 18.4 billion yuan from 6.5 billion yuan in 2013. The budgeting for national social security funds was included in the draft budget for the first time.

Further improvements were made to the system for managing government debt.

We introduced guidelines on strengthening management of local government debt; established a standardized mechanism for local governments to secure financing through bond issuance; put into practice controls on the scale of local government debt, budgetary management, and early warning against risk; and established a local government debt management mechanism under which the borrowing, use, and repayment of funds are integrated. We worked to develop a clear picture of the outstanding debts of local governments. We formulated methods for assessing and giving early warnings on risks relating to local government debt. A total of 400 billion

yuan worth of local government bonds were issued in 2014, and trials were successfully launched in ten regions for local governments to issue their own bonds and repay their own debts. We improved the system for managing the outstanding balance of government bonds, increased the types of bonds included within the trials of when-issued trading of government bonds, improved the mechanism for the periodic issuance and reissuance of government bonds of key terms, and for the first time, released the yield curves of government bonds of key terms. We developed a reform plan to introduce an accrual accounting-based comprehensive financial reporting system of the government, and clearly delineated the basic thinking on, major tasks for, concrete substance of, and steps for establishing such a system. We encouraged innovations in investment and financing mechanisms, and promoted the use of the public-private partnership (PPP) model, formulating guidelines on such partnerships and initiating projects that demonstrate how the model works in practice.

Financial discipline was strengthened.

We intensified efforts nationwide to tighten up financial discipline and deal with unauthorized departmental coffers, and investigated and prosecuted all types of financial behavior in violation of the law or discipline. Irregularities to the sum of 140.6 billion yuan were discovered in areas including budgetary revenue and expenditure and government procurement, and 1,538 individuals were held to account. We strictly enforced the requirement that increases are not to be tolerated in spending on official overseas visits, official vehicles, and official hospitality, and that such spending should be cut; reduced expenditures on meetings; put a stop to the use of official vehicles and office space by officials in excess of standards; and kept under strict control the construction of new government buildings, increases in the total number of government employees, and the use of government funds to host gala parties or other events. Reform of the system for the use of official vehicles by agencies of the CPC Central Committee and the central government was basically completed. Financial and accounting systems underpinning the Regulations on Practicing Thrift and Opposing Waste in Party and Government Bodies were improved. Having basically achieved complete coverage of all budget-preparing departments at and above the county level with the centralized treasury payment system, we moved forward with the reform of town and township institutions according to their types. We pushed for the implementation of digital centralized treasury payment by all provincial-level finance departments. We actively promoted the system of listing items requiring procurement through government credit cards. We strengthened the development of mechanisms for dynamic monitoring of the implementation of budgets, with a focus on intensifying monitoring over spending on meetings, training, hospitality, and major programs. We redoubled efforts to ensure that budgets and final accounts are released to the public, increasing the number of

central government departments that release their budgets and final accounts to 99 and adding into budgets and final accounts a table specifically showing fiscal spending on official overseas trips, official vehicles, and official hospitality. The budgets and final accounts released by the central government and its departments were detailed down to the subsection level – the lowest level in the classification of functions of expenditure, and the budgets of special transfer payments released were detailed down to the specific project. Thirty-one provinces, autonomous regions, and municipalities under the central government released their general public budgets and the budgets of their departments.

2. Budgetary revenue and expenditure in 2014

(1) General public budgets

Revenue in the general public budgets nationwide totaled 14.034974 trillion yuan, an increase of 8.6% over 2013 (as below). Adding the 100 billion yuan from the Central Budget Stabilization Fund, utilized revenue totaled 14.134974 trillion yuan. Expenditure in the general public budgets nationwide amounted to 15.166154 trillion yuan, up 8.2%. Including the 219.52 billion yuan used to replenish the Central Budget Stabilization Fund and local budget stabilization funds and carried forward to the 2015 local budgets, and the 99.3 billion yuan used to repay the principal on local government bonds, expenditure totaled 15.484974 trillion yuan. Total expenditure therefore exceeded total revenue, leaving a deficit of 1.35 trillion yuan.

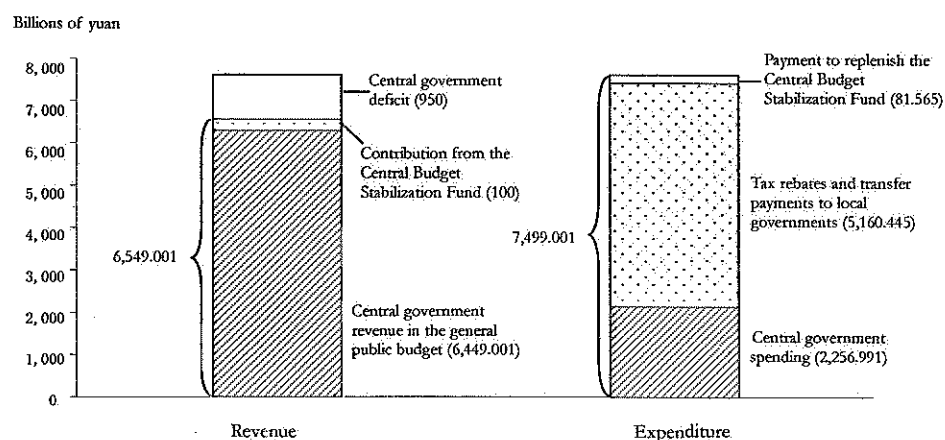
There was a further slowdown in the growth rate of revenue in the general public budgets nationwide. There were several reasons for this. First, downward pressure on the economy was great, and growth in indexes including industrial production, consumption, investment, and corporate profit demonstrated varying levels of decline, leading to slower growth in revenue from value added tax (VAT), corporate income tax, and other major forms of tax. Second, the producer price index (PPI) was constantly falling, and the consumer price index (CPI) remained low, which had an impact on the growth of government revenue as calculated according to current prices. Third, policies to make adjustments to the real estate market grew in impact, and there was a steep decline in housing sales, leading to a significant slowdown in the growth of revenue from real estate business tax, corporate income tax from enterprises in the real estate industry, and deed transfer tax. In addition, expansion of the pilot scheme to replace business tax with VAT and other policies also led to a certain reduction in government revenue.

Revenue in the central government's general public budget amounted to 6.449001 trillion yuan, 100.2% of the budgeted figure and an increase of 7.1%. Adding the 100 billion yuan contributed by the Central Budget Stabilization Fund, total revenue used

by the central government came to 6.549001 trillion yuan. Expenditure from the central government's general public budget amounted to 7.417436 trillion yuan, 99.1% of the budgeted figure and an increase of 8.3% (this includes 2.256991 trillion yuan in central government spending, 100.3% of the budgeted figure and an increase of 10.2%). Adding the 81.565 billion yuan used to replenish the Central Budget Stabilization Fund, central government expenditure totaled 7.499001 trillion yuan. Total central government expenditure exceeded total central government revenue, leaving a deficit of 950 billion yuan, which was the figure budgeted for. Government bonds in the central budget had an outstanding balance of 9.565545 trillion yuan at the end of 2014, which meant it had been kept within the limit of 10.070835 trillion yuan budgeted for the year. The Central Budget Stabilization Fund had a balance of 134.115 billion yuan.

Figure 1

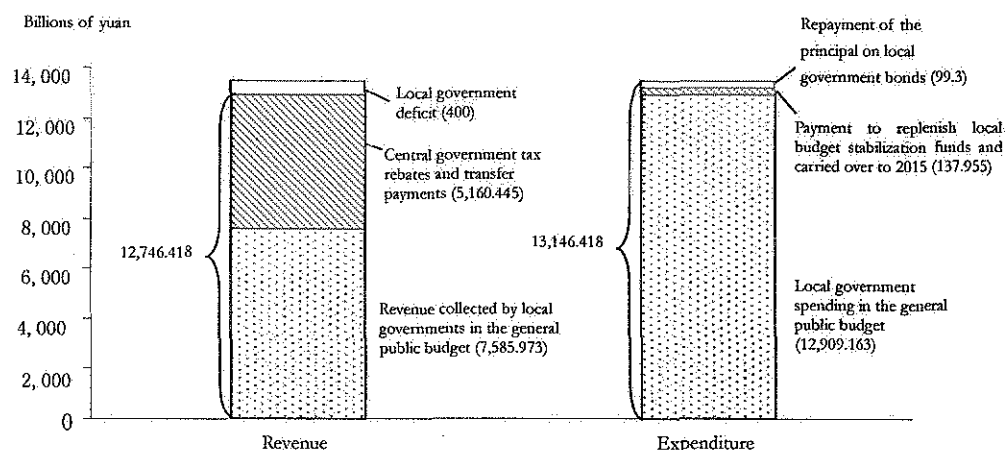
Balance of Central Government Finances in the General Public Budget in 2014



Revenue in local governments' general public budgets came to 7.585973 trillion yuan, an increase of 9.9%. Adding the 5.160445 trillion yuan in tax rebates and transfer payments from the central government, local government revenue in their general public budgets totaled 12.746418 trillion yuan. Local government expenditure in their general public budgets amounted to 12.909163 trillion yuan, up 7.8%. Adding the 137.955 billion yuan used to replenish local budget stabilization funds and carried over to 2015 plus the 99.3 billion yuan used to repay the principal on local government bonds, local government expenditure totaled 13.146418 trillion yuan. Total expenditure of local governments exceeded their total revenue, leading to a local government deficit of 400 billion yuan.

Figure 2

Balance of Local Government Finances in the General Public Budget in 2014



The following passages detail the specifics on the implementation of the central government's general public budget in 2014.

1) Main revenue items

Domestic VAT revenue was 2.110297 trillion yuan, 97% of the budgeted figure. This shortfall was mainly due to increases in value added of industry and commodity prices being lower than projected at the beginning of the year, while the replacement of business tax with VAT also led to a considerable reduction in revenue. Revenue from domestic consumption tax was 890.682 billion yuan, 100.4% of the budgeted figure. Revenue from VAT and consumption tax on imports amounted to 1.44244 trillion yuan, 96.6% of the budgeted figure. This discrepancy was mainly due to falls in both the prices of imported bulk commodities and the total volume of imports. Revenue from customs duties came to 284.319 billion yuan, 101.4% of the budgeted figure. Corporate income tax revenue was 1.58125 trillion yuan, 101.3% of the budgeted figure. Individual income tax revenue was 442.596 billion yuan, 103.2% of the budgeted figure. VAT and consumption tax rebates on exports came to 1.135648 trillion yuan, 100.2% of the budgeted figure. Non-tax revenue totaled 445.758 billion yuan, 119.3% of the budgeted figure, which was mainly attributable to the increase in profits turned over to the central government by some financial institutions.

Revenue in the central government's general public budget exceeded the budgeted figure by 11.001 billion yuan in 2014, which was used to replenish the Central Budget Stabilization Fund and carried over to 2015 budgets in accordance with the newly revised Budget Law and other relevant regulations.

2) Main expenditure items

Expenditure on agriculture, forestry, and water conservancy reached 647.422

billion yuan, 99.8% of the budgeted figure and an increase of 8.4%. Of this total, central government spending accounts for 53.963 billion yuan, while transfer payments made to local governments account for 593.459 billion yuan. Trials were carried out to restore and improve cultivated land contaminated by heavy metals and deal comprehensively with the over-abstraction of groundwater. We implemented and improved policies on subsidies for farmers, and carried out trials in five provinces to subsidize major grain growers. The principle of giving high priority to saving water was put into action, leading to the improvement of small irrigation and water conservancy facilities in 1,200 key counties. Efforts to promote comprehensive agricultural development and upgrade low- and medium-yield cropland were stepped up, leading to the development of 1.8791 million hectares of high-grade cropland. Efforts were also devoted to cleaning up and improving the flood defenses of small and medium-sized rivers, with work completed on a total of 46,000 kilometers of river. Impetus was given to efforts to reinforce and improve the safety of small, poorly maintained reservoirs. We supported work to prevent flooding and fight against drought. We supported the further mechanization of agriculture, and saw the overall level of mechanization in ploughing, sowing, and harvesting exceed 61%. New types of agribusinesses were nurtured and supported. Improvements were made to the policy for supporting grassland ecological conservation, and subsidies were provided for 253.33 million hectares of grassland. We reformed the mechanisms for managing government poverty alleviation funds, ensuring that these funds were used to greater effect, and helped 12.32 million rural residents lift themselves out of poverty. Steady progress was made in the pilot reform to ensure guaranteed base prices for cotton and soybeans. The trial to comprehensively reform the pricing for water used in agriculture was deepened. We secured the completion of approximately 340,000 village-level public works projects launched on the basis of deliberation by villagers and covered by the government award and subsidy system.

Spending on social security and employment totaled 706.609 billion yuan, 98.8% of the budgeted figure and an increase of 8.5%. The shortfall is mainly due to actual spending on natural disaster relief and subsidies for entitled groups being lower than the budgeted amount. The total includes 69.988 billion yuan in central government spending, and 636.621 billion yuan in transfer payments to local governments. We provided social security subsidies and subsidies for public-service job positions to assist those experiencing employment difficulties. A program to guide entrepreneurs was implemented and impetus was given to college graduates seeking employment or starting up their own businesses. Basic pensions for enterprise retirees were raised by 10%, with per capita monthly benefits reaching 2,068 yuan. We merged the new old-age insurance system for rural residents and the old-age insurance system for non-working urban residents, creating a basic old-age insurance scheme for rural and non-working urban residents. As of July 1, 2014, the per capita basic pension benefit for people participating in the new insurance scheme was raised by 15 yuan per month.

We further raised subsistence allowances for urban and rural residents. Work was done to ensure basic necessities for people experiencing extreme poverty, and we supported the nationwide implementation of the temporary assistance system. We increased subsidies and living allowances by at least 20% for disabled military personnel, families of revolutionary martyrs, Red Army veterans living in rural areas, elderly ex-servicepersons, and other entitled groups. We worked to protect and manage overseas memorials for Chinese martyrs who gave their lives outside of China. We established the system for providing subsidies for the very elderly and senior citizens suffering from loss of physical and/or mental capacity who are experiencing financial difficulties.

Spending on medical and health care and family planning came to 293.126 billion yuan, 96.5% of the budgeted figure and an increase of 11%. The shortfall is mainly due to the decreases in the actual expenditures on medical insurance for urban and rural residents and in the spending on public hospital reform, for which arrangements were made on the basis of progress in the reform of the medical and health care systems. This total consists of 9.025 billion yuan of central government spending and 284.101 billion yuan made in transfer payments to local governments. Government subsidies channeled through the new rural cooperative medical insurance system and the basic medical insurance system for non-working urban residents were increased to 320 yuan per person per annum. For this purpose, the central government increased subsidies to local governments, and rates for individual contributions were raised to 90 yuan per person per annum. We integrated all subsidies for medical assistance to urban and rural residents, and expanded the scope of assistance for medical care. We extended the major disease insurance pilot scheme for rural and non-working urban residents to all provinces, autonomous regions, and municipalities directly under the central government. We supported the establishment of a nationwide system of assistance for emergency medical treatment. A further 737 counties and 17 cities were selected to begin trials in comprehensive public hospital reform. We supported the launching of a standard training program for 50,000 resident physicians nationwide, and subsidized the training centers for the program. We increased annual per capita spending on basic public health services from 30 yuan to 35 yuan, and weighted spending to favor rural doctors. Work on the prevention and control of HIV/AIDS and other major diseases was strengthened, and support was given to help achieve nationwide coverage with work on nucleic acid testing and HIV/AIDS prevention for blocking mother-to-child transmission. We raised the special subsidies given to parents following the death of their only child and to parents whose only child suffers from some form of disability.

Spending on education totaled 410.19 billion yuan, 99.2% of the budgeted figure and an increase of 8.2%. This total consists of 125.392 billion yuan of central government spending and 284.798 billion yuan made in transfer payments to local

governments. The second phase of the three-year action plan for preschool education was launched; a pilot initiative for offering remote rural areas preschool education supported by volunteers on a rotating basis was put into action; and encouragement was given to the development of both government and private provision of education services to increase the resources for pre-schooling. We further improved the mechanisms for guaranteeing the funding for compulsory education in rural areas, made a further 40 yuan increase to the benchmark for public funding per student in primary and secondary schools in rural areas, and on top of this, further increased public funding for boarding schools in rural areas. We supported local governments in comprehensively improving the basic conditions of schools providing compulsory education in poor areas, so as to narrow the gap between urban and rural areas in terms of compulsory education. As of November 2014, the subsidy given to those areas covered by the pilot scheme to put in place a national plan for improving the nutrition of students receiving compulsory education in rural areas was raised from three to four yuan per student per day, benefiting over 32 million primary and secondary school students. We continued to support local governments to effectively solve the issue of providing equal access to compulsory education for the children of migrant workers living with their parents in cities. We encouraged local governments to set up a sound, reform-oriented and performance-based system for the allocation of funds on a per student basis for higher vocational schools. Adjustments and improvements were made to the method for providing government subsidies for the waiving of tuition fees at schools providing secondary vocational education; and by using awards in place of subsidies, support and guidance were given to local governments to optimize the distribution of secondary vocational schools and, on this basis, improve the basic conditions at these schools. We improved the system for allocating funds from the central budget to central government institutions of higher learning to help promote the intensive development of higher education. Support was continued for the development of local universities and colleges. We further improved the system of government financial aid policies; extended this assistance to cover preparatory students from ethnic minorities; and adjusted and refined the policies related to national education assistance loans, benefitting approximately 6.6 million college students, 4.88 million regular high school students, and 12.34 million secondary vocational school students.

Spending on science and technology came to 254.182 billion yuan, 95.1% of the budgeted figure and an increase of 3.5%. The main reason that total spending fell below the budgeted figure was that the allocation of funds to major national science and technology programs was carried out on the basis of their actual progress, and certain programs fell behind the schedules set in early 2014 due to the great difficulty of the research being conducted. This total is comprised of 243.666 billion yuan of central government spending and 10.516 billion yuan in transfer payments to local governments. Safeguards were provided for the implementation of major national

science and technology programs, and important progress and breakthroughs were made in electronics, information, energy, environmental protection, biomedicine, advanced manufacturing, and other fields. Strong support was given for basic research, with greater efforts being made to strengthen the sources of outcomes made through innovation. Impetus was given to research on cutting-edge technologies and major generic key technologies, as well as research for the public benefit, and the integration of science and technology with industry was strengthened. We supported the building of platforms for innovation in science and technology, including basic national science and technology facilities, and key national laboratories, and worked to help ensure that scientific and technological resources are openly shared. We launched the national seed fund for encouraging the application of advances in science and technology, and drew on market mechanisms to promote the use of advances in science and technology for profit and for application in industry. Support was given to making major advances in the development of the national defense science and technology industry.

Spending on culture, sports, and media totaled 50.815 billion yuan, 99.2% of the budgeted figure and an increase of 8.3%. This figure is comprised of 22.269 billion yuan of central government spending and 28.546 billion yuan made in transfer payments to local governments. Efforts were continued to open more public cultural facilities such as public libraries, museums, and memorial halls to the public free of charge. Efforts were stepped up to extend wireless digitalized coverage of central radio and television programming. Support was provided for the protection of cultural heritage, and trials were launched to preserve 327 traditional villages. Work was begun to provide funding through the China National Arts Fund, and following assessment, 393 projects were selected to be granted funding. Efforts were made to see that large stadiums and gymnasiums are opened to the public free of charge or at low cost, and further improvements were made to community sports and fitness facilities. Support was given for the introduction of soccer in schools. Support was also given for the development of cultural industries, and encouragement was given to the integrated development of cultural and creative industries, design services, and other related industries.

Spending on guaranteeing housing totaled 252.978 billion yuan, 100% of the budgeted figure and an increase of 9%. This figure consists of 40.541 billion yuan of central government spending and 212.437 billion yuan made in transfer payments to local governments. We integrated the central government funds earmarked for low-rental housing, public rental housing, and the redevelopment of rundown urban areas. Work to integrate the operations of public- and low-rental housing moved forward. Policies were launched to subsidize the interest on loans used to finance the construction of government-subsidized housing in urban areas. Construction on 5.11 million units of government-subsidized housing in urban areas was basically

completed, and construction was begun on another 7.4 million units. Support was given to the renovation of dilapidated housing for 2.66 million poor rural households.

Spending on energy conservation and environmental protection came to 203.281 billion yuan, 96.4% of the budgeted figure and an increase of 3.2%. The shortfall is primarily due to spending on subsidies for encouraging the sales of energy-efficient vehicles with engine displacement of 1.6 liters or less being lower than anticipated. The total is made up of 34.453 billion yuan of central government spending and 168.828 billion yuan made in transfer payments to local governments. Support was increased for efforts to prevent and control air pollution in Beijing, Tianjin, Hebei, and their surrounding areas as well as in the Yangtze River and Pearl River deltas. Support was also given for the building of over 1,400 air monitoring stations across China. Trials were launched to comprehensively improve the conditions of rivers, covering each river's entire drainage basin. We moved ahead the trials for the areas along the Xin'an River basin to compensate each other for their impact on water quality, and moved forward with efforts to establish a mechanism for provinces to compensate each other for ecological damage or the costs of ecological protection. A total of 14,100 kilometers of pipe networks was constructed to complement urban sewage treatment facilities. Contiguous environmental improvement initiatives were launched in 13,112 villages, directly benefitting approximately 15.8 million people. Efforts were begun to ensure mineral resources are being used comprehensively, and improvements were made to the environment in contiguous mining areas. The trial to completely stop logging in key state-owned forest areas was launched in Heilongjiang Province. We supported the implementation of a new round of efforts to return 333,000 hectares of marginal arable land back into forest or grassland. This year's task of closing down outdated production facilities in 15 key industries including steel and cement was completed. We supported problem-solving in the development of technologies for new-energy vehicles as well as demos and promotional work for the vehicles, and encouraged the development of the energy conservation and environmental protection industries. We extended the scope of comprehensive demonstrations of energy conservation and emission reduction based on integrating financial policies. Efforts were stepped up to develop new energy and renewable energy.

Spending on transport totaled 426.98 billion yuan, 98.3% of the budgeted figure and an increase of 3.3%. Spending on stockpiling grain, edible oils, and other materials stood at 153.975 billion yuan, 110.5% of the budgeted figure and an increase of 21.6%. The excess is mainly due to an increase in central government spending on subsidizing interest payments made for stockpiling grain and edible oils and the expenses for purchasing japonica rice and corn from northeast China. Spending on national defense was 808.288 billion yuan, 100% of the budgeted figure and an increase of 12.2%. Spending on public security came to 212.027 billion yuan, 103.4% of the budgeted

figure and an increase of 9.7%. Spending on general public services totaled 125.134 billion yuan, 100.5% of the budgeted figure and an increase of 3.1%.

3) Central government tax rebates and transfer payments to local governments

Central government tax rebates and transfer payments to local governments totaled 5.160445 trillion yuan, 99.5% of the budgeted figure and an increase of 7.5%. This figure includes 2.756739 trillion yuan in general transfer payments and 1.894072 trillion yuan in special transfer payments. General transfer payments accounted for 59.3% of total transfer payments, an increase of 2.2 percentage points over 2013.

(2) Budgets for government-managed funds

In 2014, revenue from government-managed funds nationwide came to 5.409338 trillion yuan, and expenditure from these funds amounted to 5.138775 trillion yuan.

Revenue from central government-managed funds totaled 409.751 billion yuan, 98.3% of the budgeted figure and a decrease of 3.3%. Adding the 90.713 billion yuan carried forward from 2013, revenue from central government-managed funds totaled 500.464 billion yuan in 2014. Expenditure from central government-managed funds totaled 431.954 billion yuan, 86.8% of the budgeted figure and an increase of 3.4%. Of this, central government spending was 296.392 billion yuan and transfer payments to local governments amounted to 135.562 billion yuan. A total of 68.51 billion yuan has been carried forward to 2015 from central government-managed funds.

Revenue from funds managed by local governments reached 4.999587 trillion yuan, an increase of 4.1%. This figure includes 4.26059 trillion yuan from the sale of state-owned land-use rights. Adding the 135.562 billion yuan in transfer payments from central government-managed funds, total revenue from local government-managed funds was 5.135149 trillion yuan. Expenditure from local government-managed funds totaled 4.842383 trillion yuan, an increase of 1.4%. This includes 4.120245 trillion yuan of spending from the proceeds of selling state-owned land-use rights.

(3) Budgets for state capital operations

In 2014, budgetary revenue from state capital operations nationwide totaled 202.344 billion yuan, and budgetary expenditure on state capital operations totaled 199.995 billion yuan.

Budgetary revenue from the central government's state capital operations totaled 141.091 billion yuan, 98.9% of the budgeted figure and an increase of 33.3%. Adding the 15.219 billion yuan carried forward from 2013, total revenue stood at 156.31 billion yuan. Budgetary spending on the central government's state capital operations came to 141.912 billion yuan, 89.9% of the budgeted figure and an increase of 45.1%.

Of this, 18.4 billion yuan, an increase of 183.1%, was brought into the general public budget and spent on social security and other areas related to the people's quality of life. Surplus budgetary revenue from the central government's state capital operations, totaling 14.398 billion yuan, was carried over to 2015.

Budgetary revenue from state capital operations of local governments totaled 61.253 billion yuan, and total budgetary spending amounted to 58.083 billion yuan. Surplus budgetary revenue from state capital operations of local governments was carried forward to 2015.

(4) Budgets for social security funds

In 2014, revenue from social security funds nationwide totaled 3.918646 trillion yuan, 104% of the budgeted figure. This includes 2.91041 trillion yuan of insurance premiums and 844.635 billion yuan of government subsidies. Social security fund expenditure totaled 3.366912 trillion yuan nationwide, 103.3% of the budgeted figure. Revenue exceeded expenditure in 2014, leaving a surplus of 551.734 billion yuan, and the year-end balance reached 5.040876 trillion yuan after the surplus in 2014 was rolled over.

In general, fiscal operations were basically steady in 2014 and fresh progress has been made in fiscal reforms and development. We owe this to the sound policymaking and firm leadership of the CPC Central Committee and the State Council; to the oversight, guidance, and strong support from the deputies of the NPC and the members of the CPPCC National Committee; and to the joint efforts and hard work of all regions, government departments, and all our people.

At the same time, we are soberly aware of the following difficulties and problems in fiscal operations: Under the current tax system, as our country's economic growth is slowing down and the PPI is continuously falling, the rate of growth in government revenue has also been falling significantly, indicating a clear trend towards moderate to slow growth, and non-tax revenue has been accounting for too big a share of the total revenue. Government expenditure continues to rise, and the structure of expenditure is becoming increasingly rigid. Some spending policies are fragmentary; and the design of our institutions still leaves room for improvement. Without deeper reform, spending would be impossible to sustain, thus placing enormous pressure on public finance in the medium to long term. All kinds of risks that were previously hidden are beginning to show. Although the risks of local government debt can, on the whole, be controlled, the task of defusing them is a formidable one. As a stream of measures to reform the fiscal and tax systems are being introduced, traditional thinking and routine practices are coming to clash with the new demands of reform, which makes it difficult to implement reform measures. As well as this, people's awareness of the importance of financial discipline is somewhat faint, and economic and financial laws and regulations are not strictly observed. During the implementation of budgets,

problems such as the erosion, leakage, and fraudulent use of funds are not uncommon, meaning there is still a need to improve the standardization, security, and effectiveness of the use of funds. We view these problems as extremely important and will take effective measures to resolve them.

II. Central and Local Draft Budgets for 2015

The year 2015 will be crucial to the comprehensive deepening of reform; it is the first year for comprehensively advancing the law-based governance of China and the final year for completing the Twelfth Five-Year Plan. When it comes to carrying out the policies and plans of the CPC Central Committee and the State Council, and modernizing our nation's governance system and capacity for governance, it is of great consequence that the budgets for 2015 are well formulated, and that we go further in giving proper expression to the role of public finance.

In 2015, the domestic and international economic situation will remain complicated. With the impact of growing downward pressure on the economy, further structural adjustments, all-round reform, and the slowdown in the growth of government revenue, the imbalance in government revenue and expenditure this year will be more notable. In light of the fiscal and economic situation that we face, in carrying out public finance work and preparing the budgets for 2015, we need to fully put into practice the guiding principles of the 18th National Congress of the CPC, the third and fourth plenary sessions of its 18th Central Committee, and the Central Economic Work Conference; act in the spirit of General Secretary Xi Jinping's major speeches and, on the basis of the decisions and plans of the CPC Central Committee and the State Council, persevere with seeking progress while keeping performance stable and with carrying out reforms and innovations. We need to continue to implement proactive fiscal policy and, to an appropriate extent, step up the intensity, giving full scope to the important role of fiscal and tax policies in stabilizing growth, advancing structural adjustment, and promoting reform. We need to deepen reform of the fiscal and tax systems, thoroughly put into effect the new Budget Law and the decision of the State Council on deepening reform of the budget management system, improve regulations on budgetary management, and make our budgets more open and transparent. We need to improve the government budgeting system and increase the coordination between budgets. We need to make good use of both available and additional funds, and optimize the structure of budgetary expenditures, ensuring spending in some areas while cutting it in others so that spending in key areas, especially areas relating to people's quality of life, is guaranteed while general expenditure is brought under tight control. We must enforce strict financial discipline. We must strengthen management of local government debt, be on our guard against fiscal risks, and give impetus to steady, sound economic development and social harmony and stability.

The new Budget Law comes into effect in 2015, thus the requirements of that law must be strictly complied with in preparing the central and local government budgets for this year.

First, key items in the budgets that, according to the stipulations of the new Budget Law, are subject to examination and approval by people's congresses, need to be reported in detail, including the implementation of the previous year's budgets, arrangements of this year's budgets, government debt, and transfer payments.

Second, the emphasis must be on reporting on budgeted expenditure and fiscal policies so as to actively invite oversight.

Third, existing funds need to be put to good use. The central and local governments will go further to sort out carryover and surplus funds, keep newly added carryover and surplus funds under strict control, and make use of recovered funds in key areas of economic and social development.

Fourth, efforts to carry out overall planning for budgets need to be intensified. Revenue and expenditure from local educational surcharges and ten other funds will be transferred from government-managed funds budgets to general public budgets. And the proportion of funds to be transferred from the budgets for state capital operations to the general public budgets will be further increased.

Fifth, budgets need to be made more detailed. Budgets for basic expenditures at the central level and for central government departments in the draft budgets need to be detailed down to the specific economic category. On the basis of having itemized budgets for transfer payments by project, such budgets also need to be detailed to specific regions. The overall size of budgets compiled by finance departments for other departments and projects will be further cut back, and we will make more funds for budgetary items available at the start of the year.

Sixth, we need to make progress across the board in releasing budgets. With the exception of cases in which classified information is involved, any department that receives government allocated funds must make its budgets open to the public.

1. Fiscal policy for 2015

We will continue to implement proactive fiscal policy in 2015 and, as appropriate, increase the intensity. This will be mainly reflected in the following four areas:

First, we will increase the deficit by an appropriate amount and put to use funds carried over from previous years to increase the intensity of spending. Government deficit for 2015 is projected to be 1.62 trillion yuan nationwide, an increase of 270 billion yuan over last year, with increases in both the central government deficit and the local government deficit. This means that the deficit to GDP ratio will come to approximately 2.3%, up 0.2 percentage points on last year. In addition, the special debt

of local governments that has been placed under the management of government-managed funds budgets will increase by 100 billion yuan; and the central government will use 112.4 billion yuan of funds carried over from previous years to further increase the intensity of spending.

Second, we will implement structural tax cuts and reductions to fees across the board to strengthen our support for the real economy. As we push forward with the reform of the tax system, we will review and standardize tax relief and other preferential policies, and channel great energy into completing our work to replace business tax with VAT in all industries, thus further eliminating duplicate tax charges. We will make sure measures to reduce fees across the board are fully implemented, reduce or waive payments into government-managed funds as well as administrative charges for small and micro businesses, and continue to do away with unauthorized charges in order to relieve the burden on these enterprises.

Third, we will strengthen efforts to make use of existing government funds, and use funds more effectively. We will act in line with the requirements of the new Budget Law to develop an accurate picture of carryover and surplus funds, and in putting these funds to use we will favor areas such as public services, infrastructure, and improving quality of life. We will review special fiscal accounts, set ceilings for working capital in the budgets and budget stabilization funds, and formulate three-year fiscal plans on a rolling basis to prevent new funds from becoming idle.

Fourth, we will keep government investments at a certain scale, and make good use of the guiding role of such investments. This year the central government will earmark 477.6 billion yuan for investment in infrastructure, which is 20 billion yuan more than the previous year. The orientation of government investment will be adjusted and improved, with funds being used primarily for major state projects, trans-regional and cross-watershed investment projects, and major projects with strong externalities. We will further reduce investment in competitive areas and on subsidizing small or miscellaneous local projects.

Major spending policies are as follows:

Education

We will carry out the second phase of the action plan for preschool education. Our focus will continue to be on poor areas and schools that are badly built and poorly equipped, and support and guidance will be given to local governments to encourage them to increase input into efforts to develop primary and secondary boarding schools in poor rural areas, expand and renovate schools in counties and townships to help them cope with increasing class sizes as more and more students from villages attend these schools, and improve facilities for primary and secondary school students, all with the aim of improving the basic conditions of badly built and

poorly equipped schools for compulsory education. We will implement the system of government financial aid policies. We will raise the annual government grants for students in secondary vocational schools and regular senior high schools from 1,500 yuan to 2,000 yuan per student. We will continue to implement the quality improvement plan for modern vocational education, and guide and incentivize local governments to step up the pace of work to improve their systems for allocating funds to vocational colleges based on student numbers. In this regard, awards and subsidies will be given to local governments from the central budget based on an evaluation of their respective progress in developing such a system, contribution of financial resources, reform and development in vocational education, and other factors. We will reform and improve the funding mechanisms for institutions of higher learning under the central government so that the cost of education can be shared between the government and students in a reasonable way; and we will encourage these institutions to embrace an internal quality building model of development and cultivate innovative students. Impetus will be given to international exchange and cooperation in education.

Science and technology

We will put into practice the strategy of innovation-driven development. We will deepen reform in the management of science and technology initiatives (projects and funds) financed by the central government, taking proactive steps to optimize and integrate all types of science and technology initiatives, establishing an open and unified national science and technology management platform, and developing comprehensive, integrated methods for planning and implementing initiatives. We will expand the scale of the national seed fund for the application of scientific and technological advances and attract more nongovernmental funds and financial capital to support application. We will establish a national seed fund for investment in business start-ups in emerging industries, offering financial support primarily to innovative enterprises in emerging industries which are still in the embryonic stage, thus generating impetus for new businesses, innovation, and the upgrading of industry by pooling government, nongovernment, and private funds. We will promote the open sharing of scientific and technological resources by establishing a mechanism of subsidizing operators of major national facilities for scientific research and large or costly research apparatus who allow public access to their facilities. We will improve the funding system for research institutes at the central level. We will give financial support to speed up progress in major national science and technology initiatives. We will improve government procurement policies and measures that support innovation and increase procurement of innovative products. Trials will be launched to test a compensation mechanism for insuring major newly developed technological equipment.

Social security and employment

We will keep to the rate of 10% in raising basic pension benefits for enterprise retirees. In reforming and improving the basic old-age insurance system for workers, we will focus on actuarial balance, combining contributions from different sources with funds in personal accounts, so as to close loopholes in the system and strengthen the supporting capacity of the insurance fund.

A basic old-age insurance system for the employees of Party and government offices and public institutions will be established, in which the contribution from the employer is equivalent to 20% of the employee's total salary and the individual contribution is equivalent to 8% of the base figure of the employee's salary. An occupational annuity system will also be established, in which the contribution from the employer is equivalent to 8% of an employee's total salary and the individual contribution is equivalent to 4% of the base figure of the employee's salary. Adjustments will be made to the salaries of employees in government bodies and public institutions. For public servants at the county level or lower, a salary system based on both position and rank will be implemented. We will complete work on standardizing allowances and subsidies for public servants and introducing performance-based pay in public institutions, and conduct research on the establishment of a system of additional allowances for certain areas.

We will increase support for financial aid and living subsidies to people facing serious difficulties to ensure that they have access to basic necessities, implement the temporary assistance system nationwide, and make sure work related to the subsistence allowances for both urban and rural residents is done properly. Adjustments will be made to subsidies and living allowances for entitled groups when appropriate.

We will optimize the mix of expenditures on employment. We will implement the initiative for promoting employment for university graduates and the scheme for guiding university students in starting new businesses, and give priority to work related to the employment of groups in more difficult circumstances, including migrant workers. We will put into effect and improve the policy of providing subsidies from the unemployment insurance fund to enterprises which maintain stable employee numbers during structural adjustments, and reduce the contributions of enterprises to the unemployment insurance fund. We will strengthen the government's capacity for providing public employment services.

Medical and health care

We will increase investment in public health services and comprehensive public hospital reform. We will raise annual per capita spending on basic public health services from 35 yuan to 40 yuan, with the entire additional funds in rural areas to be

used for purchasing basic public health services from rural doctors. We will increase support for the prevention and control of major diseases. The comprehensive reform of county-level public hospitals will be extended to all counties, and the central government will continue to provide a subsidy of three million yuan per county. The reform of public hospitals in urban areas will be extended to more cities. Efforts will be continued to provide standardized training for resident physicians, with annual subsidies of 30,000 yuan per person from the central government.

We will improve the basic medical insurance system for urban and rural residents, raise government subsidies for the new rural cooperative medical care system and basic medical insurance for nonworking urban residents from 320 yuan to 380 yuan per person per annum, and make a corresponding increase to the annual individual contribution, which will go up from 90 to 120 yuan per person. The major disease insurance scheme for rural and non-working urban residents will be introduced nationwide, with an appropriate increase in the required contributions.

Agriculture

We will increase support for implementing the strategy on developing sustainable, ecologically friendly agriculture. The trials for restoring and improving cultivated land contaminated by heavy metals and trials for dealing comprehensively with the over-abstraction of groundwater will both be expanded. We will support efforts to improve the subsoil of cropland, develop eco-friendly tilling, and return plant stalks to fields in order to restore and improve the productivity of the land. We will give greater support to major grain-, edible oil-, and seed-producing counties, and improve the mechanisms for subsidizing major grain-growing areas. We will strengthen the building of farmland irrigation and water conservancy infrastructure and supporting end-use facilities for major water conservancy projects. We will increase investment in comprehensive agricultural development, and work hard to build high-grade farmland.

We will improve the policies on agricultural subsidies, intensify efforts to combine funds for this purpose, and use subsidies in a more precise, targeted, and effective way. We will improve the methods for carrying out reforms to ensure guaranteed base prices for cotton and soybeans. Great effort will be channeled into offering support to larger-scale operations, making thoroughgoing innovations in farmer cooperatives, intensifying institutional innovation in the trials to provide commercial services for the whole process of agricultural production, and integrating the development of primary, secondary, and tertiary industries in rural areas. Policies on rural finance and agricultural insurance will be improved to guide more private capital to invest in the development of modern agriculture.

We will improve the government award and subsidy mechanism for village-level public works launched on the basis of deliberation by villagers, and continue developing pilot projects for building beautiful rural areas and trials to exemplify

towns designated by provincial-level governments. We will work proactively to advance demonstrations and trials for comprehensive rural reform and the pilot reform to relieve state-owned farms of social service responsibilities, and we will search for effective ways to develop the rural collective economy. We will support steady steps forward in the trials for determining, registering, and certifying contracted rural land-use rights, with subsidies of 150 yuan per hectare from the central government for China's cultivated land area of 121 million hectares. These subsidies will be granted on a yearly basis according to the actual progress of the work. We will support poverty alleviation and development in major contiguous poor areas, and carry out carefully targeted measures to ensure that the funding for poverty alleviation actually reaches the people who need it.

Ecological conservation and environmental protection

We will go further in encouraging efforts to protect virgin forests, establishing an award and subsidy mechanism for halting logging in areas of natural forest not yet covered by the protective policy, and increasing existing subsidies for those areas of natural forest that already fall under the policy. A further 666,667 hectares of marginal farmland will be returned to forest or grassland. We will go further in improving the financial compensation system for forest conservation and forestry that produces positive ecological impact and the policy on subsidies and awards for the ecological conservation of grassland. We will increase investment in controlling air pollution. We will integrate financial resources to establish funds for the prevention and control of water pollution to help strengthen efforts in this regard, and carry out pilot projects to comprehensively improve the conditions of rivers by covering each river's entire drainage basin. We will establish mechanisms to cover every aspect of efforts to promote the use of new-energy vehicles. We will adjust and improve the uses of existing funds for supporting the closure of outdated production facilities to tackle overcapacity. We will extend to more areas the comprehensive demonstrations for energy conservation and emission reduction based on integrating financial policies, and grant a full package of incentives to eligible provinces. We will deepen reform of the cap-and-trade system for pollution discharge, and expand trials of having provinces situated on the upper and lower reaches of river basins compensate each other for their impact on water quality.

Government-subsidized housing projects

To make sure that all the tasks for this year are completed, we will steadily shift the focus of our efforts from mainly providing physical housing to providing both housing and financial subsidies, thereby subsidizing both homes and home buyers; we will make use of the PPP model and government procurement of services, guiding nongovernmental capital to become involved in purchasing, building, and managing public rental housing; we will actively support the rebuilding of rundown areas in the

cities; and we will make good use of available housing. We will develop methods for performance assessment on urban government-subsidized housing projects. We will step up efforts to renovate dilapidated rural housing and coordinate efforts for making rural housing more resistant to earthquakes.

Culture

We will support the development of a modern public cultural service system, and take steady steps to make the delivery of basic public cultural services increasingly standardized and equitable. We will support implementation of the initiative to make sure Chinese culture is passed on, strengthen the protection of cultural heritage and traditional Chinese villages, and promote the development of folk culture and ethnic minority cultures. We will support efforts to help art and literature to thrive and cultivate cultural talent, and we will put our weight behind ensuring the production of more works of distinction that have depth, contain a positive social message, and demonstrate a human touch. We will support efforts to strengthen the international communication capacity of our key news media outlets, and integrate the development of traditional and emerging media. We will establish a sound system to boost the cultural sector, and accelerate the development of its key industries.

Administration of justice

We will support the establishment of circuit courts under the Supreme People's Court and the establishment of courts in Beijing, Shanghai, and Guangzhou for dealing with intellectual property rights related cases. We will push forward with trials to have provincial governments exercise unified management of and provide funding for the human, financial, and material resources of local courts and procuratorates below the provincial level.

Strengthening national defense and the armed forces

To strive for the goal of building powerful armed forces, we will strengthen the military in all respects so that they are more revolutionary, modern, and standardized; so that they are constantly developing their ability to complete their missions and tasks; so that they safeguard China's sovereignty, security, and territorial integrity; and so that they ensure its peaceful development.

Improving the fiscal and transfer payments systems

We will adjust the mechanism for sharing the increase in export tax rebates. Beginning in 2015, the central government will pay the full sum of the increase in export tax rebates, and will no longer turn the increase in consumption tax over to local governments at a ratio of 1:0.3. This will help build a market that is unified across the country and improve the consumption tax system. We will establish sound mechanisms to link the transfer payments a government receives to the number of

people from rural areas who have become registered permanent residents in urban areas within their jurisdiction. We will step up efforts to comb through and rearrange special transfer payments, so that in 2015, the number of items receiving special transfer payments from the central government will be further cut, this time to around one hundred.

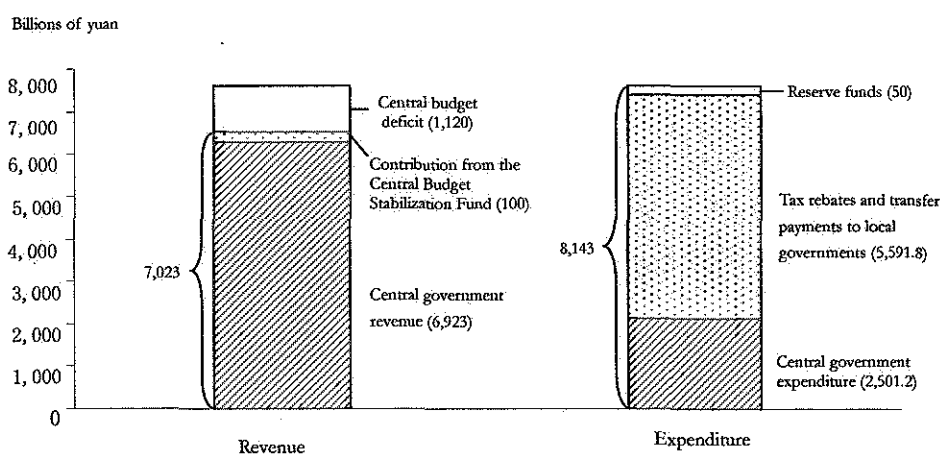
2. Revenue projections and expenditure appropriations for 2015

(1) General public budgets

Revenue in the central government's general public budget is projected to reach 6.923 trillion yuan, up 7% over the actual figure for 2014. Adding the 100 billion yuan from the Central Budget Stabilization Fund, revenue in 2015 should amount to 7.023 trillion yuan. Expenditure from the central government's general public budget is projected to reach 8.143 trillion yuan, an increase of 9.5% (up 8.8% after deducting the reserve funds). This consists of 2.5012 trillion yuan spent at the central level, 5.5918 trillion yuan paid out as tax rebates and transfer payments to local governments, and 50 billion yuan of reserve funds for the central budget. Total expenditure is projected to exceed total revenue, leaving a deficit of 1.12 trillion yuan, an increase of 170 billion yuan on 2014. The ceiling for the outstanding balance of government bonds in the central budget will be 11.190835 trillion yuan. The Central Budget Stabilization Fund will have a balance of 34.115 billion yuan.

Figure 3

Public Budget Balance of Central Government Finances in 2015



The revenue in local governments' general public budgets is projected to total 8.507 trillion yuan, up 7.5%. Adding the 5.5918 trillion yuan in tax rebates and transfer payments from the central government, the revenue of local governments is expected to reach 14.0988 trillion yuan. Local government expenditure from their general public budgets is projected to total 14.5988 trillion yuan, up 10.2%. The projected local government deficit thus stands at 500 billion yuan, an increase of 100 billion yuan

over last year's budgeted figure. The State Council has given its approval for this deficit to be made up by the issuance of general bonds by local governments. It should be noted that as the budgets of local governments are prepared by local people's governments and submitted for approval to the people's congresses at their respective levels, related data is, at this time, still being collected. The revenue and expenditure figures for local budgets that appear above have been compiled by the central finance authorities.

The above figures on budgeted revenue and expenditure for 2015 already take into account the figures from government-managed fund budgets that are incorporated into general public budgets. This refers to the following: in accordance with the plan on improving the government budgeting system, which was approved by the State Council, as of January 1, 2015, the revenue and expenditures of eleven government-managed funds, such as local education surcharges, are to be transferred into general public budgets. While this means reductions to the budgetary revenue and expenditure for government-managed funds, the estimated figures on revenue and expenditure for the general public government budgets in 2015 and the base figures for revenue and expenditure in 2014 have been increased accordingly so that there will be little impact on the increase for projected revenue and expenditure in general government budgets for 2015.

Combining the central and local general public budgets, it is projected that national revenue will amount to 15.43 trillion yuan, up 7.3%. Including the 100 billion yuan from the Central Budget Stabilization Fund, total revenue available is expected to reach 15.53 trillion yuan. National expenditure is budgeted at 17.15 trillion yuan, up 10.6%. This will produce a national deficit of 1.62 trillion yuan, an increase of 270 billion yuan over 2014.

The projected figure for total expenditure in the central budget for 2015 is 8.143 trillion yuan, up 9.5% (an increase of 8.8% after deducting the reserve funds), to which a further 112.4 billion yuan is to be added in funds carried forward from previous years. The total expenditure in the central budget is divided into spending by the central government, spending on tax rebates, and transfer payments made to local governments.

Central government spending in 2015 is projected to total 2.5012 trillion yuan, up 10.4%, to which a further 27.9 billion yuan is to be added in funds carried over from previous years. The main expenditure items are arranged as follows:

- The appropriation for agriculture, forestry, and water conservancy is 66.062 billion yuan, up 18.6%.
- The appropriation for social security and employment is 72.93 billion yuan, up 4.2%.
- The appropriation for education is 135.151 billion yuan (including 6 billion

- yuan carried forward from previous years), up 8.8%.
- The appropriation for science and technology is 275.725 billion yuan (including 17 billion yuan carried forward from previous years), up 12.3%.
 - The appropriation for culture, sports, and the media is 24.921 billion yuan, up 6.4%.
 - The appropriation for medical and health care and family planning is 11.019 billion yuan, up 22.1%.
 - The appropriation for energy conservation and environmental protection is 29.125 billion yuan.
 - The appropriation for transport is 80.689 billion yuan.
 - The appropriation for stockpiling grain, edible oils, and other materials is 154.638 billion yuan, up 33.2%. This is mainly due to the increases in the subsidies to help pay expenses and interest on loans used for stockpiling grain and edible oils, subsidies for price differences in stockpiling grain and edible oils, and subsidies for making up losses in auctioning stockpiled cotton.
 - The appropriation for national defense is 886.898 billion yuan, up 10.1%.
 - The appropriation for public security is 154.192 billion yuan, up 4.3%.
 - The appropriation for general public services is 100.491 billion yuan.
 - The appropriation for natural resource exploration and information technology is 29.684 billion yuan.
 - A total of 4.9 billion yuan which has been carried forward from previous years is to be used for standardizing allowances and subsidies for public servants and implementing performance-based pay for the employees of public institutions.

Central government tax rebates and transfer payments made to local governments will amount to 5.5918 trillion yuan in 2015, up 8.1%, to which a further 84.5 billion yuan is to be added in funds carried over from previous years.

Of this amount, general transfer payments will account for 3.004537 trillion yuan (including 81.5 billion yuan carried forward from previous years), up 12.6%. General transfer payments for equalizing access to basic public services will reach 1.921508 trillion yuan (including 71.5 billion yuan carried forward from previous years), an increase of 14.8%, with transfer payments to some local governments to be increased for their bearing the expenses of implementing the policy of adjusting the salaries of employees of their offices and public institutions. General transfer payments for old revolutionary base areas, areas with concentrations of ethnic minorities, border areas, and poor areas will total 125.565 billion yuan, up 12%. General transfer payments for the basic pension and other purposes will come to 458.184 billion yuan (including 10 billion yuan carried forward from previous years), up 20.1%.

Special transfer payments will come to 2.156434 trillion yuan (including three billion yuan carried forward from previous years), an increase of 8.1%. The principle

of either zero-increase or some reduction will be applied to special transfer payments unless otherwise stipulated on in specific policies. The main items that do have increased budgets for special transfer payments include:

First, budgets for education include 32.75 billion yuan in subsidies for renovating rural schools for compulsory education that are badly in need of improvement, up 6.3%; 14.788 billion yuan of earmarked funding for the initiative to strengthen the quality of modern vocational education, up 24.6%; and 40.492 billion yuan in financial assistance and subsidies to students, an increase of 18.7%.

Second, budgets for social security and medical and health care include 36.963 billion yuan in subsidies for entitled groups, an increase of 19.9%; 120.768 billion yuan in living allowances and subsidies for people facing financial difficulties, up 7.1%; 49.804 billion yuan in subsidies for public health services, up 8.7%; and 12.56 billion yuan in subsidies to public hospitals (including 3 billion yuan carried over from previous years).

Third, budgets for energy conservation and environmental protection include 11.55 billion yuan of funding for the prevention and control of air pollution, up 9.5%; 47.85 billion yuan in subsidies for energy conservation and the reduction of emissions, up 40.4%, which is principally because, in accordance with the plan for the reform of oil price-adjusting subsidies, subsidies for petroleum-fueled buses are to be transformed into subsidies for new-energy buses and integrated into the budget for spending on energy conservation and emissions reduction; 17.617 billion yuan in subsidies for protecting natural forests, up 21.4%; and 30.865 billion yuan in central government special funding for returning cultivated land to forest, up 8.8%.

Fourth, budgets for agriculture include 20.158 billion yuan in subsidies for agricultural resource and ecological protection, up 12.1%; 15.245 billion yuan in subsidies for the expansion and servicing of agricultural technologies, up 20.9%; 42.756 billion yuan in subsidies for the construction of farmland irrigation and water conservancy infrastructure and water and soil conservation, an increase of 33.5%; and 35.089 billion yuan in subsidies for the forestry industry, up 15.7%.

Fifth, a total of 124.3 billion yuan in earmarked funds will be designated for use in financing government-subsidized housing projects in rural areas, an increase of 9.1%.

(2) Budgets for government-managed funds

The revenue budgeted for government-managed funds is compiled by taking into account a comprehensive range of factors including the revenue base, price changes, and policy adjustments while basing these considerations on the implementation of the equivalent budget from the previous year. The expenditure budgeted for government-managed funds is compiled in accordance with the principles of arranging expenditures based on revenue, keeping a balance between total expenditure

and total revenue, and using designated funds for their intended purposes.

The revenue of central government-managed funds will total 436.387 billion yuan, up 11.7%. Adding the 72.072 billion yuan carried forward from last year, in 2015, the total revenue of central government-managed funds will reach 508.459 billion yuan. The expenditure from central government-managed funds will also be 508.459 billion yuan, up 25.4%. This figure is comprised of 366.928 billion yuan of central government spending, up 27.2%, and 141.531 billion yuan in transfer payments made to local governments, up 20.9%.

It is projected that the revenue of funds managed by local governments will total 4.450951 trillion yuan, down 4.7%. This figure includes 3.9452 trillion yuan from the sale of state-owned land-use rights, down 4.7%. Adding the 141.531 billion yuan in transfer payments from central government-managed funds, the projected total for the revenue of local government-managed funds is 4.592482 trillion yuan. Approval has been given by the State Council for special bonds to the total value of 100 billion yuan to be issued by local governments for the development of public-service programs that will yield a certain degree of revenue. The expenditure from local government-managed funds will total 4.692482 trillion yuan, up 2.6%. This figure includes 3.977877 trillion yuan of spending allocated from the proceeds of the sale of state-owned land-use rights, a decrease of 1.4%.

When the central and local budgets are combined, the projected figure for the revenue of the central and local government-managed funds stands at 4.887338 trillion yuan, down 3.5%. Including the 72.072 billion yuan carried forward from the previous year and 100 billion yuan in special bonds issued by local governments, the projected total revenue of government-managed funds nationwide comes to 5.05941 trillion yuan, with the expenditure from these funds also budgeted to total 5.05941 trillion yuan, an increase of 4.1%.

It should be noted that, following the incorporation of the revenue and expenditure of eleven government-managed funds, such as local education surcharge, into the general public budgets, there was a drop in the total budgetary revenue and expenditure of central and local government-managed funds in 2015. Due to this, we have lowered the base figures for 2014 accordingly, and can still calculate the increases on a comparable basis.

(3) Budgets for state capital operations

According to the scheme approved by the State Council for improving the government budgeting system, in 2015, we will take the following measures to improve the budgeting system for state capital operations.

The proportion of funds allocated from the central government's state capital operations budget to the general public budget will be further increased.

The areas of spending from the central government's state capital operations budget will be clearly delineated: apart from allocations for transferal into the general public budget or for replenishing social security funds, funds will be used primarily to cover expenditures for addressing longstanding problems of SOEs and their relevant reforms, injecting capital into SOEs, and providing them with policy-based subsidies.

Transfer payments to local governments made in the central government's state capital operations budget will be used in supporting SOEs under the central government and enterprises decentralized after 1998 in the coal, non-ferrous metal, defense, and other industries in addressing their longstanding problems and supporting efforts in completing the reform of collectively owned businesses operated by SOEs.

Some state-owned financial enterprises under the central government will be brought into the scope covered by the state capital operations budget.

In 2015, the revenue from state capital operations of the central government is estimated to be 155 billion yuan, up 9.9% over the previous year. Adding the 14.398 billion yuan carried over from last year, the projected total for revenue from state capital operations of the central government is 169.398 billion yuan. Expenditure from the central government's state capital operations budget will reach 169.398 billion yuan, up 19.4% over the previous year. Of this, 140.548 billion yuan is to be spent at the central level, including 23 billion yuan (an increase of 4.6 billion yuan over the previous year) to be allocated into the general public budget and spent on ensuring and improving people's living standards; 52.7 billion yuan to be spent on addressing the longstanding problems of SOEs and related reforms; 53.6 billion yuan earmarked for capital injection; 8.8 billion yuan to be used as subsidies for policy-based losses; and 2.448 billion yuan to be used for other expenditures. Total funds earmarked for transfer payments to local governments is 28.85 billion yuan.

The revenue from state capital operations of local governments is projected to reach 71.312 billion yuan. Adding the 28.85 billion yuan of transfer payments from the central government's state capital operations budget, the revenue in the budgets for local government state capital operations will total 100.162 billion yuan. Expenditure from the budgets for state capital operations of local governments is also projected to be 100.162 billion yuan.

Combining the central and local budgets, the projected total for national revenue from state capital operations is 226.312 billion yuan. Adding the 14.398 billion yuan carried over from the previous year, national revenue from state capital operations will total 240.71 billion yuan. The projected figure for national expenditure from the state capital operations budgets is also 240.71 billion yuan.

(4) Budgets for social security funds

The budget for revenue of social security funds is prepared taking into account factors including the implementation of the previous year's revenue budget, forecasted economic and social development for the current year, adjustments in social security policies, and plans for work related to social security.

Revenue from insurance premiums is budgeted on the basis of factors including the number of people paying contributions, insurance rates or fixed premium standards, the average pay rate from the previous year, and pay increases. The budget is then determined by combining these factors with the expansion of insurance coverage, the recovery of payment arrears, and so on.

Revenue from government subsidies is budgeted based on government subsidies to social security funds in the previous year and newly added government subsidies in the current year after adjusting for incomparable factors.

The budget for expenditure from the social security funds is prepared taking into consideration factors such as the implementation of the previous year's expenditure budget, projected changes to the number of people covered by the social security schemes and forecasted economic and social development for the current year, and adjustments in social security policies as well as changes in the benefits paid out from social security funds.

The revenue of social security funds is estimated to reach 4.308807 trillion yuan nationwide, up 10% over the previous year, including 3.163339 trillion yuan from insurance premiums and 974.175 billion yuan from government subsidies. Nationwide, the expenditure from social security funds will reach 3.846397 trillion yuan, up 14.2% over the previous year. With an estimated surplus of 462.41 billion yuan this year, the year-end balance is projected to reach 5.503286 trillion yuan after the balance from 2014 has been rolled over.

It should be noted that according to the revised Budget Law, after the beginning of a new financial year and before the approval of the draft central government budgets by the National People's Congress, arrangements may be made for the following expenditures:

- carryover expenditures from the previous year;
- basic expenditures of government departments, project 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 of the previous year;
- expenditures for which payment constitutes a legally prescribed obligation; and
- expenditures to be used for dealing with natural disasters and other

emergencies.

Based on the above stipulations, in January 2015, the central government made expenditures to the value of 751.2 billion yuan from the general public budget. This figure includes 132.9 billion yuan spent at the central level and 618.3 billion yuan in tax rebates and transfer payments made to local governments.

III. Properly Implementing the New Budget Law and Carrying Out the Work on Fiscal Reform and Development

1. Strengthening the legal framework for managing public finances

Study and training sessions and activities to inform about the newly revised Budget Law will be carried out to ensure that the guidelines, principles, and each specific provision of the law are thoroughly understood and the rule of law consciousness in budgetary work is strengthened. We will consciously follow the provisions of the Budget Law as our code of conduct as we exercise budgetary management, and perform our duties including managing the public finances in strict accordance with the law.

We will step up the intensity of work to revise the Regulations on the Implementation of the Budget Law and improve systems such as the general transfer payments system according to the principles set in the Budget Law and its authorization.

We will coordinate the implementation of the new Budget Law with fiscal and tax reforms, strengthening the links between concrete plans for fiscal and tax reforms and both the Budget Law and the building of institutions that support it.

In accordance with the plans for implementing the principle of law-based taxation, we will assist with legislative work on real estate tax, environmental protection tax, and tonnage tax, and actively promote the upgrading of existing interim tax regulations to laws. Our work regarding the revision of the Law on Tax Collection and Administration will be properly carried out.

2. Improving and strengthening macro-level regulation through fiscal policy

We will carry out timely and appropriate anticipatory adjustments and fine-tuning on the basis of ensuring the continuity and stability of our policies; place greater weight on making targeted measures based on the proper exercise of macro-regulation to keep the economy performing within an appropriate range; intensify efforts to carry out structural adjustments; prioritize the provision of support for areas of weakness; strike a balance between maintaining steady growth and restructuring; keep market expectations stable; prevent economic growth from slipping into a downward spiral; and create a good macro environment for ensuring steady economic

development.

We will work actively to support efforts to discover and foster new areas of strong consumer activity that have huge market potential and great future prospects, improve and properly implement related fiscal and tax policies, promote information technology consumption, and stimulate the development of the elderly care, fitness, cultural, creative, and design industries.

We will advance reform of the investment and financing systems; make innovations in methods of investment and financing; move more quickly to launch projects that demonstrate the PPP model in urban infrastructure development, the public rental housing sector, and in business transformation of local government financing companies; and effectively unleash the potential of nongovernmental investment.

We will improve the policies and measures for boosting foreign trade, support increases in the export of technology, equipment, and services, cultivate new strengths to give us an advantage in foreign trade, and encourage increases in the import of advanced technology and equipment, key parts and components, and resources that China lacks.

We will work hard to improve the efficiency and quality of overseas investment, give impetus to the implementation of major projects for strengthening infrastructure connectivity with our neighboring countries, encourage international cooperation on advanced technology, and help competitive industries to step out onto the global stage.

3. Implementing the overall plan for deepening reform of the fiscal and tax systems

We will, in keeping with the requirements for deepening reform of the budget management system, review and regulate tax relief and other preferential policies, carry out medium-term fiscal planning, and reform and improve the transfer payments system. We will raise the percentage of earnings from state capital operations that are turned over to public finance, and research into bringing more SOEs under the management of state capital operations budgets. We will promote sustainability in the operations of social security funds on the basis of actuarial balance. We will formulate and introduce the guidelines for fully promoting openness in budgetary work, and go further to make budgetary work more transparent. We will research into increasing the number of government departments required to report their budgets to the NPC.

We will strive to extend the trials for replacing business tax with VAT to the construction, real estate, financial, and consumer service industries; and allow businesses to deduct the VAT on their new real estate purchases or on their payments for real estate rentals, and combine and lower VAT rates. We will continue to adjust the scope and rates of consumption tax, and take measures where appropriate to levy consumption tax on retail and wholesale instead of production. We will organize the

implementation of reform of the resource tax and fees on coal, and develop plans for reforming resource taxes and fees on other types of resources aside from crude oil, natural gas, and coal. For the reform of personal income tax, we will develop a plan that integrates taxation based on both adjusted gross income as well as specific types of incomes.

When carrying out reforms in VAT and consumption tax, we will find a way to improve revenue distribution between the central and local governments. We will develop and introduce guidelines for appropriately dividing powers and spending responsibilities between the central and local governments.

We will move more swiftly to reform government procurement of services, establish a management system for listing services for government procurement, and gradually expand the scope and scale of government service-procurement.

4. Strengthening budgetary management

We will collect revenue in accordance with the law and act to do so to the fullest possible extent wherever revenue is due, while strictly prohibiting the collection of any tax or fee not prescribed by law as well as any act, such as accounting tricks, that boost revenue only on paper, thereby ensuring that revenue is as it should be and remains free from tampering.

We will tighten constraints on budgets and strengthen adherence to them, making sure that wherever there is spending there is first a budget; where something has not been budgeted for no expenditures are allowed, and where a planned adjustment to expenditure has not been through the legally prescribed procedures it may not be made.

We will improve the system of standards for setting basic expenditures and project expenditures in the budgets, optimize the management of project databases, and strengthen the foundation of our budgetary work. We will improve the methods used for formulating budgets; significantly cut down the total size of expenditure budgets compiled by finance departments for other departments and projects; place greater emphasis on practicability and detail in the formulation of budgets; and make budget formulation more farsighted and accurate. We will improve the mechanisms for exercising dynamic monitoring of budget implementation, set up a sound system of accountability for budgetary spending, and make the implementation of budgets more efficient and balanced.

We will practice thrift in everything we do, and ensure that the system for ensuring strict austerity and fighting waste firmly takes root. We will reduce routine expenditures, strictly control the spending of central government departments on official visits, official vehicles, and official hospitality and, in accordance with the regulations on the reform of the use of official vehicles, reduce expenditures on

official vehicles.

We will continue to rectify the practices of doctoring the payroll and deliberate overstaffing. We will categorize the ways to make use of available government funds, and establish a sound, permanent mechanism for reviewing and regulating carryover and surplus funds.

We will proactively move ahead with cash management operations through the treasury by the central and local governments. We will put into action the idea of linking spending with performance and performance with accountability. We will raise the level of and expand the scope for assessing budget performance; strengthen performance assessment on expenditures that are of particular significance to the people's wellbeing; intensify accountability for budget performance; and improve the mechanism for linking the results of budget performance assessment with appropriations in the budget.

By the end of 2015, we will have put into effect reform of centralized treasury payment in all townships and towns where conditions permit, and we will gradually expand the application of digital centralized treasury payment.

We will increase open access to information on government procurement, and further standardize the management of government procurement.

5. Strengthening management of local government debt

We will fully implement the guidelines for strengthening the management of local government debt, and strictly forestall and control fiscal risks.

First, we will establish a standardized mechanism for debt financing by local governments, which combines both general debt and special debt. The central government will allocate quotas for general and special debt to local governments principally on the basis of calculation of objective factors, such as their financial resources. We will improve the market-based pricing mechanism for local government bonds, have the market play a more significant role in regulating local government debt, protect the rights and interests of investors, and stabilize market confidence.

Second, we will establish sound mechanisms for debt management. We will impose ceilings for local government debt, which must not be exceeded. We will place local government debt under budgetary management for general public finance and government-managed funds, based on the type of debt. We will establish mechanisms for risk assessment and early warning about risks related to local government debt, and give early warning to regions where high risk is detected. We will provide guidance for and urge local governments to set up mechanisms for dealing with urgent matters concerning debt risks, and formulate contingency plans for the handling of such matters. We will introduce a system for releasing information on local government

debt, and make regular public disclosures. We will move quickly to develop an accrual accounting based comprehensive reporting system for government finances, formulate the rules for preparing the government's comprehensive financial reports and the guidelines for their operation, and lay down the basic principles of government accounting.

Third, we will make appropriate arrangements for handling outstanding debts and follow-up financing for on-going projects. Outstanding debts which have been reviewed and approved through statutory procedures will be placed under budgetary management, based on the type of debt. Local governments need to raise funds through multiple channels, and repay maturing debts on time. At the same time, a reasonable grace period will be set, during which part of the follow-up financing may be settled through bank loans within the limit set for on-going projects to avoid any break in the chain of funding and prevent fiscal and financial risks. Replacement is allowed as appropriate for those outstanding local government debts which have been brought under budgetary management after having been screened to lower the burden on local governments of paying more interest, improve the mix of debt maturities, and make more funds available for key projects.

6. Tightening up financial discipline

On the basis of past achievements in tightening up financial discipline and eliminating unauthorized departmental coffers, we will continue to take a strong stance in fields where violations of financial discipline and law are prone to occur or occur frequently, or where there are sensitive issues involved; regularly carry out inspections to check for strict compliance with financial discipline; and firmly prevent violations of financial discipline and law from re-emerging once dealt with.

We will increase transparency of information on policies. We will ensure that operation guidelines are issued for very special-purpose fund and that these guidelines are released to the public, so that the operation of government funds is transparent. We will intensify oversight over government funds, especially funds that are of particular significance to people's wellbeing, and tighten oversight through auditing.

We will move more quickly to set up systems and mechanisms for internal control of financial departments. We will ensure that, in important fields and key positions within which power over the allocation or use of government funds, or powers related to government procurement are concentrated, the way power is exercised is determined on the basis of the matter in question, the way power is arranged is determined on the basis of the position in question, and the way power is delegated is determined on the basis of the level of government in question. We will use the redesigning of procedures and information technology to strengthen the prevention

of risk in fiscal activities and management, the control of such risks when they do arise, and oversight and remedies after risks have been brought under control. We will effectively prevent risk in every type of fiscal activity as well as any risk that might pose a threat to keeping government clean.

Fellow Deputies,

The successful implementation of the 2015 budget is of vital importance. Under the leadership of the CPC Central Committee with Xi Jinping as General Secretary, we will follow the guidance of Deng Xiaoping Theory, the important thought of Three Represents, and the Scientific Outlook on Development, willingly accept the oversight of the NPC, and seek comments and suggestions from the CPPCC National Committee with an open mind. We will devote ourselves to reform, work with diligence, strive to successfully implement this year's budget and complete our work on fiscal reform and development, and contribute to promoting steady, healthy economic development and social harmony and stability.