

**REPORT ON THE IMPLEMENTATION OF THE CENTRAL AND
LOCAL BUDGETS FOR 2006 AND ON THE DRAFT CENTRAL AND
LOCAL BUDGETS FOR 2007**

*Fifth Session of the Tenth National People's Congress
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Ministry of Finance

Fellow Deputies,

The Ministry of Finance has been entrusted by the State Council to report on the implementation of the central and local budgets for 2006 and on the draft central and local budgets for 2007 for your deliberation and approval at the Fifth Session of the Tenth National People's Congress (NPC), and also for comments and suggestions from the members of the National Committee of the Chinese People's Political Consultation Conference (CPPCC).

I. Implementation of the Central and Local Budgets for 2006

Under the firm leadership of the Central Committee of the Communist Party of China and the State Council, and guided by the Scientific Outlook on Development, all localities and departments in 2006 conscientiously followed the principles and policies set by the central authorities and relevant decisions and resolutions passed at the Fourth Session of the Tenth NPC. This resulted in an excellent beginning for the Eleventh Five-Year Plan period, great new achievements in development of the economy and all social programs, and further improvement in people's lives. The central and local budgets were also satisfactorily implemented.

National revenue reached 3.934362 trillion yuan (excluding revenue generated through debt, both here and below), up 769.433 billion yuan or 24.3% from 2005. Total revenue exceeded the budget target by 392.024 billion yuan, consisting of 254.247 billion yuan at the level of the central government and 137.777 billion yuan at the local level. National revenue totaled 3.873062 trillion yuan (not including the 61.3 billion yuan that was used to clear up longstanding arrears in export tax rebates in accordance with regulations), a year-on-year

increase of 708.133 billion yuan or 22.4%. This was 330.724 billion yuan or 9.3% over the budget target. National expenditures amounted to 4.021316 trillion yuan, a year-on-year increase of 628.288 billion yuan or 18.5%, representing 104.8% of the budgeted figure.

The separate figures for the central and local budgets are as follows: **Total revenue in the central budget came to 2.123231 trillion yuan** (not including the 61.3 billion yuan that was used to clear up longstanding arrears in export tax rebates in accordance with regulations), an increase of 397.182 billion yuan or 23% over the figure for 2005. This amount was 196.027 billion yuan or 10.2% over the budgeted figure. It included 2.044977 trillion yuan collected by the central government, 390.124 billion yuan or 23.6% more than the amount for 2005 and 192.947 billion yuan or 10.4% over the budgeted figure. Total revenue turned over from the local budgets was 78.254 billion yuan, an increase of 7.058 billion yuan or 9.9% over the total for 2005. This was 3.08 billion yuan or 4.1% over the budget target. **Total expenditures in the central budget amounted to 2.348226 trillion yuan**, 322.227 billion yuan or 15.9% more than that for 2005, representing 105.7% of the budgeted figure. Total expenditures included 999.156 billion yuan incurred at the central government level, an increase of 121.559 billion yuan or 13.9% over the amount for 2005, representing 104.9% of the budgeted figure. Expenditures for tax rebates and transfer payments for local governments totaled 1.34907 trillion yuan, 200.668 billion yuan or 17.5% more than the amount in 2005, representing 106.3% of the budgeted figure. Fifty billion yuan was set aside to establish a new central budget stability and regulation fund. The deficit in the central budget for 2006 was 274.995 billion yuan, 20.005 billion yuan less than the 295 billion yuan approved at the Fourth Session of the Tenth NPC, dropping to 1.3% of GDP. At the end of 2006 the outstanding national debt in the central budget was under the set limit of 3.538168 trillion yuan. Revenue from funds controlled by the central government amounted to 170.687 billion yuan and expenditures from the above funds also amounted to 170.687 billion yuan. **Total revenue in local budgets amounted to 3.177155 trillion yuan**, an increase of 518.677 billion yuan or 19.5% more than the figure for 2005, representing 107.3% of the budgeted figure. This included 1.828085 trillion yuan collected at the local level, an increase of 318.009 billion yuan or 21.1% more than the amount for 2005, representing 108.2% of the budgeted figure. **Expenditures in local budgets totaled 3.100414 trillion yuan**, a year-on-year increase of 513.787 billion yuan or 19.9%, and 104.7% of the budgeted figure. Total expenditures included 3.02216 trillion yuan spent at the local level, a year-on-year increase of 506.729 billion yuan or 20.1%, representing 104.8% of the budgeted figure, and 78.254 billion yuan turned over to the central government, 7.058 billion yuan or 9.9% more than the previous year, representing 104.1% of the budgeted figure. Local revenue exceeded expenditures by 76.741 billion yuan and this surplus will be rolled over into the

budget for this year. These figures may change slightly when the final accounts are prepared.

The overall situation in the implementation of the central budget in 2006 is as follows:

1. Collection and management of revenue was improved in accordance with the law and a high rate of revenue growth was maintained. The Chinese economy enjoyed rapid growth, achieved good performance and maintained relatively low prices in 2006. Based on this, financial, tax, and customs authorities at all levels improved revenue collection and management, actively applied scientific management methods, made a full review of preferential tax policies and standardized them, stringently controlled tax reductions and exemptions and worked hard to collect all taxes due, resulting in rapid growth of revenue of the central and local governments. The increase in revenue is mainly a reflection of China's vibrant economy, but it also demonstrates that the country's revenue collection system is gradually improving and that China's revenue development is stable and balanced to some extent. However, it should be noted that although the key factor behind the rapid increase in revenue is the vibrant state of the Chinese economy with its improved efficiency, other factors, including one-time factors, government polices and non-regular factors also contributed to the increase. These other factors mainly consist of the following: The corporate tax paid by state-owned commercial banks such as the Bank of China and the China Construction Bank increased by a large margin due to increased profits after they became publicly traded companies. A special surcharge was instituted on oil sales. Income from the transfer of mineral exploration and mining rights was incorporated into revenue. Due to the effect of rapid growth in fixed asset investment and industrial production, as well as increases in the prices of resource products, the increase in tax payments from affected industries was also greater than normal. Deducting the increase in revenue due to these factors would result in a growth rate for revenue basically in line with the economic growth rate.

Revenue in the central budget for 2006 exceeded the projected figure by 257.3 billion yuan (before deducting the amount applied to resolve unpaid export tax rebates). Disposal of this surplus amount was carried out according to the uniform planning and arrangement of the Central Committee and the State Council and in accordance with the Budget Law, the Decision of the NPC Standing Committee on Improving Examination and Oversight of the Central Budget and relevant resolutions passed at the Fourth Session of the Tenth NPC. In addition to spending 23.1 billion yuan of the surplus to increase tax rebates and transfer payments for local governments and 1.6 billion yuan to increase spending on education as required by relevant laws, statutes and financial regulations, the central government mainly used the surplus to strengthen weak links in economic and social development, clear up overdue payments and

reduce the budget deficit to make financial and economic development more sustainable. Specifically, an additional 24.1 billion yuan was spent on the social safety net and an additional 37.2 billion yuan from special surcharge on oil sales was spent to subsidize increased expenditures in agriculture, fishery and forestry due to price increases in oil and to fund major projects in energy development and conservation and in environmental protection. Another 10 billion yuan was spent to increase regular investment in the central budget, which was mainly used to support the building of a new socialist countryside, and an additional 13.5 billion yuan in special expenditures went toward building roads, purchasing oil reserves and providing further aid to residents relocated to make way for the construction of large and medium-sized reservoirs. An additional 3.5 billion yuan was spent to increase funding for the “three rewards and one subsidy” policy, subsidies for farmers and herdsmen in Tibet and for the fight against smuggling, and transfer payments to ports. The additional 61.3 billion yuan that was earmarked for export tax rebate payments was used to clear up the remaining overdue payments. A total of 20 billion yuan was spent to reduce the deficit in the central budget. Another 13 billion yuan was reserved for funding reform of the salary system and related expenses in 2007. In addition, 50 billion yuan was allocated to establish a central budget stability and regulation fund to make compilation of the budget more scientific and appropriate and maintain the stability of the central budget and the continuity of the fiscal policy. Funding and use of the stability and regulation fund come under the scope of budgetary management and are subject to the oversight of the NPC and its Standing Committee. The State Council has reported the above arrangements for the use of the surplus to the NPC Standing Committee.

2. *A combination of fiscal and tax tools was used to promote steady and rapid development of the economy.* On the basis of the prudent fiscal policy, we in 2006 revised and enhanced policy tools in response to economic developments and changes, relaxing control in some areas and tightening it in others, to make the regulatory function of public finance more effective and better focused.

First, we adjusted and improved relevant tax policies. On April 1, 2006, we began making the biggest adjustment in the items and rates of the consumption tax seen since 1994, increasing some items and rates and lowering others. We raised the salary threshold for the personal income tax and increased the deductible amount for the personal income tax for employees of domestic enterprises from 800 yuan per month to 1,600 yuan per month. We adjusted the policy on the natural resources tax. We also adjusted export rebate rates for some products, eliminating or reducing export rebates for more products whose production is high in energy consumption or is highly polluting. In addition, more commodities were added to the list of those not eligible for the processing trade. We introduced export tariffs on some products whose production is high in energy consumption or is highly polluting while lowering import tariffs on some

resource products. Tax reforms such as the trial VAT reform in northeast China made steady progress. Adjusting and improving tax policies played a positive role in conserving resources, protecting the environment, guiding consumption in the right direction and indirectly improving income distribution.

Second, we made necessary adjustments in the scale of central government allocations and improved the utilization structure. Central government allocations in 2006 totaled 125.4 billion yuan (including 10 billion yuan from surplus revenue). These funds were mainly used to fund items such as the building of a new socialist countryside, social programs, environmental and ecological protection and the large-scale development of the western region and to fund an appropriate number of major new projects with overall bearing on development. Moreover, the pace of implementation of the budget was regulated to keep it in line with the overall situation in economic development, and the performance of government funds was improved by strictly managing investment and tightening oversight.

Third, we adjusted and standardized fiscal and tax policies for managing housing and real estate revenue and expenditures. The required length of ownership when resale of privately owned housing is exempt from business tax was raised to five years from the two-year requirement stipulated in 2005. We improved the system for managing public accumulation funds for housing, further clarified the source of funding for building low-rent housing in urban areas and ensured that the funding was available. We also adjusted standards for fees for using land for new construction projects, revised land-use policies and formulated policies to standardize the use of revenue derived from the transfer of state land-use rights, yielding initial results in curbing speculation in the housing market. We made further progress in implementing the strictest possible system for protecting farmland and promoted more efficient and intensive use of land.

Fourth, we worked out and implemented fiscal and tax policies to encourage energy conservation and development of new energy resources. Responding to the high oil prices, we carried out a great deal of research on how to stimulate development of oil substitutes, formulated the policy to support the development of bioenergy, and set up the basics for a system of fiscal and tax policies to promote the development of alternative energy sources. In addition, we overhauled the mechanism for setting oil prices and introduced a special surcharge on oil sales. The above measures, along with other control measures, played an important role in maintaining the direction for economic development expected under the guidance of macroeconomic regulation.

3. Budgetary support for agriculture, rural areas and farmers was increased and a good start was made in efforts to build a new socialist countryside. Effective policies, numerous measures and new mechanisms were introduced to give budgetary support for agriculture, rural areas and farmers in 2006. As a

result, the countryside began to feel more and more warmth from increased public spending. A total of 339.7 billion yuan (excluding the 12 billion yuan paid to grain farmers in direct subsidies from special surcharge on oil sales) from the central budget was allocated in 2006 for agriculture, rural areas and farmers, 42.2 billion yuan or 14.2% more than the amount for 2005.

First, the agricultural tax was rescinded nationwide. In addition, taxes on special agricultural products were rescinded and the Interim Tax Regulations for Tobacco Leaf were formulated and introduced. This move marks a fundamental change in the traditional income distribution arrangement between the government and farmers, and helps reduce the burden on farmers, increase farmer incomes and nourish farmers as well as promotes sustained development of agriculture. The central government allocated 78.2 billion yuan and local governments 25 billion yuan in transfer payments in 2006. The burden on rural residents was reduced by about 125 billion yuan, or 140 yuan per capita, over the level of 1999, the year before reforms were introduced, and the burden on farm laborers was also reduced. Reform of rural taxes and fees entered a new period in overall rural reforms.

Second, subsidies were increased. The central government allocated an additional 12 billion yuan in funding to grant 728 million grain farmers timely general direct subsidies to help meet increased expenses for agricultural supplies due to price rises. Another 8.59 billion yuan in subsidies was granted to the fishing industry and other industries to offset higher petroleum prices. Direct subsidies to grain farmers nationwide totaled 14.2 billion yuan, 1 billion yuan more than total grain subsidies in 2005, of which 12.68 billion yuan went to the 13 major grain-producing provinces and autonomous regions, accounting for more than 50% of the grain risk funds of those provinces and regions. The central government appropriated 4.15 billion yuan in subsidies for growing superior varieties and 600 million yuan in subsidies for purchasing agricultural machinery and tools, an increase of 100% over 2005. To improve the policy governing the price floors for the purchase of grain, 5.9 billion yuan was distributed in timely subsidies. We instituted the use of the all-in-one account across the country, enabling subsidies to be put directly into the bankcard or passbook account of farmers. We also began to set up a website for subsidies for farmers and tightened management of these subsidies. We set up the framework for an agricultural subsidy policy system suited to China's conditions with a combination of general and special subsidies and standardized management to ensure and promote security in grain production.

Third, smooth progress was made in reform of the mechanism for guaranteeing funding for rural compulsory education. The western region took the lead in the country in the reform to exempt all rural students receiving compulsory education from paying tuition and miscellaneous fees beginning with the spring semester of 2006. The region also provided textbooks free to

students from economically disadvantaged households and granted living allowances to poor boarding students. The central government granted general subsidies for compulsory education expenses in rural primary and middle schools in the western region and launched a permanent mechanism to fund repair and rebuilding of all rural primary and secondary school buildings used for compulsory education across the country. Every province in the central region also chose one of its counties to launch the above trial reforms beginning with the fall semester of 2006. Most provinces in the eastern region also carried out similar reforms on their own initiative. The central government appropriated 15 billion yuan and local governments 21.1 billion yuan for this purpose. Some special funds were handled through the centralized treasury payment system so that they reached the schools directly. This measure reduced the burden on primary school students by an average of 140 yuan per student per school year and on junior middle school students by 180 yuan. This reform enabled us to gradually incorporate expenditures for rural compulsory education into the public finance system and shows that profound changes are taking place in the way public goods are delivered in rural areas. On the basis of this reform, we strongly supported implementation of the plan to attract exemplary teachers to work in rural schools providing compulsory education and launched a pilot project to build new schools with improved sanitation facilities in the new countryside of ten provincial-level localities. All this has helped increase momentum in the development of rural compulsory education.

Fourth, the trial reform to introduce a new type of rural cooperative medical care system was carried out in more areas. Statistics indicate that the trial reform was carried out in 50.7% of the country's counties, county-level cities and city districts, involving 410 million rural participants. The central government increased assistance to participants from 10 yuan per person to 20 yuan per person in 2006 and governments at the provincial level made similar increases. The central government allocated 4.27 billion yuan to fund subsidies. This reform changed institutions and mechanisms to ease the problem of rural residents being driven into poverty or back into poverty because of medical problems.

Fifth, strong support was given to agricultural production and long-term development of the countryside. Support was focused on carrying out six types of small rural projects [water-efficient irrigation, potable water supplies, road building, methane production facilities, hydroelectric plants and pasture enclosure, *Tr*.] to improve working and living conditions in rural areas. We promoted comprehensive agricultural development, upgraded low- and medium-yield farmland and supported industrialization of agriculture, resulting in an estimated increase of 2.91 billion kilograms in grain production capacity. The central government has decided to write off 4.486 billion yuan worth of the debt accumulated for comprehensive agricultural development within a four-year

period beginning in 2006 to give farmers greater incentive to develop production. The focus of spending of the 13.7 billion yuan in poverty relief funds from the central budget was on infrastructure development in poor villages, job training for poor farm laborers looking for urban employment and industrialization of agriculture. We strongly supported efforts to promote greater application of agricultural technology, to develop professional farmer cooperatives, to train rural workers seeking nonagricultural employment in the cities, to launch the project to spread knowledge of science and technology and create a new type of farmer and the plan to help farmers and villages prosper through science, and to promote the action plan for helping farmers and counties prosper through science and technology.

Sixth, strong support was given to the establishment of a mechanism for diversified funding to support agriculture. We carried out a pilot project to integrate government funding to support agriculture in 162 counties in the country to improve the performance of government funds. We actively explored various mechanisms such as projects run by the local people and subsidized by the government to increase local farmer investment. We strongly supported the development of a rural financial system. In 2006 the central government appropriated 2.931 billion yuan in inflation-proof interest subsidies for rural credit cooperatives in selected areas and extended the policy on income tax reductions and exemptions by three years to credit cooperatives in selected areas to gradually reduce their longstanding debts, help drive their future development and give more play to their role as a major force in building a new socialist countryside. All these measures promoted agricultural production, increased rural incomes and stepped up progress toward balanced development between urban and rural areas.

4. Key expenditures were guaranteed in order to accelerate the development of all social programs. We directed more government spending toward social programs to shore up weak links in social development and balance economic and social development in order to truly reflect the public nature and public welfare nature of public finance, which represent its essential character.

First, we supported employment and reemployment work and development of the social safety net. Government spending in the country for employment and the social safety net in 2006 was 433.765 billion yuan, up 17.3% compared to the figure for 2005, representing 109.1% of the budgeted figure. Allocations from the central budget totaled 201.002 billion yuan, an increase of 22.9%. On the basis of the trials in the three northeastern provinces to fully fund individual retirement accounts for the basic pensions of workers retiring from state-owned enterprises (SOEs), the trial was extended to eight more provincial-level localities. We worked to ensure appropriate linkage between the urban minimum cost of living allowance system and employment and reemployment policies. We strongly supported the development of a rural

medical assistance system in the central and western regions, the pilot program to provide medical assistance to urban residents in poor areas and the work of providing food, clothing, medical care, housing, and burial expenses for childless and infirm rural residents. We conscientiously carried out a strong employment policy and improved implementation measures to help SOEs in financial straits find appropriate solutions to their longstanding problems. We worked hard to assist in solving the problems of demobilized military personnel, including those working in enterprises as cadres, to help them adjust to civilian life. It is particularly worth noting that the central government promptly appropriated relief funds amounting to 11.2 billion yuan to vigorously support relief efforts in response to serious natural disasters, complemented by funds from local governments.

Second, we supported the development of education. Government spending on education in 2006 totaled 475.27 billion yuan, up 19.6% compared to the figure for 2005, representing 103.8% of the budgeted figure. The central government's contribution to this amount was 53.6 billion yuan, a year-on-year rise of 39.4%. In addition to giving priority to rural compulsory education, we also launched an initiative to build national vocational colleges as a showcase for vocational higher education and to support the efforts to build hands-on training centers for these colleges. We continued to support the implementation of the May 1998 Project to improve the quality of education in universities. We improved the system of financial assistance policies consisting of government student loans, grants and scholarships as the main forms of aid for students of colleges and secondary vocational schools from financially strapped families to help them complete their education.

Third, we supported the development of public health. Budget allocations from governments at all levels for medical care and public health in 2006 reached 131.158 billion yuan, a year-on-year increase of 26.5%, or 110.7% of the budgeted figure. Of this amount, 13.8 billion yuan was from the central budget, up 65.4%. The increased spending was mainly used to finance public health programs such as prevention and control of major communicable and endemic diseases like AIDS, tuberculosis and snail fever, to help pay the medical bills of poor women having babies in hospital, to equip and staff community health centers and rural health clinics and to fund the placement of a large number of doctors to rural areas to help develop local healthcare systems.

Fourth, we supported innovation in science and technology. In 2006 we set up a system for ensuring stable growth of government funding for science and technology, and central and local governments spent 126.038 billion yuan on science and technology, a year-on-year rise of 26.2%, or 110.2% of the budgeted figure. Of this amount, allocations from the central budget totaled 77.4 billion yuan, up 29.2%. We further improved the structure of this funding by increasing spending on basic research, on applied research, and for nonprofit research

institutes. We encouraged independent innovation in enterprises by creating a system of incentives and by adopting preferential fiscal and tax policies toward innovative enterprises such as granting tax breaks and awarding government procurement contracts.

Fifth, we supported the development of public cultural programs as well as the culture industry. Expenditures of governments at all levels on culture, sports and radio in 2006 amounted to 83.453 billion yuan, 18.6% more than the previous year, or 108.5% of the budgeted figure. Of this amount, allocations from the central government totaled 12.3 billion yuan, up 23.9%. These expenditures were mainly used to proceed with the reform of the cultural management system and also improve the system of public cultural services. The focus of this spending was on funding efforts to extend radio and TV coverage to every village, to bring digital film projection to the countryside, to share cultural information across the country, to reward and assist some rural families that observe the family planning policy and to carry out the “fewer children equals faster prosperity” project in the western region.

Sixth, we supported ecological improvement and environmental protection. We improved the policy on the virgin forest protection program. We adjusted the follow-up policies on returning cultivated land to forests and improved the system to fund ecological conservation in forests. We supported the pilot reform of the management system of state forestry farms and the ownership system of state forests. Government funds were allocated to fund efforts to reforest 266,667 hectares of farmland and return 10 million hectares of grazing land to grassland in 2006. We pressed ahead with a reform to introduce a system of royalties paid to the government by coalmining companies. This pilot reform has been carried out throughout eight provincial-level localities, beginning in 2006. These measures indicate that China’s social undertakings are in a new period of rapid development.

5. Resources were concentrated to ease the financial difficulties of counties and townships and make basic public services more uniform. We conscientiously implemented preferential fiscal and tax policies to promote balanced development among regions. We also continued to increase transfer payments to help township- and county-level governments overcome their financial difficulties.

First, we stepped up efforts to implement the “three rewards and one subsidy” policy. We allocated 23.5 billion yuan for this purpose in 2006, an increase of 8.5 billion yuan over the amount for 2005 and improved the mechanism for granting rewards and subsidies. Progress in alleviating financial difficulties of counties and townships was consolidated and expanded, with reduction in the number of counties identified by the government with financial difficulties from the 791 of early 2005 to the current 200 or so, and continued progress will be made in this regard. Innovations were made in the way public

finance is managed at and below the provincial level. The reform to put township finance under county administration was carried out in 28 provincial-level localities, and the reform to put county finance under direct provincial administration was carried out in 18 provincial-level localities, thus providing institutional and structural guarantees for funding to alleviate the financial difficulties of counties and townships. Stronger encouragement was given to major grain-producing counties to grow crops, thus helping safeguard food security for the country. Improvement in the governance capacity of county and township governments has helped maintain social stability.

Second, we improved the permanent mechanism for ensuring a stable increase in general transfer payments. The central government allocated 152.7 billion yuan in 2006 for general transfer payments to local governments, mainly those in the central and western regions. This is an increase of 40.7 billion yuan over the 2005 figure.

Third, we improved the rules on transfer payments to ethnic minority areas. These transfer payments totaled 15.563 billion yuan in 2006 and ethnic autonomous counties that are not located in an ethnic autonomous region or prefecture were included in the scope of these payments. We improved the rules on transfer payments to financially strapped areas such as old revolutionary areas, border areas, and Tibet.

Fourth, we supported the strengthening of government authority at the county and township levels. Funds totaling 5.93 billion yuan were set aside in the central budget in 2006 to help lower-level procuratorial, judicial and public security departments to further improve conditions for processing cases. Funds totaling 925 million yuan were earmarked to reform the prison system. The central government will start a two-year campaign beginning in 2006 to help solve the problem of 98,086 villager committees in the country without meeting facilities, for which 490 million yuan has been set aside in the 2006 budget. In addition, follow-up policies were united for the first time to support people relocated to make way for large or medium-sized reservoirs and strong support was given to economic development in areas around the reservoirs and areas where displaced people have been resettled. These measures improved the ability of local authorities, especially at the county and township levels, to provide basic public services.

6. All reforms were strongly supported and constant improvement was made in the socialist market economy. Significant progress was made in the reform of the budgetary management system and in support for reforms in other key areas and crucial links.

First, salary reform and standardization of income distribution for civil servants progressed smoothly. Reform of the salary system for civil servants, military personnel, embassy and consulate personnel working overseas and personnel assigned to work in Hong Kong and Macao was implemented. The

salaries and benefits were raised accordingly for people who have retired from government departments, public service institutions and enterprises and personnel sent abroad to participate in foreign-aid programs. The level of benefits and living allowances was raised for entitled groups and recipients of urban basic cost of living allowances. Special consideration was given to personnel retired from enterprises who hold senior professional titles and some retirees who retired early or whose basic retirement pension is relatively small. This represents the highest increase and the largest total amount ever spent by the central government for social welfare programs in history. In addition, we reviewed all allowances and subsidies for civil servants and set up and gradually improved oversight and constraint mechanisms.

Second, efforts were made to support the reform and development of SOEs. Fund totaling 25 billion yuan was earmarked in the central budget for 2006 to support the policy-mandated bankruptcy of 93 SOEs and to make arrangements for the 410,000 laid-off employees. A base figure of 4.81 billion yuan was approved for subsidies for the work of relieving SOEs of the burden of operating social programs, and this work was basically completed in the second group of 74 central government enterprises. The trial reform in northeast China to solve the problem of SOEs managing collectively owned factories got off to a smooth start. In addition, a number of fiscal and tax policies were introduced to support development of small and medium-sized enterprises, promote reform of foreign trade and implement the “go global” strategy.

Third, support was provided for promoting the reform of the financial system. We obtained a clear picture of the number and distribution for state-owned bank and financial assets. We formulated a policy for turning over the revenue from state-owned shares to the government, a policy for reducing the number of state-owned shares and a policy for corporate income tax, and supported the restructuring and listing of the Bank of China and the Industrial and Commercial Bank of China.

Fourth, reform of the classification of government revenue and expenditures progressed steadily. This is the most important change in the classification and statistical system for government revenue and expenditures since the founding of New China in 1949 and also represents a profound innovation in the government’s budgetary management system. The new classification system fully embodies the integration of standard international practices with the particular conditions in China. Moreover, it gives a clearer picture of the revenue and expenditures of the government as well as the government’s performance in carrying out its functions. This is of great significance for making the government budget more transparent, strengthening budgetary management and oversight, fighting corruption at the source, and promoting socialist democratic politics.

Fifth, we constantly deepened the reform of other budgetary

management systems. We tightened control over surplus budgetary funds, made steady progress in implementing performance assessment trials, made constant improvement in trials to optimize allocation of human resources and funding, and instituted a method for managing project budgets on a rolling basis. The reform to set up a centralized treasury payment system was expanded to include all central government departments and over 6,100 of their subsidiary organs responsible for preparing their own budgets. The system now covers more than 460 billion yuan of budgetary funds. The reform also covers more than 160,000 lower-level organs that prepare their own budgets in over 1,000 counties and city districts in more than 270 prefectures and cities at the level of a prefecture in 36 provinces, autonomous regions, municipalities directly under the central government and cities specially designated in the state plan. Reform of the management system for collection of non-tax revenue was accelerated and the scope of the reform was continuously expanded. Total government procurement reached 350 billion yuan in 2006, enabling government procurement to be fairly effective in supporting and guiding energy conservation and environmental protection. Initial results were achieved in the campaign to combat bribery in government procurement. Money management through the treasury was steadily instituted, management of the outstanding balance of the national debt was instituted and efforts were accelerated to establish the Government Financial Management Information System. All these measures helped to modernize the traditional budgetary management system and promote constant improvement in the socialist market economy.

7. Public finance was handled in strict accordance with the law and progress was made in standardizing administration of public finance. The basic policy of running the country and administering public finance in accordance with the law was followed in all financial work.

First of all, we made constant improvement in legislation related to public finance. We will be examining the Law on Corporate Income Tax (Draft) during this session. The State Council promulgated or revised the Interim Tax Regulations on Tobacco Leaf, the Interim Tax Regulations on Vehicles and Boats, and the Interim Tax Regulations on Urban Land Use. The Interim Measures for Management of State-owned Assets of Administrative Organs and the Interim Measures for Management of State-owned Assets of Public Service Institutions have been formally promulgated, marking the beginning of efforts to gradually put these matters on a legal footing and standardize them. A scientific and standardized system was put into operation to distribute profits from the sale of public welfare lottery tickets. Continued progress was made in deepening the reform of the financial and administrative approval system, and all items requiring central government financial and administrative approval and application procedures for approval can now be found online.

Second, continued progress was made in improving accounting work

and other basic work. Two major systems of norms, one for accounting and one for auditing work, were established to be compatible with the country's current state of economic development and international standards. In addition, we carried out a project to foster leaders in the accounting field and improved the continuing education system. We formulated a general strategic framework for reforming the government accounting system. Improvements were made in oversight and management of certified public accountants and the asset evaluation industry, allowing their business to further expand.

Third, the results of oversight of public finance were substantial. The basic elements of a public finance oversight system with real-time monitoring, comprehensive examination, feedback on improvement efforts and performance tracking were put into place. The main focus of the system was on overseeing the handling of major items of expenditures that affect the pressing interests of the masses. Irregularities were uncovered in the handling of a total of 91.1 billion yuan of government funds, and 15 billion yuan in lost funds was recovered.

Fourth, rectification efforts were constantly strengthened. The State Council paid close attention to the comments and problems raised in relevant resolutions and auditing reports of the NPC. The State Council called for conscientious acceptance of auditing and oversight, diligent implementation of auditing decisions, and resolute efforts to rectify existing problems. All departments and relevant organizations diligently worked to make rectifications. Most of the problems uncovered through auditing in the implementation of the central budget have been rectified or corrected, and the persons involved have been investigated. The State Council has reported on the status of rectification work to the NPC Standing Committee.

There are also still some problems that urgently need to be addressed in the execution of the central budget of 2006 and in the handling of economic matters and public finance.

One, structural problems in the economy are still serious. Support for weak links in economic and social development such as agriculture, rural areas, farmers, education, and health is still inadequate.

Two, funding needs to be further increased to address problems related to the national economy and the people's wellbeing. For example, the employment situation is still grave, the system of providing basic cost of living allowances for rural residents is still not fully operational, and in some areas it is still difficult and expensive for students to attend school, and residents still face the problem of inadequate and unaffordable medical services.

Three, the cost of economic development is too high. Supporting policies and measures need to be strengthened to further improve the country's capacity for independent innovation and promote change in the pattern of economic growth.

Four, because the current state of local-level public finance is poor in some

areas, financial guarantees for local-level public services need to be further enhanced.

Five, because loss and waste of public funds still occur from time to time, the management of revenue and expenditures needs to be standardized, made more scientific and modernized.

We need to increase our sense of urgency and our sense of mission, concentrate on deepening reforms, optimize the structure of expenditures, improve corresponding systems, tighten financial and economic discipline, strengthen oversight and inspection, and constantly improve budgetary management and the level of services.

II. The Draft Central and Local Budgets for 2007

In light of the overall arrangements of the central authorities for our work in 2007 and the new situations we face, our general philosophy for formulating the budgets and deciding on financial tasks for 2007 is to take Deng Xiaoping Theory and the important thought of Three Represents as our guide and conscientiously implement the guiding principles of the Sixteenth National Congress of the Party, the third through sixth plenary sessions of its Sixteenth Central Committee, and the Central Economic Work Conference, completely put into practice the Scientific Outlook on Development, speed up the building of a harmonious socialist society, strengthen regulation, improve measures, continue to follow a prudent fiscal policy, and work hard to promote sound, rapid economic development; put people first, give priority to key areas, adjust and optimize the structure of expenditures, and strive to support social development and solve problems in the people's lives; increase efforts to improve public finance systems and standardize the government fiscal management systems at and below the provincial level and make basic public services of different regions more uniform; boldly explore, dare to make innovations, actively work to deepen reforms and improve fiscal and tax systems and mechanisms in order to better enable everyone to enjoy the fruits of reform and development and the benefits of public finance.

In line with the above philosophy, the major budgetary targets for 2007 are set as follows. Total revenue in the central budget should reach 2.442108 trillion yuan, an increase of 318.877 billion yuan or 15% over the amount for 2006. This figure includes 2.35903 trillion yuan collected by the central government, an increase of 314.053 billion yuan or 15.4% over total 2006 revenue (This exceeds the 42 billion yuan projected by the tax and customs authorities for tax revenue. If this goal is not met, the difference will be made up through the central budget stability and regulation fund.), and 83.078 billion yuan turned over by local governments, up 4.824 billion yuan or 6.2% from the amount of 2006. A total of 42 billion yuan will be placed in the central budget stability and regulation fund.

Expenditures in the central budget should total 2.687108 trillion yuan, a rise of 338.882 billion yuan or 14.4%. This figure includes 1.1062 trillion yuan of expenditures for the central government, up 107.044 billion yuan or 10.7% over the total for 2006, and 1.580908 trillion yuan in tax rebates and transfer payments to local governments, up 231.838 billion yuan or 17.2%. Expenditures still exceed revenue in the central budget, leaving a deficit of 245 billion yuan. The outstanding national debt in the central budget should not exceed 3.786553 trillion yuan, an increase of 248.385 billion yuan. Total combined revenue in the draft central and local budgets for 2007 is 4.406485 trillion yuan, 533.423 billion yuan or 13.8% more than that for 2006. Total expenditures in the draft central and local budgets amount to 4.651485 trillion yuan, up 630.169 billion yuan or 15.7%. The revenue growth rate is expected to be higher than the forecast rate for economic growth. This takes into account both the trend of rapid economic and social development and the actual increases in revenue of recent years, as well as various other factors that will lower revenue. Setting the target at this level is a reasonable and sound step.

It should be pointed out that the draft budgets and their targets for 2007 submitted to this session were formulated according to the new classification system for government revenue and expenditure items. To make it easier for you to examine the budgets, we have made corresponding adjustments in the data from the implementation of the 2006 budgets according to the new classification system and included them in this year's draft budget report.

Arrangements for major central government expenditures and major fiscal and tax policies for 2007 are as follows.

1. *We will continue to decrease the central government deficit by an appropriate amount, and adjust and optimize the orientation and structure of government investment.* Effective macroeconomic regulation is an objective necessity for steady, rapid economic development. In accordance with the guiding principles of the Central Economic Work Conference and the current state of economic development, we have set the central government deficit at 245 billion yuan, 50 billion yuan less than the figure in the 2006 budget. The estimated ratio of debt to GDP will continue to drop, falling to 1.1%. Total central government investment is set at 130.4 billion yuan, 15 billion yuan more than the 115.4 billion yuan total in the 2006 budget. Total investment in bond-financed items has been trimmed to 50 billion yuan, 10 billion yuan less than in 2006, and total capital construction investment financed through budgetary allocations has been raised to 80.4 billion yuan, an increase of 25 billion yuan over the amount in the 2006 budget. We are further adjusting the emphasis and structure of items funded through bonds and central budgetary allocations to give more preference to weak links in economic and social development, focusing on improving rural public services.

2. *We will strengthen all fiscal and tax policies to support agriculture and*

benefit farmers to accelerate the building of a new socialist countryside. Building a new socialist countryside is an important component of building a harmonious socialist society and represents a major move to promote balanced development between urban and rural areas and stimulate economic development. We need to effectively implement the policy of giving more to and taking less from farmers and relaxing controls over them. We also need to continue to make solving the problems of agriculture, rural areas and farmers the primary focus of our budget allocations and financial work. A total of 391.7 billion yuan will be allocated from the central budget for agriculture, rural areas and farmers for 2007, 52 billion yuan or 15.3% more than 2006.

First, we will strictly follow the policy of increasing funding. The new increases in government spending will mainly go toward building a new socialist countryside. Guaranteed funding to directly improve the working and living conditions of rural residents will be greater than that of 2006. We will continue to follow the policy of directing increased spending in education, health and culture mainly toward the countryside and also increase the proportion of automobile sales tax revenue spent in the countryside. Income from land transfers, after ensuring adequate funding to pay compensation for land expropriation and resettlement expenses, will mainly be used to fund building of a new socialist countryside, and the proportion of this income used to develop land for agriculture and rural infrastructure will gradually be increased.

Second, we will increase agricultural subsidies. The central government will allocate 5.57 billion yuan in subsidies for growing superior varieties, an increase of 1.42 billion yuan over 2006, and 1.2 billion yuan for purchasing agricultural machinery and tools, an increase of 600 million yuan, in addition to making policies on subsidies and the way in which they are allocated more scientific. We will improve the method for distributing direct subsidies for grain production and general direct subsidies for purchases of agricultural supplies, and work out how to establish a system of general grain subsidies. We will implement an improved policy for setting price floors for grain to stabilize rural income generated from grain production.

Third, we will support the establishment of a basic cost of living allowance system for rural residents across the country. The central government will allocate 3 billion yuan to fund basic cost of living allowances for rural residents to encourage localities to improve systems where they already exist and support efforts in other areas to work out the establishment of a system. Localities will determine the scope of the entitled group and the amount of the basic allowances based on their financial resources and the state of local economic development, and the central government will assist poor areas as needed.

Fourth, we will promote the development of modern agriculture. We are putting greater emphasis on expanding production. The central government will

allocate 500 million yuan to increase application of modern agricultural technology. We will allocate 900 million yuan in subsidies for trials to test soil to determine the correct fertilizer formula. We will allocate 300 million yuan in subsidies to promote the industrialization of agriculture and development of processing capacity for agricultural products. We will allocate 11.5 billion yuan for comprehensive development of agriculture and guide both local governments and society to increase funding in this area to raise the overall production capacity and productivity of agriculture. We will allocate 1 billion yuan to improve the mechanism of operations run by the local people and subsidized by the government and support the construction of small-scale irrigation and water conservancy projects. We will support the sound development of the livestock industry and promote agricultural restructuring. We will allocate 1.1 billion yuan to support job training for rural laborers so they can find nonagricultural employment and training for farmers so they can learn modern agricultural techniques and become a new type of farmer. The end result will be overall improvement in the quality of the workforce in agricultural production.

Fifth, we will expand the scope of trials of comprehensive rural reform. We will encourage provincial-level localities with the proper conditions to undertake trials of comprehensive rural reform at the provincial level, and encourage those where conditions are not yet right to expand trials at the municipal or county level. We need to conscientiously work to reduce debt at the village level, expand the scope of trials to pay off village debt, set up an incentive and restraint mechanism and give priority to paying off the debt for public service programs such as compulsory education in rural areas. We need to fully implement the policy of reforming taxes and fees for state-owned farms.

Sixth, we will develop a new mechanism to fund efforts to alleviate poverty through development. Allocations to fight poverty will total 14.4 billion yuan, an increase of 700 million yuan over the total for 2006. We will review and improve our work in the trial of setting up mutual assistance development funds to help poor villages. Based on the results of the trial, we will actively seek ways to set up an incentive distribution mechanism for poverty alleviation funds and a mechanism for determining the eligibility of counties for funds to make poverty alleviation through development work more effective.

Seventh, we will support the development of cultural programs in rural areas. The central government will allocate 17.3 billion yuan to support culture, sports and mass media, an increase of 4.713 billion yuan or 37.4% over 2006. It will allocate 2.5 billion yuan to speed up implementation of the project to extend radio and TV coverage to every village and increase the number of localities able to receive central government radio and television programming through transmission facilities rather than cable, and resolve the problem rural residents have of poor or non-existent radio and TV reception in some areas. We will energetically work on the project to set up a shared national cultural information

and resource databank and bring digital film projection to the countryside, focusing on the village level.

Eighth, we will deepen reform of the rural financial system. The central government will allocate 1.956 billion yuan for inflation-proof interest subsidies to rural credit cooperatives in selected areas to deepen reform of rural credit cooperatives. One billion yuan will be allocated to subsidize agricultural insurance premiums. A number of major agricultural provinces that already have a relatively good foundation of agricultural insurance will be selected for trials of policy-based agricultural insurance. In addition, we will step up efforts to rearrange agricultural support funds, place greater emphasis on giving full play to the role of government funding in encouraging rural residents and society to put more money into rural development, and accelerate the development of a mechanism for ensuring steady growth in funding from various sources for the building of a new socialist countryside.

3. We will promote innovations in mechanisms and policies to make education more available and affordable. Education greatly influences the direction a person's life takes, has a bearing on innumerable households, benefits future generations and is closely related to the country's future. Central government allocations for education in 2007 will total 85.854 billion yuan, an increase of 25.249 billion yuan or 41.7% over the amount of 2006.

First, we will extend reform of the system to guarantee funding for rural compulsory education nationwide. On the basis of consolidation of reform achievements in the western region, the reform will be extended to the central and eastern regions in 2007, enabling the 150 million rural primary and middle school students receiving compulsory education across the country to be exempt from tuition and miscellaneous fees and raising the level of guaranteed public funding for operating expenses of rural primary and middle schools providing compulsory education. In addition, students from poor families will receive free textbooks and boarding students will receive living allowances. A total of 27.98 billion yuan has been earmarked in the central budget for this purpose. We will continue to support pilot programs to attract exemplary teachers to work in rural primary and middle schools providing compulsory education and to build new schools with improved sanitation facilities in the new countryside. We will work out a plan to implement a system of guaranteed funding for compulsory education in urban areas.

Second, we will establish a comprehensive policy package to assist students from poor families. We will establish a sound system of national scholarships and tuition assistance for regular undergraduate institutions, vocational colleges and secondary vocational schools and institute free education for students majoring in education in teacher colleges directly under the Ministry of Education. The central government has set aside 9.51 billion yuan in 2007 to expand the number of policy beneficiaries and increase the level of assistance.

We will try our best to establish a systematic, scientific, fair and efficient system of policies to assist students from poor families during the Eleventh Five-Year Plan period to provide the institutional guarantee that basically all students from poor families can attend school and to promote equal opportunity in education. The focus of policies will also be sharpened by putting more emphasis on the central and western regions, rural areas, vocational education and disciplines whose graduates the country needs the most. These moves are designed to adjust and improve the educational structure, produce personnel with the diverse array of talents and skills required by society, guide and promote employment, and avoid having too many candidates fighting for the same jobs. All these policies and mechanisms show that China is now working to set up a sound policy framework to guarantee funding for education, starting by strengthening the basic link of compulsory education and helping the population of needy students. This approach will prove to be a more effective way to solve the serious problem of inadequate and unaffordable education. The central government is also strongly supporting efforts to develop vocational education and improve the quality of higher education.

4. We will adopt a variety of measures and policies to make medical care more available and affordable. Health is not only the basis of people's wellbeing, but also the foundation for all-round personal development of the people. It is also an essential element for the sustainable economic and social development of the country. The central government has earmarked 31.276 billion yuan for 2007 expenditures for medical care and public health, an increase of 14.536 billion yuan or 86.8% over 2006.

First, we will offer free prevention and treatment of major communicable diseases. We will strive to prevent and treat disease wherever possible and strengthen monitoring and control of diseases wherever we can. We will incorporate legally designated major diseases that can be effectively prevented through inoculation into the national vaccination plan. We will expand free treatment of people with AIDS, tuberculosis or snail fever to include treatment of people with leprosy or other diseases where treatment would be effective. We will strengthen guaranteed funding for prevention and control of major communicable diseases, support training programs to spread knowledge related to prevention and control of such diseases and raise the level of prevention and control. Policy changes will result in the central government replacing local governments as the main source of funding for prevention and treatment of major communicable diseases as stipulated by law. Not only will more patients directly benefit from the new policy but the spread of diseases will also be better controlled and all of society will benefit.

Second, we will accelerate the building of the new type of rural medical cooperative system. Trials of the new system will be expanded in 2007 to more than 80% of the country's counties, county-level cities and city districts, thus

basically setting up the new system across the country one year ahead of schedule. The central government will continue to provide a subsidy of 20 yuan per person in rural areas of the central and western regions and give appropriate assistance to the rural population of the eastern region. Subsidies from all local governments will also be increased to 20 yuan per person. In addition, we will continuously improve methods and standardize management to ensure that the rural population truly benefits from the new system.

Third, we will support trials of a basic medical insurance system for urban residents. A pilot project for a basic medical insurance system for urban residents will begin in 2007. The project will gradually incorporate urban residents without regular employment into the basic medical insurance program. Poor urban residents in the central and western regions will receive an appropriate subsidy from the central government to cover insurance fees. In addition, we will expand coverage of the basic medical insurance system for the urban employed and ensure that retirees from SOEs that have closed, gone bankrupt or have financial difficulty can participate in insurance programs so that more people can afford medical service.

Fourth, we will improve subsidized medical care for both urban and rural residents. The central government will increase budgetary allocations in 2007 to improve subsidized medical care in rural areas of the central and western regions, run the trials of subsidized medical care in urban areas, promote standardization and institutionalization of this work in both urban and rural areas, gradually increase the level of subsidized medical care, improve the use and management of funds and ease the financial burden of health care for the poor urban and rural population.

Fifth, we will strive to increase the capacity of health care services at the community and village level. We will increase support for the training of staff for rural and urban community clinics and strive to ensure that all the people working in these clinics receive the training they need by 2010. The funding for these training programs will come mainly from both the central and local budgets. In addition, we will set up a system to ensure funding for health care services in urban communities. Beginning in 2007, the central government will provide a subsidy of 3 yuan per person to urban residents receiving medical treatment from community clinics in the central region and 4 yuan per person in the western region to ensure that urban residents have access to safe, efficient, convenient and fast basic health care services, including health education, disease prevention, general health care services, rehabilitation and family planning.

Sixth, we will strongly support revitalization and development of traditional Chinese medicine. In order to revitalize and develop traditional Chinese medicine and take full advantage of its features and advantages, we will strengthen support to foster the development of highly respected personnel,

departments and hospitals in Chinese medicine and promote greater use of suitable Chinese medicines and medical techniques at the basic levels of health care. In addition, we will strongly support efforts to strengthen capacity to oversee and manage food and drug safety.

5. We will give high priority to basic problems affecting people's wellbeing and strengthen employment, reemployment and social security work. Addressing problems affecting people's wellbeing is a basic requirement in order to promote social fairness and build a harmonious socialist society. The biggest and most fundamental role of public finance, as the distributor of public resources, is to ensure social fairness and justice.

First, we will increase investment in social security, employment and reemployment work. The central government will spend 201.927 billion yuan in 2007 for social security and employment effort, an increase of 24.699 billion yuan or 13.9% over the figure for 2006, which represented a considerable increase over 2005.

Second, we will continue strengthening the social safety net. We will improve both the basic cost of living allowance system for urban residents and the system of basic old-age pensions for retired enterprise employees. We will also support the expansion of the pilot project to fully fund personal retirement accounts. We will continue to follow preferential fiscal and tax policies to promote employment and reemployment and speed up resolution of longstanding problems. We will strengthen the management of social security funds and other types of social welfare funds, focusing on setting up sound financial regulations and oversight and restraint mechanisms for social security funds. We will support efforts to provide employment and social security coverage to rural migrant workers and to farmers whose land has been expropriated. We will improve the social welfare system, strongly support disaster prevention and relief, and help improve working and living conditions for needy people.

Third, we will continue standardizing the pattern of income distribution. We will strictly carry out the reform of the civil servant salary system and standardize policies and regulations concerning the pattern of income distribution for civil servants. We will continue to raise the level of basic retirement pensions for persons retired from enterprises in accordance with the plan of the State Council for adjusting retirement pensions for enterprise retirees. We must ensure that the central government policy of reform and standardization is fully implemented and that from now on salaries are paid on time. We will improve the income distribution policy for enterprises, reduce the income gap between managers and employees of SOEs, strengthen oversight and regulation of income distribution in monopoly industries, and standardize the income distribution system in monopoly enterprises.

Fourth, we will support development of a system to guarantee funding for low-rent housing in urban areas. We will use budget allocations, returns

from the increased value of the funds in matching fund programs for housing and proceeds from land transfers to guarantee funding for low-rent housing in urban areas. We will work hard to ease the housing difficulties of low-income families by providing subsidies to lower rents and renting government housing to eligible families so that the most vulnerable groups in society have access to proper housing.

6. We will improve fiscal and tax policies to accelerate change in the pattern of economic growth. Improvement in the capacity for independent innovation and promotion of resource conservation and environmental awareness comprise an important link and breakthrough point for changing the pattern of economic growth as well as an essential route to follow to ensure sustainable economic development.

First, we will increase investment in science and technology. Allocations in the central budget for expenditures in science and technology in 2007 total 88.121 billion yuan, a 20.1% increase over 2006. We will improve the structure of central government investment in science and technology to further increase support for nonprofit research institutes and deepen management reform. We will support operation of major science and technology programs and promote the development of regional innovation systems that take advantage of local characteristics and strengths.

Second, we will increase the capacity of enterprises for independent innovation. We are making full use of tax policy and rearranging funds to encourage and guide enterprises to increase investment in R&D work. We are promoting protection of intellectual property rights. We are encouraging venture capital to invest in small and medium-sized new- and high-technology enterprises. We are supporting domestic R&D work and production for core key technologies and major equipment. We are promoting the development of a new mechanism that organically integrates production, education and research. Finally, we are strengthening the function of government procurement policy in supporting independent innovation.

Third, we are promoting steady progress in trials for the reform of the compensation system for the use of natural resources and for damage to the environment. We are improving the trial reform of the compensation system for the use of coal resources. As part of the effort to work out a trans-provincial system of compensation for ecological damage to basin areas, we have selected the electricity industry and the Taihu Lake basin for a trial of a compensation and trading system for the right to release pollutants. We are increasing funding for ecological improvement and environmental protection and will be working out and implementing corresponding fiscal and tax policies to encourage the recycling of discarded materials and the development of new, alternative, and renewable energy resources. In addition, we will be improving the policy on compensation fees for the mining of mineral resources and the creation of

pollution and accelerating development of a sound system of fiscal and tax policies to encourage conservation of energy and resources and protection of the environment.

Fourth, we will improve the policy on export tax rebates and tariffs. We will consolidate the results of the reform of the export tax rebate mechanism and work out and implement a tax policy to encourage the import of resources and goods needed for technological innovation and control the export of products whose production is high in energy consumption or is highly polluting. We will support enterprises in increasing their ability to comply with international trade norms.

7. We will actively help in the reform to combine the two laws on corporate income tax to further improve the socialist market economy. We need to make more effective use of the role of fiscal and tax systems in regulating the national economy, in promoting economic restructuring and in ensuring sustainable development.

First, we will actively work on legislation to combine the two laws on corporate income tax, one for domestic enterprises and one for overseas-funded enterprises. We will be working out regulations for implementing the Law on Corporate Income Tax and formulating corresponding support policies and measures to ensure smooth progress in implementing the law, promote fair competition among enterprises, allow Chinese enterprises to grow bigger and stronger, expand domestic demand and promote sustainable economic development.

Second, we will make steady progress in the reform of other taxes. We will lose no time in working out a specific plan and support measures for fully implementing the VAT reform. We will be introducing and implementing a new tax system for resources. We will strive to complete formulation and begin implementation of a new tax for the use of farmland for nonagricultural purposes. We will work out an implementation plan for levying tax on property. We will soon improve the plan for reforming the fuel tax and begin implementation when conditions are right. We will work out revisions to the stamp tax. We will constantly work to improve policies and measures related to the regulation of tax on real estate.

Third, we will strongly support deepening of the reform of SOEs and the financial system. We will continue supporting the policy-mandated closing and bankruptcy of SOEs, make proper arrangements for the employees of these closed and bankrupt enterprises, and promote economic restructuring. We will accelerate the trial reform of collectively owned factories operated by SOEs in northeast China. We will support the development of small and medium-sized enterprises. We will energetically pursue reform of policy banks, the Agricultural Bank of China and the China Export & Credit Insurance Corporation and prepare financial asset management companies to compete in the market.

Fourth, we will launch a trial budget system for the management of state capital. Compiling a budget for the management of state capital will help to strengthen the government's ability to exercise macroeconomic regulation, reduce structural obstacles hindering the development of SOEs, promote strategic adjustment in the distribution and structure of the state sector of the economy, pay necessary reform costs and standardize the distribution relationship between the state and SOEs. Some enterprises directly managed by the central government and tobacco enterprises will be selected to participate in a trial compilation of budgets. Local governments should also actively work to launch such trials and ensure that they produce the anticipated results.

8. We will increase transfer payments to improve the ability of local governments to provide basic public services. Continuing to carry out fiscal and tax policies designed to promote the large-scale development of the western region, revitalize old industrial bases such as northeast China and promote the revival of the central region, supporting the role of the eastern region in leading development, and constantly increasing fiscal support will not only improve the ability of the government to provide public services but also speed up economic restructuring.

First, we will increase regular transfer payments. Regular transfer payments from the central budget to local governments in 2007, mainly going to the central and western regions, will reach 192.4 billion yuan, and regular transfer payments to ethnic minority areas will reach 21 billion yuan, an increase of 39.7 billion yuan and 5.4 billion yuan, respectively, over the figures for 2006.

Second, we will both develop and expand on the results of efforts to ease the financial problems of counties and townships. A total of 33.5 billion yuan is allocated in the central budget for 2007 in incentive and subsidy funds, an increase of 10 billion yuan over the figure for 2006. We will improve the policy of "three rewards and one subsidy," as well as inspect and evaluate the work of all local governments to ensure that policies are being implemented and that funds are being used properly. We will be working hard to improve the financial management system at the provincial level and below and carrying out the reform to put county public finance directly under the management of provincial governments and township public finance under the management of county governments.

Third, we will diligently implement the policy of guaranteeing operating expenses of the judicial system. A total of 6.49 billion yuan, an increase of 560 million yuan over the amount for 2006, has been allocated in the central budget in assistance for public security and procuratorial organs and people's courts in financially strapped areas. These organs and courts will improve their management structure and set up a reward mechanism. After reforming the methods for handling expenses for lawsuits we will promptly study the problem of how to ensure adequate operating expenses for courts. Local governments

should also ensure that operating expenses for the judicial system are met and should incorporate guarantees for all expenses required for the functioning of the local judicial system into their budgets as soon as possible. A total of 59.483 billion yuan is allocated in the central budget for public safety in 2007, an increase of 13.125 billion yuan or 28.3% more than the 2006 allocation.

In addition, we have also allocated 347.232 billion yuan for national defense, an increase of 52.498 billion yuan or 17.8% over the amount for 2006. This increase will cover the cost of improving the army's ability to fight a defensive war under hi-tech conditions and respond to emergencies, safeguarding the country's sovereignty and territorial integrity, and appropriately increasing benefits for military personnel. A total of 23.066 billion yuan has been allocated for international exchanges and cooperation, an increase of 6.271 billion yuan or 37.3% over 2006. A total of 216.053 billion yuan has been allocated to cover expenses in providing regular public services to improve the performance of the central government and pay interest on treasury bonds, an increase of 6.795 billion yuan or 3.2% over the amount for 2006. Allocations will also be made from the central budget to meet other key expenses necessary to ensure the overall interests of reform, development and stability.

III. Performing Well to Ensure Satisfactory Implementation of the 2007 Budgets

Taking all factors into consideration, we will need to focus on performing the following tasks well to meet the general requirements for the government's work in 2007 and ensure satisfactory implementation of the 2007 budgets.

1. We need to pay very close attention to the collection and management of tax revenue and non-tax revenue to promote steady growth in government revenue. We need to strengthen revenue collection and management in accordance with the law on the basis of strong support for economic development and growth in the size of the economic "pie." We need to work hard to rectify and standardize order in tax revenue, and aggressively combat all illegal acts such as tax evasion and tax fraud. We also need to strictly control tax exemptions and reductions and step up efforts to terminate preferential tax policies that have expired. Also, we must resolutely eliminate and correct unauthorized introduction of tax exemption and reduction policies in disguised forms such as first levying taxes, then granting rebates. We will steadily promote the horizontal computerized integration of the bank accounts for the tax revenue of finance departments and tax departments with the treasury across the country to improve collection and management of all types of tax revenue, including revenue from VAT and corporate and individual income taxes. We will steadily proceed with the trial reform of the tax expenditure system. We will make a comprehensive review of and standardize non-tax revenue, resolutely eliminate inappropriate and illegal non-tax revenue items, and improve non-tax revenue management policies and systems. The focus of this effort will be on formulating the Measures for Managing Government Funds and the Measures for Collecting and Managing Non-Tax Government Revenue. All revenue and expenditures for land transfers will be put under local budgetary control to improve oversight and management of revenue and expenditures for land transfers and to further strengthen the collection and management of resource-based revenue such as that from land, sea areas and mineral resources. We will strengthen the management of benefits derived from the state-owned assets of administrative bodies and public service institutions by putting the revenue derived from the compensated use or disposal of these state-owned assets under budgetary control as non-tax revenue. We will keep revenue and expenditures separate and make a diligent and constant effort to ensure success in the trial to separate the income of individuals from the administrative powers of their employers and from the state-owned assets managed by their employers to promote standardization of the pattern of income distribution at the source. We will strive to collect all revenue due to ensure steady growth in government revenue.

2. We need to work hard on reform of the budgetary management system to make it more scientific and modern. We will be carrying out a timely review of

our experience in the classification of government revenue and expenditure items. In order to address new situations and problems, we need to improve the arrangement of budget items and work out a budgetary management model under the new classification system. On the basis of a sound system of standards for expenditures, we will launch a trial formulation of budgets for 14 central government departments and enterprises, including the Ministry of Agriculture. To make these budgets more detailed, expenditure items will be organized according to economic classification. In addition, we will thoroughly study the issue of how to improve the report format for the government budget so that the budget truly gives a complete picture, is more open and transparent, and is easier to oversee. We need to continue to strengthen the management of surplus revenue, energetically carry out performance evaluation trials and set up a sound system of standards for expenditures. Public service institutions subject to the Civil Service Law will be incorporated into the trial to set funding according to the number of employees in order to replace the practice of setting the allowable amounts for in-kind expenditures with the method of setting funding according to number of employees. We will work out a mechanism for organically integrating asset management and budgetary management. We need to expand the reform to centralize expenditures in the treasury at the level of the central and provincial governments to incorporate all lower-level organs that compile budgets, central government funds, retirement funds, and government funds held at the provincial level. All prefecture and city governments should strive to carry out this reform, and county governments should energetically work for progress in this reform. All organs under central government departments and revenue-collecting organs will carry out reform of the collection and disposal of non-tax income, the scope of funds included in the reform at the provincial level will be expanded to cover all non-tax income, and the reform should also be energetically promoted below the provincial level. We need to further improve the government procurement system. The scope of items subject to government procurement will be expanded and greater use will be made of special allocations for particular purchases to give full play to the function of government procurement policy and to standardize government procurement procedures. We need to tighten management of the state-owned assets of administrative bodies and public service institutions. We will review the assets of these bodies and institutions, introduce rules and regulations on the management of such assets and set up the basic elements of a dynamic national information system to monitor and manage these assets. We need to accelerate work to set up the Government Financial Management Information System, make better use of advanced information technology in budgetary management and raise the level of budgetary compilation and management.

3. We need to work hard to ensure that key expenditures are met and effectively standardize the management of dedicated funds. The central

government and local governments at all levels need to work hard to adjust the pattern of expenditures strictly in accordance with the Scientific Outlook on Development and with the requirement to build a harmonious socialist society. Governments from the highest to lowest level must make a concerted effort to ensure that all key expenditures identified by the Central Committee and the State Council are met and fully reflected in the compilation and execution of their budgets. We need to work hard to institute standardized management of dedicated funds, making substantial progress as soon as possible. We must strictly control the addition of new budgetary items earmarked for special purposes, and any such new item in the central budget not specifically required by law, regulation or decree of the State Council must be approved by the State Council. We need to standardize special transfer payments and improve measures for the handling of such funds to make their handling more open, transparent and standardized. We need to review special transfer payments to eliminate overlap and redundancy wherever possible and also ensure that such payments truly realize their stipulated purpose. We need to improve the compiling of special transfer payments in the budget, gradually incorporating them into local budgets, and centralize expenditures from special transfer payments in the treasury.

4. We need to work hard to ensure public finance is handled in accordance with the law by tightening financial oversight and management. We need to fully ensure that public finance is handled in accordance with the law by fully implementing the Program for Advancing All Aspects of Government Administration in Accordance with the Law issued by the State Council. We will continue working diligently on financial and tax legislation such as regulations for implementing the Law on Corporate Income Tax and the Government Procurement Law, the Regulations for the Management of the Evaluation Industry, the Regulations for Budgetary Management of the Management of State Capital in Enterprises and the Regulations for the Management of Lottery Ticket Proceeds. We need to work hard to ensure compliance with accounting and auditing norms and general financial regulations, improve basic work such as accounting, auditing and asset evaluation and work hard to develop a standardized system for internal control in enterprises. We will step up the pace of research on reform of government accounting. We will continue carrying out the program to produce more accounting personnel and tighten certification and oversight to promote the sound development of certified public accountants and the asset evaluation industry. We need to improve the financial oversight mechanism to strengthen compliance oversight for major fiscal policies, focusing on ensuring the proper use of government funds affecting the vital interests of the masses. We must conscientiously accept the oversight of the NPC, auditing and discipline inspection departments, people's organizations and public opinion. We must firmly establish the idea of administering public finance in accordance with the law and for the people to prevent the occurrence of all types of problems

that contravene financial and economic laws and regulations.

5. *We need to always be frugal and resolutely combat extravagance and waste.* Although the size of the economy has continued to grow and revenue has rapidly increased in recent years, we must remain clear-headed, prepare for trouble in times of peace and become more alert to the possibility of danger. China is the world's largest developing country and will remain in the primary stage of socialism for a long time to come. Furthermore, development in the country is uneven, a large number of people lead very difficult lives, the average standard of living is not very high and there are still many tasks to be accomplished in the course of development. Therefore, we can never start spending money hand over foot just because revenue has been relatively good recently. We must strictly control increases in expenditures in accordance with the budget, paying particular attention to increases in regular expenditures. The system of receptions as part of official functions must be reformed and improved and management of expenses for business trips and meetings must be tightened. Persons incurring out-of-town travel and meeting expenses paid by state organs should be required to use designated venues in accordance with the requirement to develop a conservation-minded society and the "two imperatives." [It is imperative to always be modest, prudent and free from arrogance and rashness in work and it is imperative to continue following a principle of hard struggle and plain living, *Tr.*] We need to tighten financial and economic discipline, strengthen oversight, practice thrift and economy in handling all affairs and resolutely combat extravagance and waste. Budgetary funds must be used only where they are most needed and the use of such funds must be made more standardized, safe and effective.

The year 2007 is an important year for efforts to thoroughly put into practice the Scientific Outlook on Development and build a harmonious socialist society. Satisfactorily implementing the budgets and all tasks in public finance work will be an accomplishment of great significance. Under the leadership of the Central Committee with Comrade Hu Jintao as General Secretary, we must hold high the banner of Deng Xiaoping Theory and the important thought of Three Represents. We must diligently put the Scientific Outlook on Development into practice, meet all the requirements for economic and financial work set out at the Fifth Session of the Tenth NPC, conscientiously accept the oversight and guidance of the NPC for financial work and carefully listen to the comments and suggestions of the CPPCC National Committee. We must shore up our confidence, act in concert, strive for progress, work effectively and make greater contributions to building a moderately prosperous society in all respects and accelerating the building of a harmonious socialist society. Finally, we must score even more achievements to welcome the successful convening of the Seventeenth National Congress of the Party!