

I. Policy Update

1. The central government disbursed 2.6 billion RMB to support the promotion of agricultural technologies at grassroot-level communities

According to the news released by the Ministry of Finance (MOF) on June 1, the central government recently disbursed 2.6 billion RMB for the agricultural and forestry technological achievement transformation and the promotion of agricultural technologies at grassroot-level communities. To better supply agricultural public services, service agencies for agricultural technology promotion will be set up in all the villages and townships across China. As of now, a total of 12.77 billion RMB has been invested, and the central government will continue to scale up technology promotion services as part of its efforts to support agricultural production and efficiency and to raise farmers' income.

2. MOF published the *Circular on the Accounting Treatment of the Recovered Stock of Fiscal Funds*

On June 2, MOF published the *Circular on the Accounting Treatment of the Recovered Stock*

of Fiscal Funds. (1) A new accounting title is created in the “chart of accounts for government revenue and expenditure” to specifically record the recovered stock of fiscal funds. (2) The accounting title of “recovered stock of fiscal funds” is also created under the account of “temporary deposit” in the general budget accounts. (3) Fiscal authorities at all levels of government are required to timely recover budget surplus and carry-over funds from other departments. (4) In case of the recovery of transfer payment funds already allocated to other departments, fiscal authorities can adopt the same accounting treatment as in the recovery of budget surplus and carry-over funds. (5) The recovered surplus and carry-over funds shall be spent by the finance authorities on the social and economic areas with urgent financing needs. (6) Other than the funds in the special accounts for social insurance, food security, education charges, loans and grants from foreign governments and international financial institutions, escrow funds or accounts verified by MOF, all the stock of funds in the remaining special fiscal accounts shall be sorted out and accounted.

3. MOF published the *Circular on Improving the Budgetary Management of Project Expenditure at Central Government Departments*

On June 2, MOF published the *Circular on Improving the Budgetary Management of Project Expenditure at Central Government Departments*. (1) Projects shall be created in a scientific and well-regulated way and avoid overlap and duplication. (2) Projects shall be classified and managed accordingly, and the

standards of classification need to be improved. (3) Project pipeline shall be created and all the projects to be financed by public budget shall come from the pipeline. (4) Project review and examination shall be embedded into the process of budget management, and projects that go into the departmental project pipeline shall be, in principle, subject to review and examination. (5) Project budget shall be made more binding, execution be strengthened and accelerated, and a mechanism that meshes budget preparation more closely with execution be created. (6) In the process of generating projects, the macro policies of the state and the strategies of departments and sectors shall be reflected in specific projects.

4. MOF published the *Circular on the Measures for the Administration of Registration Fees of Drugs and Medical Devices*

On June 3, MOF published the *Circular on the Measures for the Administration of Registration Fees of Drugs and Medical Devices*. According to the Measures, (1) the registration fees of drugs and medical devices refer to the fees charged by the food and drug regulators for processing, reviewing and conducting on-site inspection over the application of registering drugs and medical devices. (2) Costs associated with registering drugs and medical devices include the expenses of labor, travel, conference attending, information and data maintenance, rental of premise and equipment depreciation. (3) The registration fees are set according to the principle of keeping a balance between revenue and costs. (4) The cost per person per day for handling the registration

applications and the required number of staff and days for that purpose are determined by the food and drug regulators on a case by case basis. (5) The registration fees do not include the testing fees which are governed by other state regulations. (6) In case of the registration of imported drugs and medical devices, food and drug regulators can charge additional fees arising from the travel, boarding and lodging, and miscellaneous costs associated with conducting on-site inspection outside China.

5. The board of directors of the World Bank approved the lending program on Xinjiang's vocational education

According to the news released by MOF on June 4, the board of directors of the World Bank has approved the lending program on Xinjiang Uyghur Autonomous Region's vocational education. By supporting the development of Xinjiang Institute of Engineering, Xinjiang Agricultural Vocational Technical College, Xinjiang Institute of Light Industry Technology, College of Xinjiang Uyghur Medicine, and Urumqi Vocational University, the program will boost the vocational education of local specialty majors, including coal, coal power and coal chemicals, farming and grazing, light industry, Uyghur medicine and services. This program also aims at raising the quality and relevance of vocational education and improving the employment skills of students to better respond to the needs of Xinjiang's labor market and serve Xinjiang's economic growth. The program entails a total investment of 637 million RMB, of which 50 million USD are World Bank loans with a term of 30 years (including 5 years of grace period).

The program is expected to be implemented from September 2015 to December 2020.

6. The State Council circulated the Rural Teachers Supporting Plan (2015-2020)

On June 8, the State Council issued the *Rural Teachers Supporting Plan (2015-2020)*, which specified the following. First, improving the political and ideological qualities and professional ethics of rural teachers. Second, expanding channels for recruiting rural teachers. Third, raising the living standards of rural teachers. The stipend policy for those who teach in contingent poor rural areas will be fully implemented with differentiated standards according to local situation. The central finance will continue to provide award and subsidy. Fourth, unifying the staffing level of urban and rural teachers. The central finance will put special focus to support the team building of mid-west rural teachers through relevant policies and financing channels. Local governments at all levels should actively adjust fiscal expenditure structure and increase input to vigorously support the development of the team of rural teachers. A strict fund supervision system should be set up to standardize the use of fund, strengthen fund management and enhance supervision and inspection.

7. The executive meeting of the State Council clarifies the measures for the comprehensive use of fiscal fund

On June 10, Premier Li Keqiang presided over

the executive meeting of the State Council, which stipulated the following. First, the unspent and carry-over funds that have not been used for two consecutive years of all regions and departments should be recalled for other key projects. Second, the integration of fund for major sectors such as science, technology, education and agriculture should be promoted to speed up the better use of the surplus and carry-over funds. Third, a dynamic adjustment mechanism should be set up. Where money has been allocated but projects are moving slow, those funds should be recalled by a certain ratio for other key projects. Fourth, special transfer payment should be cleaned up and consolidated and the power of fund distribution and projects selection should be delegated to local governments, allowing them to run pilot of comprehensive use of fund. Fifth, the use of fund within and across departments should be better coordinated to avoid duplicate expenditures and fixed investment orientation. Sixth, the unused stock debt finance of local governments should be incorporated into budget management and used in coordination with new debt finance. Seventh, catalogue and list management over government fund and special revenue should be adopted to increase the coordinated use of government fund and state-owned capital operating budget adjusted to the general public budget. Eighth, budget formulation and execution should be well coordinated. Finance departments at all levels should strictly control the budget formulated by the departments at superior level. For the budget items that do need to be formulated by the superior finance departments, they should be issued by June 30 of that year. The multi-year budget balancing mechanism should be established and the fiscal pilot plan in the areas of

water conservancy and social security should be carried out.

8. MOF issued the *Circular on the Pre-tax Deduction Policy for Personnel Educational Expenditure of High-tech Enterprises*

On June 11, MOF issued the *Circular on the Pre-tax Deduction Policy for Personnel Educational Expenditure of High-tech Enterprises*, which provides the following. First, the personnel educational expenditure that is below 8% of the total wages and salaries of the high-tech enterprises is allowed to be deducted while calculating the taxable revenue. The personnel educational expenditure that is over 8% of the total wages and salaries is allowed to be carried forward and deducted in the consequent tax years. Second, the high-tech enterprises in this Circular refer to those which have registered in China and been subject to auditing and collection and identified and recognized.

9. MOF issued the *Circular on the Issues Related to the Promotion of Pilot Tax Policies Launched at Zhongguancun Science Park*

On June 11, MOF issued the *Circular on the Issues Related to the Promotion of Pilot Tax Policies Launched at the Zhongguancun Science Park*, which stipulates the following. First, awarding technological staff equities for the transformation of scientific and technological outcomes in the innovation demonstration zone.

Second, giving tax deductions of 70 percent to partnership ventures invested in medium and small high-tech corporations. Third, allowing tax deductions on income from transfers of technology ownership or right of use. The income from transfers of technology ownership or right of use over 5 years is allowed to be exempted from corporate income tax if it is less than 5 million RMB. The corporate income tax can also be halved for the income exceeding 5 million RMB. Fourth, while awarding equity to individual shareholders with undistributed profit, surplus reserve or capital reserves, 20% tax rate will be applied to the individual income tax of individual shareholders as income from interest, dividends, and bonuses.

10. MOF released the *Management Measures on the Performance Targets of the Central Government Budget*

On June 11, MOF released the *Management Measures on the Performance Targets of the Central Government Budget*, which provides the following. First, the performance targets should be detailed, quantitative, reasonable, feasible and in line with the national economic and social development plan, the departmental functions and the social undertaking development plan. Second, the projects' functions should be reviewed while deciding performance targets. The overall expenditure target should be broken down on the basis of the functional characteristics of projects and the related benchmark data should be collected to determine the performance standards. Third, MOF or other central ministries will review

and verify the performance targets submitted by departments and agencies and give the feedback to instruct the improvement of the performance targets. Fourth, for the general projects, MOF or other central ministries will review in accordance with departmental budget management process and provide opinions. Fifth, the performance targets normally cannot be adjusted once decided. If the targets do need to be adjusted due to special reasons arising from the budget execution, they should be reported for approval following the performance targets management requirements and budget adjustment process.

11. The State Council issued a Circular on Policy Measures for Promoting and Accelerating the Development of Private-funded Medical Institutions

On June 15, the State Council issued a *Circular on Policy Measures for Promoting and Accelerating the Development of Private-funded Medical Institutions*. First, further expand the market access. Efforts should be made to streamline approval requirements for establishing medical institutions, publicly disclose regional medical resource planning information, reduce operating requirements limits, control the size of public hospitals, and standardize the reform of public hospital system. Second, expand the investment and financing channels. Fiscal support should be strengthened and financing sources should be diversified, so as to optimize the financing policy. Third, promote the resources mobility and sharing. Incentives should be given to the development and sharing of large

equipment, multi-sites practicing by physicians, and deeper business cooperation. Fourth, improve the development environment. Qualified private medical institutions should be integrated into the social medical insurance system, and entitled to the same policy as public medical institutions. Those private medical institutions should enhance their clinical and academic capacities and standardize their pricing systems, and the relevant regulatory mechanisms should be improved.

12. The State Council issued the Policy Guidelines on Vigorously Advancing Mass Entrepreneurship and Individual Innovation

On June 16, the State Council issued the *Policy Guidelines on Vigorously Advancing Mass Entrepreneurship and Individual Innovation*. First, enhance fiscal support and coordination efforts. Fiscal authorities at various levels should make comprehensive funding arrangements to support small and micro enterprises and start-up businesses. Second, improve the generally applicable tax incentives. Various preferential tax measures for small and micro enterprises should be implemented to support their growth. Third, give play to government procurement in promoting the development of SMEs. Relevant government procurement policies should be improved, and policy guidance and supervision over procuring entities should be strengthened. Fourth, optimize the capital markets. Qualified start-up companies should be encouraged to raise funding through the stock market, by issuing commercial papers, or through the bond market. Fifth, innovate bank-supported funding

channels. Banks are encouraged to improve their professional financial services tailored for entrepreneurship and innovative businesses, through constant innovation in the organization, management and financial products of the banking sector. Sixth, explore new models for venture capital financing. Efforts should be made to support the development of the Internet finance, guide and encourage the regulated fund-raising by the general public, conduct pilot programs for open and small-sized fund-raising by private groups, and strengthen risk control and regulation.

13. MOF issued the *Guiding Opinions on Regulating Education-related Fees and Rectifying Random Educational Charges in 2015*

On June 17, MOF issued the *Guiding Opinions on Regulating Education-related Fees and Rectifying Random Educational Charges in 2015*. First, focus on rectifying rule-violating extra-curricular classes and arbitrary charges by primary and secondary schools. The Ministry of Education is to publish a circular strictly forbidding primary and secondary schools and their teaching staff to organize extra-curricular classes and levy arbitrary fees, which violates relevant rules. Second, further rectify and punish irregular enrollment of students by higher learning institutions. Irregular recruitment and transfer of students as well as other outstanding problems should be tackled vigorously, so as to push for smooth reform of the examination and enrollment system. Third, strictly regulate the adjustment of standard tuition fees in universities and colleges. The standard tuition fees for higher education

should be strictly set at below 25% of the total education cost. Fourth, further consolidate the progress made in rectifying arbitrary educational fees. Fifth, further regulate the service charges and agency fees collected by schools. Government regulations on the management of service charges and agency fees collected by schools at all levels should be strictly implemented. Sixth, strengthen supervision and inspection over the use of central-level funds for education and people's livelihood. All localities should implement the guidance released by the State Council in enhancing supervision and inspection on the use of public funds.

14. The Executive Meeting of the State Council instructed to increase effective investment in key areas to support steady growth, promote structural reform and improve people's livelihood

On June 17, Premier Li Keqiang chaired an executive meeting of the State Council, which has decided the following. First, to increase central fiscal input through structural adjustment of the expenditure and revitalizing in-stock funds, and prioritize investment in upgrading rural power grids, grain storage facilities, urban sewage treatment facilities, and renovation and relocation of old urban industrial areas and isolated industrial and mining areas, in a bid to drive local and private investment. Second, while pushing ahead with 7 major engineering packages including water conservation and railway in mid and western regions, efforts should be made to accelerate the development

of 4 new types of construction project packages, i.e. emerging industries, enhancement of the core competitiveness of manufacturing, modern logistics, and urban rail transit. Third, to guide the establishment of fast-tracks in financial institutions to accelerate approval of loans for major project and PPP projects, in order to facilitate effective growth of investment.

15. The State Council released the plan for the comprehensive use of fiscal fund

On June 19, the State Council released the *Plan for Promoting the Comprehensive Use of Fiscal Fund*, which provides the following. First, the coordinated use of project fund should be pushed forward to prepare well for the projects, facilitate budget approval and issuance and establish a dynamic projects adjustment mechanism. Second, the priority should be given to the comprehensive use of fiscal fund in the areas of science and technology, education, agriculture, energy conservation and environmental protection and medical treatment and public health. Third, the comprehensive use of departmental fund should be promoted. Fourth, the government budget system should be improved. Fifth, setting up a cross-year budget balancing mechanism and formulating three-year rolling budget plan to coordinate the multi-year budget. The formulation of three-year budget plan for major areas should be facilitated. The departmental three-year rolling budget should be formulated. Sixth, the revenue and its use should be standardized and the government fund and special revenue should be cleaned up and

reduced. The catalog and list management will be adopted to strictly control the set up of revenue items. Seventh, the stock fiscal fund should be used in coordination to fully utilize the unspent and carry-over fund, the budget stabilization adjustment fund and budget turnover fund. Eighth, budget formulation and execution should be well coordinated. Ninth, debt funds should be used in coordination. Tenth, the transfer payment fund should be used in coordination.

16. MOF released the *Interim Measures on the Management of Special Fund for City Pipeline Networks*

On June 24, MOF released the *Interim Measures on the Management of Special Fund for City Pipeline Networks*, which provides the following. First, MOF and Ministry of Housing and Urban-Rural Development (MOHURD) are in charge of the special fund. Second, the special fund is used to support the construction of pipelines for city sewage treatment facilities and pump stations, the development of the pilot projects for sponge city and the utility tunnel, and the creation of urban eco-space. Third, the special fund will be distributed in varied ways for different targets. Fourth, MOF and MOHURD organize and approve the projects application of local governments in accordance with the major areas of expenditure determined by the state. Fifth, special fund provides support in the means of awards and subsidies and in favor of PPP projects.

17. MOF released the *Measures for the Tax Sharing of Relocated*

Enterprise in the Industrial Transfer and Linkup for the coordinated development of Beijing, Tianjin and Hebei

On June 24, MOF released the *Measures for the Tax Sharing of Relocated Enterprise in the Industrial Transfer and Linkup of the Coordinated Development of Beijing, Tianjin and Hebei*, which provides the following. First, the VAT, corporate income tax and sales tax (hereinafter referred as “three taxes”) are covered by the tax sharing arrangement. Second, the enterprises that are subordinate to original governments’ plans, in line with the industrial outlay of the host government and have paid an annual average of 20 million RMB tax in the three years prior to the relocation, will be included in the sharing arrangement. Third, the original governments cannot share tax of relocated enterprises anymore when they have already shared the total amount of three taxes paid by an enterprise in the three years prior to the relocation. Fourth, the provincial tax department of original government is responsible for the statistics of three taxes paid by an enterprise in the three years prior to the relocation. The provincial tax department of host government is responsible for the statistics of three taxes paid by an enterprise in the three or five years following the relocation. Fifth, the tax sharing of the previous year will be handled through the settlement of central and local governments in the current year.

18. Executive meeting of the State Council planned for the Internet+ initiative

On June 24, Premier Li Keqiang presided over the executive meeting of the State Council to make plan for the initiative of Internet Plus (Internet+) and decided the relevant supporting measures. First, the unreasonable systems and policies hindering the Internet+ development should be abolished to expand the market access of integrated products and service. Second, new hardware project should be implemented and the new generation of information infrastructure development should be enhanced to support Internet+ plan. Third, the open sharing platform should be set up to improve public service and run the pilot of open access to public data of government affairs. Fourth, adapting to the features of Internet+ to increase government procurement of cloud calculation service, innovate credit products and service and carry out pilot of equity crowd funding. Fifth, safety should be emphasized. Risk surveillance should be enhanced and market regulation and social management be improved to protect network and information security and fair competition.

II. Facts & Figures

1. Manufacturing PMI in May went up

The data released by the National Bureau of Statistics (NBS) on June 1 shows that manufacturing PMI in May was 50.2%, up by 0.1

percentage point month on month; purchasing price index rose markedly by 1 percentage point; production index was 52.9%, up by 0.3 percentage point month-on-month; the production indexes of businesses of major and medium size were above 50%, standing at 53.5% and 54.2% respectively, and the index of small-sized businesses was 47.7%, lower than 50%; new order index was 50.6%, up by 0.4 percentage point month on month.

2. Mobile payment value in Q1 surged by 921%

The data released by China's central bank on June 3 shows that Q1 has seen 1.376 billion transactions of mobile payment with a total value of 39.78 trillion RMB, up by 108.85% and 921.49% respectively. In the same quarter, banking institutions in China have processed 22.739 billion transactions of electronic mobile payment that worth 772.54 trillion RMB, among which, online payment recorded 7.124 billion transactions worth 602.93 trillion RMB, telephone payment posted 49 million transactions worth 2.87 trillion RMB. In Q1, 20.237 billion non-cash payment transactions were processed across China, totaling 829.43 trillion RMB. By the end of Q1, 4.999 billion bank cards were in use in China, up by 63 million month on month.

3. Consumption contributed to over 50% of GDP growth in 2014

The data released by NBS on June 3 shows that the three demands: final consumption

expenditure, capital formation, and net export of goods and services, respectively contributed to 50.2%, 48.5% and 1.3% of GDP growth in 2014, and these three demands respectively fueled 3.7 percentage points, 3.6 percentage points, and 0.1 percentage point of GDP growth. In 2014, China's expenditure-based GDP was 64.07964 trillion RMB, among which, final consumption expenditure was 32.83112 trillion RMB, capital formation was 29.50223 trillion RMB and net export of goods and services was 1.74629 trillion RMB.

4. Nationwide lottery sales in April

The data released by MOF on June 4 shows that nationwide lottery sales in April were 32.612 billion RMB, up by 1.083 billion RMB year on year, or 3.4%, among which, welfare lottery sales were 18.088 billion RMB, up by 386 million RMB year on year, or 2.2%; sports lottery sales were 14.524 billion RMB, up by 697 million RMB year on year, or 5%. The cumulative nationwide lottery sales from January to April were 127.447 billion RMB, up by 15.885 billion RMB year on year, or 14.2%, among which, welfare lottery sales were 68.609 billion RMB, up by 4.57 billion RMB year on year, or 7.1%; sports lottery sales were 58.838 billion RMB, up by 11.315 billion RMB year on year, or 23.8%.

5. The central finance allocated 4.933 billion RMB for the comprehensive agricultural development for the year of 2015

According to the data released by State Agriculture Comprehensive Development Office on June 8, the central finance allocated 4.933 billion RMB for the comprehensive agricultural development for the year of 2015, stimulating 2.584 billion RMB from the local finance, and driving 10.385 billion RMB financed from project units and banking loans. 4238 industrialized agricultural projects planned to be supported, including 1445 planting base projects, 1369 breeding base projects, 914 processing projects, 290 logistical infrastructure projects, 92 pilot projects driven by the leading enterprises and 128 projects in the program of “one county, one feature”.

6. PPI in May declined by 4.6% year on year

According to the data issued by NBS on June 10, in May 2015, Producer Price Index (PPI) for manufactured goods decreased by 0.1% month on month, and decreased by 4.6% year on year. The purchasing price index for manufactured goods kept at the same level month on month and decreased by 5.5% year on year. On average from January to May, the PPI decreased by 4.6% year on year, the purchasing price index for manufactured goods went down by 5.5% year on year.

7. CPI in May increased by 1.2%

According to the data issued by NBS on June 10, in May, the consumer price index (CPI) went up by 1.2% year on year. The prices grew by 1.3%

in urban areas and 1% in rural areas. The food prices went up by 1.6%, and the non-food prices increased by 1%. The prices of consumer goods went up by 0.9% and the prices of services grew by 2.1%. On average from January to May, the overall consumer prices were up by 1.3% over the same period of the previous year. In May, the consumer prices decreased by 0.2% month on month. Prices decreased by 0.2% in urban areas and 0.1% in rural areas. The food prices went down by 0.9%, and the non-food prices went up by 0.2%. The prices of consumer goods decreased by 0.3%, and the prices of services increased by 0.1%.

8. MOF published the data of fiscal revenue and expenditure in May

According to the data released by MOF on June 11, in May, the revenue of general public budget was 1.4355 trillion RMB, an increase of 5% month on month, and the expenditure of general public budget was 1.3124 trillion RMB, an increase of 2.6% month on month. From January to May, the accumulative revenue of government fund was 1.4143 trillion RMB, went down by 35.7% year on year. From January to May, the accumulative expenditure of government fund was 1.3004 trillion RMB, went down by 22% year on year.

9. China's outbound investment grew by nearly 50% from January to May

According to the data released by the Ministry of Commerce (MOFCOM) on June 18, from January to May, China's domestic investors have made

direct investment to a total of 3,426 overseas enterprises in 146 countries or regions, with a cumulative outbound non-financial investment of 278.36 billion RMB, up by 47.4% year on year. Among those investments, China's investment to EU, ASEAN, Hong Kong and the U.S. grew by 367.8%, 78.4%, 66.7% and 37.4% respectively year on year. Investment to Japan and Russia was on par with last year, while investment to Australia fell by 42%. By the end of May, China's total outbound non-financial direct investment reached 4.5 trillion RMB. From January to May, China's newly contracted value of projects overseas amounted to 414.27 billion RMB, up by 26.6%. The completed turnover of overseas projects was 316.49 billion RMB, an increase of 10.1%.

10. Total retail sales of social consumer goods in China reached 11.7 trillion RMB in the first 5 month of 2015

Data released by MOFCOM on June 18 shows that from January to May, total retail sales of social consumer goods in China reached 11.7 trillion RMB, an increase of 10.4% year on year. In May, the sales registered an increase of 10.1%, 0.1 percentage point higher than last month. After deducting price factors, the actual growth was 10.2%, 0.3 percentage point higher than last month. From January to May, the online retail sales across the nation grew by 38.5%, pushing its' share in the total retail sales further up to 9.5%, 0.4 percentage point higher than the first quarter. Sales of unit communication equipment above the designated size increased by 37.6%, keeping

the track of registering over 30% growth for six consecutive months. The revenue of catering business across the country was up by 11.5%, 1.3 percentage points higher than last year. Among those, catering business below the designated threshold registered a revenue growth of 13.5%, while businesses above the threshold had a revenue growth of 7.3%.

11. The development of SOEs from January to May

The data released by MOF on June 19 shows that from January to May 2015 the operating revenue of state-owned enterprises (SOEs) totaled 17.57329 trillion RMB, a decrease of 5.9% year on year. Particularly, the operating revenue of central SOEs amounted to 10.66311 trillion RMB, down by 7.4% year on year; the operating revenue of local SOEs reached 6.91018 trillion RMB, down by 3.3% year on year. The total operating cost of SOEs was 17.03048 trillion RMB, a decrease of 5.3%. Particularly, the operating cost of central SOEs went down by 7.1% to 10.1547 trillion RMB year on year; the operating cost of local SOEs declined by 2.6% to 6.87578 trillion RMB year on year. The total profit of SOEs amounted to 923.75 billion RMB, a drop of 3.3% year on year. Particularly, the profit of central SOEs registered at 683.16 billion RMB, a decrease of 5% year on year; the profit of local SOEs went to 240.59 billion RMB, an increase of 2.1% year on year. Tax paid by SOEs was 1553.39 billion RMB, an increase of 1.8% year on year, of which 1216.19 billion RMB from central SOEs, up by 1.4% year on year, and 337.2 billion RMB from local SOEs, up

by 3.5%. As of the end of May, the total assets of SOEs valued at 107.59754 trillion RMB, an increase of 11.9% year on year; the total liability of SOEs was 70.05176 trillion RMB, an increase of 11.5% year on year; and owner's equity stood at 37.54578 trillion RMB, an increase of 12.6% year on year.

12. The central finance allocated 25 billion RMB for the development of major water projects

The data released by MOF on June 23 shows that the central finance allocated 25 billion RMB recently to support 172 major new water projects and replenish 29 qualified existing projects nationwide. Of the 25 billion RMB, 11.253 billion RMB will be used on two projects of agricultural water conservation, 4.2 billion on eight new projects of irrigation, 2.2 billion RMB on two projects of water diversion and 7.347 billion RMB on seventeen projects for cleaning up lakes and rivers.

13. 44.086 billion RMB central finance subsidy has been fully appropriated for farmland water conservancy facilities and water and soil conservation

According to the data released by MOF on June 24, central finance allocates 44.086 billion RMB as subsidy for the development of farmland water conservancy and the conservation of water and soil. As of the end of May, the fund has been fully appropriated. 10 billion RMB has been used to

support the major water conservancy projects, 21.686 billion RMB to support the construction and maintenance of farmland water conservancy facilities, 5 billion to implement the national drought-relief plan, 5.1 billion RMB to enhance the support to the pilot projects of comprehensive treatment to the overdraft of underground water in Hebei province, 300 million RMB higher than last year, and 2.3 billion RMB to expedite the major projects of national water and oil conservation, 500 million RMB higher than last year.

III . MOF Events

1. On June 2, **Vice Finance Minister Zhu Guangyao** attended the Global China Summit "New Economy, New Markets" and talked with Jamie Dimon, Chairman of JP Morgan, over the state of global economy.
2. On June 3, **Vice Finance Minister Shi Yaobin** made a field visit to BAIC Motor Corporation and discussed relevant tax issues.
3. On June 6, **Finance Minister Lou Jiwei** and Japanese Deputy Prime Minister and Finance Minister Taro Aso co-chaired the 5th China-Japan Finance Minister Dialogue to discuss the issues of the economic situation of China and Japan under the global economic situation, the fiscal

cooperation between China and Japan and the cooperation in the international financial system.

4. On June 8, **Finance Minister Lou Jiwei** met with delegation headed by Mr. Kamath, the designated president of the New Development Bank (NDB) of BRICS countries. The two sides had in-depth exchanges on the preparation, establishment and development of NDB.

5. On June 8, **Vice Finance Minister Zhang Shaochun** and **Vice Finance Minister Shi Yaobin** attended the national video and telephone conference hosted by MOF and delivered speech to make arrangement for the implementation of the *Guiding Opinions on Generalizing the PPP Mode in the Public Service Field*.

6. On June 8, **Vice Finance Minister Shi Yaobin** met with Stephen P. Groff, Vice President of the Asian Development Bank (ADB). The two sides exchanged views on the cooperation between China and ADB.

7. On June 10, **Vice Finance Minister Shi Yaobin** led a team to Xiangtan, Hunan Province, and conducted a study tour on the Jiuhua sewage treatment plant project Phase I, which is one of the first PPP demonstration projects approved by MOF.

8. On June 15-16, **Vice Finance Minister Zhu Guangyao** attended the deputies meeting of the

G20 finance ministers and central bankers, as well as the joint meeting of G20 finance deputies and coordinators, in Bodrum, Turkey.

9. On June 19, **Vice Finance Minister Zhu Guangyao** attended the 13th Lanting Forum and made briefing about the economic track of the 7th China-U.S. Strategic and Economic Dialogue (S&ED) to Chinese and foreign media.

10. On June 24, **Finance Minister Lou Jiwei** attended the special session of the 7th S&ED to discuss the issue of macroeconomic policy and structural reform. After the meeting, Finance Minister Lou attended the briefing to Chinese and foreign media and answered questions.

IV. Local Finance

1. Fiscal authorities of Karamay, Xinjiang Uyghur Autonomous Region stepped up efforts to support the development of small and micro enterprises

According to the news released by the Finance Department of Xinjiang Uyghur Autonomous Region on June 1, the Finance Bureau of Karamay has been earnestly enforcing policy measures to support the development of small

and micro enterprises. (1) The *Measures for the Administration of Funds for Compensating Risks Related to Loans to Small and Micro Enterprises* will continue to be implemented to make financing more accessible to those firms. (2) Application has been made to the provincial Finance Department for special subsidies earmarked to shore up village and township banks, and 650,000 RMB of such funds have been secured. (3) To support the growth of businesses in ethnic minority areas, 23,000 RMB of interest subsidies have been handed out. (4) Xinsheng and Guangsheng, two small loan companies, are encouraged to seek listing on the “New Third Board”¹ and to engage in innovative financing such as transfer of rights to benefits on credit assets. (5) State-owned guarantee agencies will continue to support small and micro enterprises and start-ups, and cut guarantee rate for key government-financed projects. (6) New avenues of promoting real economy through Internet finance are explored, and the first P2P online lending platform with a registered capital of 10 million RMB will be set up. (7) Businesses will receive guidance and assistance from the government on participating in the capital market and expanding business.

2. Zhejiang Province created a 20 billion RMB industry fund to spur transformation of industries and economic growth

According to the news released by the Finance Department of Zhejiang Province on June 3, Zhejiang provincial government has formally launched the operation of the Industry Fund and called for cities and counties in Zhejiang to set up similar funds early. (1) The Industry Fund of the Zhejiang provincial government (the Fund) is financed by public finance to support such key areas as information technology, environmental protection, health, tourism, fashion, financial sector, high-end manufacturing and agriculture. (2) Zhejiang has specifically created a task force for the Fund and required cities and counties to set up similar funds on the basis of their local context. (3) The organization of the Fund consists of three levels: management committee, legal person agency and operational agency, and the Fund will cooperate not only with city and county governments but also with financial or private capitals. (4) Exit of investment from the Fund will take the forms of equity transfer, share reduction, shareholder repurchase and liquidation, and the government will surrender part of the profits in the exit process.

3. Shandong Province introduced 20 policy measures to promote transformation, adjust structures and stabilize growth

According to the news released on June 9 by the Finance Department of Shandong Province, the province has introduced 5 new fiscal

¹ The new third board refers to the National Equities Exchange and Quotations where shares of non-listed companies are publicly traded. The other two national securities exchanges are Shenzhen Stock Exchange (ChiNext) and Shanghai Stock Exchange (Main Board).

policy measures while fully implementing the various policies formulated in the beginning of the year. First, focusing on critical links to facilitate economic transformation and upgrade. Targeted support and precise adjustment will be implemented for the investment projects that face difficulties in the industrial structural adjustment and for the special sectors with market failures, in a bid to promote economic transformation and upgrade, energy conservation and emission reduction, improve quality and increase efficiency. Second, supporting entrepreneurship and innovation to create new engines for economic growth. In the spirit of promoting mass entrepreneurship and individual innovation, policies will be formulated and implemented to foster new engines of economic growth. Third, increasing the supply of public goods and service to earnestly address the issues of the greatest concern to the people. The mechanism of public service supply and investment methods will be further innovated to make more investment in infrastructure and major projects related to the people's welfare. Fourth, innovating systems and mechanisms to address financing difficulties. Paying attention to the coordination between fiscal and financial policy to play the leading and amplifying role of fiscal fund and promote the positive interaction between the financial sector and real economy. Fifth, enhancing fiscal and taxation support to create a friendly environment for enterprise development. The requirement of the State Council to transform government functions and speed up the streamline of administration and delegation of power should be earnestly implemented to support the creation of leading business environment in the nation.

4. Chongqing Municipality adopts more forceful and effective fiscal policies for small and micro enterprises

According to the news released on June 10 by the Finance Bureau of Chongqing Municipality, in the critical stage of heightened economic downward pressure and transformation of economic growth engines, and based on the multi rounds of introduced policies, the Finance Bureau of Chongqing Municipality has taken five new measures this year to further stimulate and release the vitality for mass entrepreneurship and individual innovation. First, improving subsidy methods to facilitate economic structure adjustment. More support should be given to the fast growing enterprises that were started by university graduates, returned migrant workers, the unemployed and the decommissioned and encouraged by the government. Second, expanding the scope for the government procurement agreement. The number of contracted micro-enterprise suppliers of municipal government has increased from 50 in 2013 to 300, with the contracted goods expanding from office stationary to decoration materials, flowers and plants, logos and signs, and printing and lighting equipment. For the goods or service below 200,000 RMB purchased by the municipal units, the units can directly transact with the contracted suppliers through the electronic government procurement system of the municipal government. Third, further addressing financing difficulties. Working together with the Bureau of Small and Medium Enterprises and China Construction Bank to provide loans to SMEs for the purchase of fixed assets and for easing the financing strain of SMEs

in the initial stage. Fourth, developing a platform for agglomeration development of small and micro enterprises. Supporting the creation of industrial park by using newly built buildings or buildings in idle. Providing award and subsidy to the recognized industrial parks and entrepreneurship bases of small enterprises. Fifth, implementing structural tax reduction and general fee reduction. From January to April, 273 million RMB VAT and sales tax were exempted for 296,700 small and micro enterprises, and 63 million corporate income tax was exempted for 22,000 small and micro enterprises.

5. Fiscal authority in Nantong City implemented four measures to promote the budget performance management

According to the news released on June 15 by the Finance Department of Jiangsu Province, the Finance Bureau of Nantong City implemented multiple measures in 2015 to enhance budget performance management at the district level, and to promote management integration between the city-level and district-level. First, increase fiscal support and coverage. Based on work priorities of the municipal government, a number of key projects were chosen as the priority projects for district-level budget performance management, the number of projects and budget increased by 18% and 160% respectively. Second, strengthen management with effective measures. District authorities are required to make coordinated arrangements, improve efficiency, and take stern stance on supervision. They are also expected to solicit external assistance to improve relevant mechanisms and qualities, to ensure effectiveness

and timely communication. Third, close existing gaps and forge synergy. Based on the interconnected budget performance management system between the city-level and district-level fiscal authorities, the municipal finance bureau should increase supportive resources, and provide holistic supervision and guidance over district-level authorities. Fourth, enhance resource sharing and governance performance. Think tanks are required to step up their resources-sharing in services, expert pool, and data banks. Districts are invited to participate in evaluating the performance of government procurement, to lay down the foundation for bid-tendering process.

6. Fiscal authorities in Qinghai Province took measures to actively address financing challenges faced by enterprises

According to the news released on June 16 by the Finance Department of Qinghai Province, Qinghai fiscal authorities gave full play to the leveraging role of fiscal resources this year, made great efforts to address financing difficulties faced by the business community, and promoted the development of the real economy. First, increase fiscal resources to ease financing challenges for enterprises. The mobilization of entrepreneurship investment fund and industrial investment fund has provided effective support to SMEs in their cash-tight start-up phases. In addition, 100 million interest discounts were earmarked for poverty alleviation and agriculture-related projects. Second, multiple measures were adopted to enhance financial support for the real economy. Financial incentives were given to regional or newly

established financial institutions headquartered in Qinghai. Direct financing channels to enterprises were broadened through financing incentives, subsidies for intermediary costs, incentives for public listing or various innovative financing tools. In the provincial fiscal funds for financial development, special arrangement was provided to support the development of social credit system. Preferential tax policies for financing guarantee institutions and small and micro enterprises were vigorously implemented. Tax reform was pushed ahead to give full play to the macro-control role of the tax policy. Third, continue to strengthen the credit guarantee platform. The regulation and management on agriculture credit guarantee system was further improved, and special financial support for financing guarantee business of the small and micro enterprise was further enhanced.

7. Guangdong Province adopts a package of measures to help university graduates get employed and start business

According to the news released by Finance Department of Guangdong Province on June 23, the province will take a host of supportive measures and increase the fiscal investment to encourage and guide university students to start their own business. From 2015 to 2018, the province will allocate 2.5 billion RMB to support urban workers including university students to establish business. Firstly, the province will provide the lump-sum financial aid to entrepreneurship. The qualified university students with supporting documents can obtain 5000 RMB for entrepreneurship. Secondly, rent allowances

will be given. For the newly established enterprises in the startup hubs organized by governments and departments of various levels, the rent will be cut by at least 80% in the first year, 50% in the second year and 20% in the third year. Thirdly, small-sum guaranteed soft loan will be provided. Within the stipulated line of credit, interest subsidy will be given to loans with rates no more than 3% above the benchmark-lending rate. For the small-sum loans borrowed by labor-intensive or high-tech enterprises, interest subsidy will be given based on 50% of the benchmark-lending rate. Fourthly, subsidy for employment promotion can be applied. If the newly established enterprises create jobs and pay social insurance fees, they can apply for, with supporting documents, the subsidy in accordance with the number of employees with whom they have labor contract for more than one year. Fifthly, financial aid to excellent entrepreneurship projects will be given. From the entrepreneurship projects recommended by all the places within Guangdong province, the province will select a group of provincial excellent projects and provide financial support from 50,000 RMB to 200,000 RMB. Sixthly, administrative fees and other fees and service charges will be exempted or reduced.

8. Guizhou Province explores new mechanism for the management of special poverty fund for poverty alleviation

According to the news released by the Finance Department of Guizhou Province on June 24, the province has been making active exploration into the new mechanism for the management of special fund for poverty alleviation. Firstly, improving

the ways of fund distribution. Starting from 2014, except the major poverty alleviation fund and the fund used for substituting subsidies with rewards, all the other special poverty alleviation funds arranged by the central and provincial governments have been allocated to counties through the factors method. The approval procedure has been further simplified. The funds arranged by the central and provincial governments to support industrialization have been allocated through open competition. Secondly, integrating the agriculture-related funds to promote poverty alleviation. The province has instructed cities and counties to integrate the funds in the principle of “no mess to the channels, no change to the usage, complement each other’s advantages, and record each other’s achievement”. Thirdly, actively exploring the pilot of poverty alleviation with investment returns. The province has guided farmers to pool their land and fund as shares, encouraged to employ people from poor families and established the mechanism of sharing risks and interests to ensure the fund has been well used for targeted poverty alleviation. Fourthly, actively and steadily promoting the reimbursement system of the finance departments at county level. In 2014, the province revised and issued the *Implementation Rules on the Reimbursement System for the Special Poverty Alleviation Fund in Guizhong Province* to enhance the timeliness of the fund use.

V. Remarks & Opinions

1. Lou Jiwei: creating new type of multilateral development bank in the 21st century

Recently, Finance Minister Lou Jiwei published an article saying that the AIIB is an inter-governmental multilateral development bank. The purpose of the AIIB is to promote the infrastructure development and enhance interconnectivity in Asia, deepen regional cooperation and realize common development. China will be open and inclusive and adhere to the principle of multilateralization to promote the preparation and establishment of the AIIB. Firstly, China will uphold the principle of “open regionalism”. Secondly, the preparation and establishment of the AIIB will follow the principle of multilateralization. Thirdly, the negotiation on the Articles of Agreement (AoA) of the AIIB will be finished in a democratic and efficient manner. China will develop the AIIB into a professional, efficient and clean infrastructure financing platform by sticking to the principles of internationalism, standardization and high standards. Firstly, on the governance structure, the AIIB will have three tiers of modern governance structure, namely Board of Governors, Board of Directors and Management. Secondly, on business policies. The AIIB will fully respect and draw upon the good experience and practice of the environmental and social framework, procurement policy, project management and debt sustainability of existing MDBs, and formulate strict and feasible high standard business policies. Thirdly, on human resources management. China will work together with all member countries through Chief Negotiators’ Meeting to instruct Multilateral

Interim Secretariat to speed up the formulation of human resource policy and the staff recruitment procedure and standards. Fourthly, on the projects pipeline and the development of headquarter. Member countries will soon propose their projects recommendations to make projects preparation for the early operation of the AIIB after its establishment.

2. Shi Yaobin: boosting domestic consumption by improving tax policies

On May 29, Vice Finance Minister Shi Yaobin addressed the Briefing of State Council Policies at the Press Center of the State Council. He pointed out that consumption is the critical “engine” for the economic growth and holds the key to China’s development. In 2014, outbound Chinese tourists exceeded 100 million and their overseas spending topped 1 trillion RMB for the first time, it is, therefore, very necessary to boost consumption at home. In light of the current state of consumption and the rising consumption level of Chinese citizens, the Executive Meeting of the State Council has decided to create an enabling environment to boost people’s purchasing power and domestic consumption through a series of improved tax policies. (1) Starting from June 1, the import duty rates of consumer goods such as garment, footwear, skincare products and diapers will be cut, with most of the goods seeing an average cut of over 50%. (2) Consumption tax will be levied on some proposed high-end consumer goods and services, while the scope of taxable cosmetics will be adjusted. (3) More duty free shops will be opened at arrival ports.

(4) MOF, the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) have published the circular on the policy of tax refund by foreign tourists at departure ports on January 16, 2015, and this policy will continue to be enforced.

Boosting domestic demand and refining the policies on import and export of consumer goods entail systemic efforts. The resolutions and decisions of the Executive Meeting of the State Council are related to a wide array of ministries, and going forward, these ministries will work together to ensure the policy measures identified at the Meeting are well implemented.

3. Zhu Guangyao: the current world economic recovery is slow and uneven

During an exclusive interview by the Xinhua News Agency on June 16 during the deputies meeting of G20 finance ministers and central bankers, Vice Finance Minister Zhu Guangyao pointed out on the whole, the current global economic recovery is very slow and uneven. This year, the World Bank has lowered its forecast for global economic growth twice. During this meeting, IMF expressed concerns that the global economic performance was weaker than expected in recent months. IMF will release its latest forecasts for global economic growth in early July, and may further lower its forecasts. In the trade area, according to WTO data, the global trade growth is only 3.3% in 2015, 0.2 percentage point lower than the current IMF forecast for global economic growth of 3.5%. This is the third

consecutive year when the global trade growth lags behind the global economic growth, and the trade growth is far lower than that of the past 20 years, when the average annual growth rate registered 5.2%. The global economic recovery is quite vulnerable and the challenges are daunting. At the same time, the global financial market is also vulnerable and facing prominent uncertainties. The important cause behind those challenges is that both the global investment and total factor productivity growth are declining. Therefore, it is important to promote reforms, especially push for sustainable growth through deeper structural reforms, so as to respond effectively to the challenges facing the world economy. Zhu said that when the G20 countries are trying to put their domestic houses in order, it is more important than ever before to strengthen macroeconomic policy coordination. Sooner or later the Fed will start raising interest rates, and its spillover effects, especially on emerging market countries deserve close attention. Global economic growth cannot solely rely on monetary policy. Countries with fiscal space should give greater play to their fiscal policies, in order to effectively promote economic growth.

4. Liu Shangxi: three major risks are urgently to be resolved

At the Forum on the Macro Economy of China on June 9, Liu Shangxi, Director-General of Research Institute of Fiscal Science mentioned that three major risks of china's economy are

urgently to be resolved. At the same time, fiscal risks should also be considered to balance the relationship of the three risks and the relationship between fiscal risk and public risk. The three biggest and most prominent risks are economic risk, social risk and environmental risk. To address economic risk, the government needs to make expenditure. However, the problem is that on one hand tax should be reduced, while on the other hand investment is needed. To address social risks, even more expenditure is required. However, such expenditure is non-discretionary and is difficult to support with the current national strength and financial resources. Although China's fiscal size has already reached 17 trillion RMB, a balance must be strived in the face of these three risks. From the perspective of public finance, the three risks should be first separated from each other. Otherwise, they might infect or overlap with each other to cause bigger systematic risks and lead to public crisis. Apart from balancing the relationship of the economic, social, environmental and fiscal risks, the relationship between public risk and fiscal risk should also be well managed. In order to govern economic risk, the only way for the public finance is to expand deficit and increase debt size, which will enhance the fiscal risks. While in the face of the existing social risk, the fiscal expenditure cannot be reduced either. Therefore, overall speaking, the fiscal risk should also be considered to maintain balance with various public risks. The "new normal" trend China is facing now cannot be avoided. The risks can only be weighted and managed to strike a balance.