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Uncovering China's Fiscal Stimulus Policies in the Budget Report

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As COVID-19 swept across the globe wreaking economic devastation, many governments have responded quickly with stimulus programmes to prop up demand and buffer the catastrophic effects of job losses and shuttered businesses. Given the severity of the pandemic and the grim prognosis for its lasting economic damage, the prevailing sentiment in many countries – many still scarred from the Global Financial Crisis – is to do 'whatever it takes'. Several have rolled out programmes that cost upwards of 20% of gross domestic product (GDP), including France, Germany, Italy and Japan.[1] The IMF (International Monetary Fund) reports that, as of June, fiscal measures deployed by governments around the world added up to some $11 trillion and central banks had injected over $6 trillion in liquidity to counter the economic devastation.[2] Against this backdrop, China's fiscal stimulus package – often said to be around 4% of GDP – has been seen as modest and disappointing, dashing hopes that it would once again be massive enough to provide a boost to the world economy.

So what is the size of China's stimulus programme? Estimates differ among analysts, ranging from 2% to over 15% of GDP.[3] This commentary takes a deep dive into the NPC (National People's Congress) Budget Report to uncover a fiscal stimulus programme of 7% that is buried

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[1] Anderson, Bergamini et al (2020). The fiscal response to the economic fallout from the coronavirus. https://www.bruegel.org/publications/datasets/covid-national-dataset/?utm_content=buffer78b1d&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer+(bruegel), accessed 21 May 2020. https://www.reuters.com/article/us-health-coronavirus-japan-stimulus/japan-eyes-another-stimulus-package-as-pandemic-crushes-economy-idUSKBN22K0AM, accessed 21 May 2020.

[2] IMF Weekend Read, 19 June 2020 and https://www.washingtonpost.com/business/2020/06/24/imf-global-economy-coronavirus/.

[3] The low estimate is from a video commentary in *South China Morning Post* viewed on 4 June 2020 and the high one from the investment bank Morgan-Stanley.

in the complex and confusing budget presentation, with a built-in reserve to deploy if conditions worsen.

Reading the Budget Report[4]

The annual meetings of the NPC are formally the occasion for government policy announcements for the year. Due to COVID-19, the meetings this year were delayed by more than two months to late May. At the meetings, though the government did not announce a simple headline number for the fiscal stimulus programme, a few numbers were cited in both the Government Work Report and the Budget Report:

1. more than RMB2.5 trillion in tax and fee cuts and other fiscal measures;
2. a fiscal deficit of RMB3.76 trillion, an increase of RMB1 trillion over 2019;
3. a RMB1 trillion special COVID-19 bond; and
4. RMB3.75 trillion in special project bonds (SPBs) to be issued by local governments – an increase of RMB1.6 trillion over 2019.

These numbers imply a fiscal stimulus of RMB3.6 trillion, made up of an additional RMB1 trillion budget deficit, RMB1 trillion COVID-19 bond and an additional RMB1.6 trillion in local government SPBs.[5] The figure of RMB3.6 trillion, or less than 4% of GDP, is surprisingly small compared to not only what other countries are doing, but also the 12% China spent in 2008-2009.[6] However, that is not the whole picture.

Since the promulgation of the revised Budget Law in 2015, the budget report to the NPC now includes four "budgets":

1. The general budget is the main account of the government. Revenues are derived from taxes and administrative fees, and expenditures finance the operations of government and delivery of public services;
2. The government funds budget (GFB) comprises a mix of revenues from disparate, extra-budgetary sources. By far the biggest component is revenues from land leases, whose share has risen from about 75% prior to 2015 to 85% or more of the funds budget in recent years.[7] Other revenues are collected from fees and surcharges such as the Civil Aviation Development Fund levied on air travel, Railway Construction Fund levied on train tickets, revenues from lotteries and so on. These fees are legally mandated and their revenues are earmarked for specific uses, mostly for capital expenditures.
3. The state capital operating (SCO) budget comprises profit remittances of state-owned enterprises (SOEs) under the purview of the State-owned Assets

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[4] Unless otherwise noted, all information and data in this commentary are drawn from China's Ministry of Finance, "Report on the execution of the central and local budgets for 2019 and on the draft central and local budgets for 2020", Third Session of the 13th National People's Congress of the People's Republic of China, 22 May 2020 (hereafter referred to as the budget report).

[5] The RMB2.5 trillion in tax and fee cuts translate into reduced revenues that show up in the fiscal deficit.

[6] See Wong, Christine (2011). "The Fiscal Stimulus Program and Public Governance Issues in China", *OECD Journal on Budgeting*, Volume March 2011. http://dx.doi.org/10.1787/budget-11-5kg3nhljqrjl, accessed 1 July 2020.

[7] Land lease revenues are reported on gross basis. As the costs of compensation for resettlement and relocation, as well as land preparation have risen to take up as much as 80% of receipts in large cities, this method of reporting overstates the availability of fiscal resources for public finance purposes.

Supervision and Administration Commission (SASAC). Until recently, revenues were kept by SASAC and reinvested in SOEs. Since 2015 revenues in this budget have been partially remitted to the general budget and earmarked for social expenditures. Of the remainder, expenditures are mandated for expenditures on restructuring and offsetting the legacy costs of reforms in SOEs.

4. The social security fund (SSF) budget comprises revenues and expenditures of the eight social insurance schemes.[8] Revenues and expenditures of the schemes are managed outside the budget and beyond the purview of the Ministry of Finance.

Together, these four budgets present a fuller picture of the fiscal resources of government than was possible in the past when the budget report covered only the general budget, with limited information on government funds (Table 1).

TABLE 1 THE FOUR BUDGETS

(RMB billion)	**2017**	**2018**	**2019**	**2020 Budget**
General Budget				
Revenues	**17,259**	**18,336**	**19,038**	**18,027**
Shares of consolidated revenues	*58.5%*	*53.8%*	*52.9%*	*52.6%*
Expenditures	**20,309**	**22,090**	**23,887**	**24,785**
Shares of consolidated expenditures	*64.3%*	*59.4%*	*58.6%*	*54.0%*
General budget balance	**-3,049**	**-3,754**	**-4,849**	**-6,758**
General budget balance (share of GDP)	***-3.7%***	***-4.1%***	***-4.9%***	***-6.5%***
Government Fund Budget				
Revenues	**6,146**	**7,541**	**8,452**	**8,145**
Shares of consolidated revenues	*20.8%*	*22.1%*	*23.5%*	*23.8%*
Expenditures	**6,196**	**8,149**	**9,137**	**12,612**
Shares of consolidated expenditures	*19.6%*	*21.9%*	*22.4%*	*27.5%*
State Capital Operating Budget				
Revenues	**264**	**291**	**396**	**364**
Shares of consolidated revenues	*0.9%*	*0.9%*	*1.1%*	*1.1%*
Expenditures	**202**	**215**	**229**	**261**
Shares of consolidated expenditures	*0.6%*	*0.6%*	*0.6%*	*0.6%*
Social Security Fund Budget				
Revenues	**5,844**	**7,900**	**8,084**	**7,729**
Shares of consolidated revenues	*19.8%*	*23.2%*	*22.5%*	*22.6%*
Expenditures	**4,865**	**6,738**	**7,499**	**8,228**
Shares of consolidated expenditures	*15.4%*	*18.1%*	*18.4%*	*17.9%*
Consolidated fiscal revenues	**29,513**	**34,067**	**35,970**	**34,264**
Consolidated fiscal expenditures	**31,573**	**37,193**	**40,752**	**45,887**
Consolidated fiscal revenues (% of GDP)	*35.5*	*37.1*	*36.3*	*32.8*
Consolidated fiscal expenditures (% of GDP)	*37.9*	*40.5*	*41.1*	*43.9*
Consolidated fiscal balance	**-2,059**	**-3,126**	**-4,781**	**-11,623**
Consolidated fiscal balance (share of GDP)	***-2.5%***	***-3.4%***	***-4.8%***	***-11.1%***
Memo: Nominal GDP	*83,204*	*91,928*	*99,087*	*104,444*

* The figure for SSF revenue for 2020 in the SSF account is adjusted from that in the Budget Report to include the impact of the extension of waivers and reductions of unemployment insurance payments through year end, estimated at an additional RMB500 billion.
Source: MOF final accounts for 2017, 2018 and NPC Budget Report, May 2020. Thanks are due to Elitza Mileva for the format of this table.

[8] These are the urban employees' pension scheme, public employees' pension scheme, basic pension scheme for urban and rural residents, employees' health insurance scheme, basic residents' health insurance scheme, unemployment insurance scheme, and disability insurance and maternity insurance schemes.

Reporting on these four budgets adds to the length of the budget report and makes it hard to read. Several aspects of the presentation contribute to this:

1. The budgets are presented sequentially, starting with the general budget, followed by the government funds budget, state capital operating budget and social security funds budget.
2. Each of the first three budgets (the general budget, government fund budget and state capital operating budget) is presented in three parts: the central government portion, the local government portion and the sum of the two. There are intergovernmental transfers in each.
3. There are horizontal flows across the four budgets, with annual contributions from the government fund budget and the state capital operating budget to the general budget, and from the general budget to the social security funds budget.
4. The reporting is on a cash flow basis, with the balance for each component reported as the net of inflows and outflows. For example, the central and local government general budget balances for 2020 are reported as follows:

TABLE 2 CENTRAL AND LOCAL GOVERNMENT GENERAL BUDGETS FOR 2020 (RMB BILLION)

Central government general budget		**Local government general budget**	
Revenues from own and shared taxes	8,277	Revenues from own and shared taxes	9,750
Transfer from BSF	530	Transfers from central government	8,392
Transfers from central GFB and SOCB	359	Transfers from GFB, SCOB, BSF and carryovers	2,110
Total available revenues	9,166	**Total available revenues**	20,252
Own expenditures	3,504		
Transfers to local governments	8,392		
Transfer to reserve funds	50		
Total expenditures	11,945	**Total expenditures**	21,232
Budget balance	-2,779	Budget balance	-980

Note: BSF stands for Budget Stabilisation Fund.

Finally, there is no overall consolidation or summary of the four budgets. The reported (official) budget deficit is the net cash balance presented in the general budget. For 2020, the official deficit of RMB3.76 trillion is the sum of the central and local government deficits in Table 2, and it is achieved by bringing in RMB2.998 trillion from reserves and the other budgets (RMB889 billion on the central government ledger and RMB2.11 trillion on the local government side) to offset the gap of RMB6.758 trillion between revenues and expenditures in the general budget itself that was shown in Table 1.

This treatment of the deficit reflects the reality that the general budget is not only the main account of the government, but also the only budget controlled by the Ministry of Finance. In contrast, the state capital budget is administered by SASAC, while the social security fund budget has components that are separately managed by the Ministry of Human Resources and Social Security, Ministry of Civil Affairs and National Healthcare Security Administration. As for the government funds, land revenues are controlled by local governments, and the 20-odd "funds" are collected and spent by their designated recipients and supervisory bodies.

This reporting methodology allows the Ministry of Finance to understate the true size of the budget deficit and bring it closer to the traditional 'red line' of 3% of GDP. There is no mistaking that the real stimulus boost is much bigger, though. In a press conference just after

the NPC, Finance Minister Liu Kun explained that the injection of funds to stimulate the economy is equal to "the difference between budget expenditures and revenues of more than six trillion yuan".[9]

In fact, the stimulus effort is financed not just from the general budget, but reaches into the other budgets as well. This can be seen in the fiscal policy measures that have been introduced to combat the economic impact of COVID-19 (Table 3). While the exemptions and deferrals in the value-added tax (VAT) impose costs on the general budget by suppressing tax revenues, the costs of the measures are spread across all four budgets. Measures such as price reductions for power and gas, and waivers of road tolls and rents will directly and indirectly reduce revenues in some of the government funds and SOE profits, thus affecting the government fund budget and state capital operating budget. In fact, the biggest impact of the measures will fall on the social security fund budget where the waiver and deferral of social insurance contributions from enterprises — now extended through all of 2020 — will reduce social insurance receipts by more than RMB1 trillion and push the SSF budget into a current year deficit for the first time.[10]

TABLE 3 FISCAL STIMULUS POLICIES AND THEIR ESTIMATED COSTS (RMB BILLION)

	Through Jun 2020	Extended to Dec 2020
Fiscal spending to control and treat the coronavirus	145.2	150
Exemption and deferral of corporate social insurance contributions (pension, unemployment and disability)	600	1,000
Reduction of corporate medical insurance contribution	150	300
Waiver of tax and fees for businesses in hard-hit sectors such as transportation, catering and tourism	100	200
Waiver and reduction of VAT for micro, small and household businesses	250	500
Waiver and reduction of rents for affected businesses	50	100
Reduction of electricity rates	67	134
Waiver of road and expressway tolls	140	280
Total	**1,502**	**2,664**

Source: http://www.xinhuanet.com/english/2020-05/06/c_139035958.htm, accessed 6 May 2020.

From this reading of the budget report, it follows that the true deficit is better reflected in the consolidated fiscal balances in Table 1, where the deficit of RMB11.62 trillion in 2020 is an increase of RMB6.8 trillion over 2019. This yields a fiscal stimulus of almost 7% of GDP, not including off-budget borrowings of local government entities.[11]

Finally, additional information in the budget report indicates potential for the stimulus effort to be even bigger. This is provided in the debt quotas for central and local governments that were announced in a sentence at the end of the long presentation of the four budgets. Under the Budget Law, issuance of government debt must be approved by the People's Congress, and

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9 What is the special meaning of the two "1 trillion yuan"? Xinhuanet, 24 May 2020. http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/xinhuanet/202005/t20200524_3519238.htm, accessed 25 May 2020.

10 Notably, the SSF budget receives large annual subsidies from the general budget – mainly for the pension programmes. In 2020 the subsidy will be RMB2.163 trillion. Stripping out fiscal subsidies would leave the SSF budget in deficit every year in Table 1.

11 It is worth remembering, too, that 2019 was not a normal year. It was already year two in the trade war with the United States, when tax and fee cuts had been rolled out at year end 2018 that caused a reduction of 2.3% of GDP in 2019 revenues.

the NPC approves an annual quota (限额) that sets the ceiling for central and local government debt. For 2020, the debt quotas are set at RMB21.3 trillion for the central government and RMB28.81 trillion for local governments. These quotas allow the government to borrow up to RMB50 trillion in 2020, a net increase of RMB12 trillion.

Data is presented in Table 4 on government debt for 2017-2020. First, they show the increase in the 2020 quotas to be unusually large, a significant deviation from the trend. Given that reducing financial risks remains one of the 'three key battles' for government policy in 2020, these exceptionally large debt quotas are a signal of the government's determination to provide the needed boost. Second, while most of the new debt will go to finance the consolidated fiscal deficit, there is some built-in slack in the borrowing quota since some of the deficits will be financed from drawing down reserves. For example, the social security fund budget had accumulated reserves of RMB9.4 trillion at the end of 2019 that will be tapped to offset the RMB500 billion deficit in that budget; the Ministry of Finance has called for heightened monitoring of treasury accounts to mobilise idle cash balances over the 30,000+ budget units under its purview.

TABLE 4 GOVERNMENT DEBT, 2017-2020 (RMB BILLION)

	2017	2018	2019	2020 quotas
central government	13,477.0	14,960.7	16,803.8	21,300.8
local government	10,332.2	10,993.9	11,869.4	14,288.9
special project debt 专项债	6,138.4	7,392.3	9,437.8	14,518.5
Total	29,947.7	33,346.9	38,111.0	50,108.3
Year-on-year increase		**3,399.2**	**4,764.1**	**11,997.3**

Note: Figures for 2017-2019 are actual. 2020 figures are quotas (限额).
Source: Budget reports to NPC, 2017-2020.

In sum, what is found in this deep dive into the budget report is that the Chinese government has adopted a kind of "hiding and biding" strategy for the fiscal stimulus response to the COVID-19 crisis and the slow economic recovery. Not only is the fiscal stimulus of 7% of GDP hidden behind a complex and confusing budget presentation, but also that approval has been obtained for an exceptionally large borrowing quota with built-in slack, so that additional funding can be made available if necessary – expanding the envelope for fiscal stimulus. This strategy echoes the refrain sounded by top leaders on the financial side that China will not rush to flood the market with liquidity, but will be prepared to step in as needed.[12] Overall, in marked contrast to the massive, rushed and chaotic stimulus programme in 2008-2009, the approach this time can be characterised as watchful, measured and targeted.[13] Indications are that the government is preparing to do 'whatever it takes' to support economic growth and employment.

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[12] See, for example, speech by Guo Shuqing, chair of the China Banking Regulatory Commission on 18 June 2020. https://finance.sina.cn/bank/yhgd/2020-06-18/detail-iirczymk7662227.d.html?vt=4&mc_cid=e15d0eb2a2&mc_eid=70bc029764, accessed 18 June 2020.

[13] See Tong et al, Employment and Livelihood Top Chinese Government's Policy Agenda in 2020, *EAI Background Brief*, No. 1543, 3 July 2020; and, Sarah Tong and Li Yao, The Covid-19 Outbreak and its Implications for China's Economy, *EAI Background Brief*, No. 1522, 31 March 2020.