

## I. Policy Update

### 1. The AIIB Agreement was signed in Beijing

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According to the news released by the Ministry of Finance (MOF) on June 29, the signing ceremony of Articles of Agreement (AoA) of the Asian Infrastructure Investment Bank (AIIB) was held in Beijing. Finance ministers or their authorized representatives of the 57 founding members of the AIIB attended the signing ceremony. Among those founding members, 50 of them have completed their domestic approval process and officially signed the AoA, while the others which are still in their domestic process witnessed the ceremony. According to the Agreement, those founding members with pending procedures could sign the Agreement by the end of the year.

### 2. MOF issued a circular on the VAT policy for new wall materials

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MOF issued a circular on VAT policy for new wall materials on June 29. First, for sales of self-produced new wall materials which is included in “Catalog of New Wall Materials Eligible for Instant VAT Refund” attached to the circular, the taxpayer is eligible for 50% instant VAT refund. Second, for former eligible taxpayers

who become disqualified based on the article 2 of the provisions of the circular, the eligibility of the taxpayer is to be rescinded starting from the following month. Third, the taxpayer should keep separate accounting for the sales and payable tax of the new wall materials eligible for the instant VAT refund policy.

### 3. MOF issued a circular on urban land-use tax for oil and gas producers

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On June 29, MOF issued a circular on urban land-use tax for oil and gas producers. First, the urban land-use tax is suspended for temporary construction sites for geological exploration, drilling, underground operations, surface engineering of oil and gas field. Also eligible for the tax relief include land for special railways, roads and pipelines outside factory compound, and land for long distance oil and gas pipelines. Second, the urban land-use tax is suspended for facilities relating to firefighting, flood-control and drainage, as well as wind and sand control in the industrial and mining areas outside cities, counties or towns. Third, for land which appears to be eligible for above mentioned tax exemptions but is used for other purposes, the eligibility is to be rescinded. Fourth, for land used for oil and gas production, office and living quarters of the industrial and mining areas, the tax rate should not exceed the applicable tax in adjacent counties or towns.

### 4. MOF issued an *Implementation plan for Green Leaders*

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On July 1, MOF issued an *Implementation plan for Green Leaders*. First, establish a dynamic standard mechanism for green leaders. The indicators for green leaders should be constantly updated and improved based on developments in the general greenness of the industry, clean production technology, and other environment protection changes in the market. Second, step up supervision. The catalog for green products and namelist of green leaders should be regularly published and used as showcase for environmental benchmarks. Supervision over third-party organizations should be strengthened to ensure dynamic updates for the list of green leader. Third, improve the incentive mechanism. MOF is to work jointly with relevant government agencies to design and provide honorary and fiscal support to green leaders.

## 5. NPC approved the NDB Agreement

According to the news released by MOF on July 1, the fifteenth meeting of the twelfth standing committee of the National People's Congress approved the Agreement on Establishing the New Development Bank (NDB), which was signed by the Finance Minister Lou Jiwei, on behalf of the Government of People's Republic of China, in Fortaleza, Brazil on July 15, 2014. Up to now, all of the BRICS countries' legislative bodies have approved the agreement. According to their agreed plan, the Bank will hold its first Board Meeting in Russia on June 7 to appoint board members and management (including the President and four vice-presidents), design the rules and procedures for the Board and the Meetings of the Board of Directors, and discuss a five-year development strategy for the Bank. The first management team

of the Bank will take office in Shanghai in mid-July. The Bank is expected to start operation by the end of 2015 or early 2016.

## 6. The State Council issued a guideline on the reconstruction of urban shantytowns and dilapidated housing in rural and urban areas and development of supporting infrastructure

On July 1, the State Council issued a guideline on the reconstruction of urban shantytowns and rural and urban dilapidated housing and development of supporting infrastructure. First, accelerate the renovation of urban shantytowns. Second, improve the supporting infrastructure. Third, push forward renovation of dilapidated rural housing by setting clear task objectives, funding arrangements and policy measures. Fourth, increase government procurement for shantytown renovation related services. Local governments are to develop relevant management measures based on their respective financial capacity and other factors. Fifth, encourage franchising and other PPP models in urban infrastructure construction and operation. Sixth, encourage diverse forms of ownership enterprises to take part in shantytown renovation projects. Various former local financing platforms can practice commercialized operation through market-based reforms. Seventh, give play to development financing. Based on the agreements of government procurement of services, franchising and other PPP contracts, development banks and other banking institutions can conduct market financing and extend loans to qualified credit takers.

## 7. The central government allocated 1.2 billion RMB of subsidies to support livestock breeding

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According to the news released by MOF on July 2, the central government allocated 1.2 billion RMB to the modern agricultural production and development fund in 2015, in a bid to support high-quality livestock breeding and promote sustainable and healthy development of the livestock industry. The subsidies are to encourage farmers to improve the livestock breeding through purchased livestock frozen semen or sire. In 2015, apart from providing subsidies for advanced breeds of pigs, cows, beef cattle, sheep and yaks, the central government will conduct pilot subsidy program for cow embryo.

## 8. The central government allocated 730 million RMB to subsidize administration agencies for martyrs

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According to the news released by MOF on July 6, the central government recently allocated 730 million RMB to administration agencies for martyrs, which will be used for the following: the maintenance and renovation of the halls, pavilions, statues and sepulchral chapels that are in great need of repair in 64 national martyr memorial sites; the procurement and upgrade of medical equipment and enhancement of major departments such as rehabilitation department and neurology department in 67 special care hospitals; the maintenance and renovation of residence building, activity room and clinic in 224 honorable courts; the infrastructure maintenance and renovation and equipment upgrade as well as food allowances in 64 national army supply

stations.

## 9. MOF issued the circular on the construction and management of farmland water conservancy projects in 2015

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On July 7, MOF issued the circular on the construction and management of farmland water conservancy projects in 2015, which provides the following. Firstly, speeding up regional scaled water conservation irrigation, including water conservancy and grain increase in the North East, water save and efficiency improvement in the West East, water save and exploration reduction in the North and water save and emission reduction in the South. Secondly, refining the implementation plans, making timely review and approval, strengthening the management over construction and controlling the progress to ensure the projects are finished on time. Thirdly, facilitating pilot projects. Fourthly, provinces should further improve the management system for fund usage and performance evaluation and strengthen monitoring to effectively use the fund and accelerate the budget execution.

## 10. The State Council issued the *Opinion on the Renovation of Urban Shantytowns and Rural Dilapidated Houses and the Development of Supporting Infrastructure*

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On July 7, the State Council issued the *Opinion on the Renovation of Urban Shantytowns and Rural Dilapidated Houses and the Development of Supporting Infrastructure*, which provides the following. Firstly, setting up an effective

supervision system to enhance the regulation on the usage of the subsidy fund for the renovation of rural dilapidated houses and strengthen assessment and accountability. Secondly, taking into account of the market demand to supply and allocate housing resources and promote the monetized settlement for shantytown renovation. Thirdly, further expanding financing channels and proposing for the first time the measures of “promoting government procurement of shanty town reform service” and “promoting PPP” to make market-based financing in accordance with the PPP agreement such as the government procurement agreement and franchising agreement. The banking financial institutions including development banks issue loans to qualified project undertakers based on the agreement.

## 11. MOF adopted measures to safeguard the stability of capital market

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On July 8, MOF issued the news that the stock market experienced abnormal volatility recently, in order to promote the sustainable, stable and sound development of capital market and earnestly protect the legitimate rights and interests of shareholders of listed companies, MOF will further support the development of state-owned financial enterprises, enhance the service to real economy, supply high quality financial services and improve operational performance. During the abnormal volatility of stock market, MOF will fulfill the obligations as contributor, commit to not reducing the shares of listed companies it holds and require the state-owned financial enterprises subject to the management of the

central government not to reduce the shares they hold, and support state-owned enterprises to increase the holding shares when the share price is below the reasonable value.

## 12. MOF released the *Circular on the Adjustment and Improvement of Policies Promoting Industrialized Agriculture Development through Integrated Development of Agriculture*

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On July 9, MOF released the *Circular on the Adjustment and Improvement of Policies Promoting Industrialized Agriculture Development through Integrated Development of Agriculture*, which provides the following. Firstly, the leading enterprises and rural cooperatives that have registered at the industrial and commercial departments for more than one year and are capable of sustainable operation can apply for the industrialized projects. Secondly, the amount of application for fiscal fund of a single project cannot be higher than the amount of its self-raised fund. Thirdly, provincial governments, in line with their own situations, decide the proportion of various fund investment including the ratio of fiscal subsidy and discounted loans. Fourthly, provinces are encouraged to adopt the management method of “subsidy after construction” on the financial aid for projects. Fifthly, qualified provinces can actively explore new ways of investment such as fiscal equity investment fund to support the industrialized agriculture development. Sixthly, farmers and rural cooperatives are encouraged to purchase shares of leading companies with certain fiscal fund.

### 13. MOF and MOA jointly planned for the adjustment to the subsidy policy for oil price of fishing sector

On July 9, MOF and Ministry of Agriculture (MOA) jointly issued the *Circular on the Adjustment of Oil Price Subsidy Policy for Domestic Fishing and Breeding Industry to Promote Sustainable and Sound Development of Fishing Industry*. The adjusted policy took effect on January 1, 2015. In accordance with the idea that the total subsidy will not decline and the stock subsidy will be adjusted to ensure funding for priorities while taking all factors into consideration, the subsidy policy is adjusted to a comprehensive supportive policy with both special transfer payment and general transfer payment. Based on the clearing figure of 2014, 20% of the subsidy will be used as special transfer payment for fishermen to reduce the number of fishing vessels and shift assets and for fishing vessels to be upgraded and renovated. 80% of the subsidy will be allocated as general transfer payment for local governments to subsidize the production cost of fishing industry, changes of products and switch of jobs. It is aimed that the oil price subsidy of fishing industry will be cut to 40% of the level in 2014 as of 2019.

### 14. MOF issued the circular on the VAT policies related to space launch

On July 13, MOF issued the circular on the VAT policies related to space launch. (1) The supply of space transportation services by domestic providers is subject to zero VAT rate and is eligible for tax

exemption or rebate. (2) The spacecrafts and the related goods delivered in orbit by the domestic providers are regarded as exports, and as such, are subject to policies on export VAT rebate and eligible for VAT exemption. The input tax acquired on the purchase can be rebated. (3) To apply for the VAT rebate, the domestic providers need to present launch contract or in-orbit delivery contract, the special VAT invoice or special letter of payment for customs duties on the purchase of space vehicles (and related goods) or spacecrafts (and related goods) under the project list of the above contracts, the special VAT invoice on the acceptance of operational support services for launch, and other documents required by the competent tax authorities.

### 15. MOF issued the circular on the preferential policies for the business tax of agriculture-related loans originated by the Department of Financial Services for Sannong, ABC

On July 14, MOF issued the circular on the preferential policies for the business tax of agriculture-related loans originated by the Department of Financial Services for Sannong<sup>1</sup>, Agricultural Bank of China (ABC). (1) From May 1 to December 31, 2015, the interest incomes of the loans originated by the selected county-level branches in ABC's pilot reform program to rural households, rural enterprises and rural organizations are eligible for a reduced business tax of 3%. (2) The loans to the rural households mentioned in the circular do not include the business-tax-free micro loans of rural households which are governed by the

1 Sannong refers to agriculture, rural area and farmer.

*Circular of the Ministry of Finance and the State Administration of Taxation on Continuing with and Improving the Relevant Tax Policies to Support Rural Financial Development.* (3) The selected county-level branches should keep separate accounts on the interest incomes that are eligible for reduced business tax; otherwise, the above preferential tax policies shall be withheld.

## **16. MOF issued the circular on the administration of term deposits as collaterals at commercial banks providing treasury management services for central and local government**

On July 14, MOF issued the circular on the administration of term deposits as collaterals at commercial banks providing treasury management services for central and local governments. (1) In addition to treasury bills, the local government bonds are added to the collaterals. (2) The collaterals are priced at the par value of the bonds, with the treasury bills and local government bonds pledged respectively at 105% and 115% of the deposit. (3) Fiscal authorities and the People's Bank of China (PBOC) will strengthen the risk management of those term deposits. In light of the changes in the bond market, MOF and PBOC will timely adjust the scope and proportion of collaterals to ensure the safety of deposits.

## **17. MOF issued the *Measures for the Administration of Central Fiscal Funds to Support the Development of Pre-school Education***

On July 15, MOF issued the *Measures for the Administration of Central Fiscal Funds to Support the Development of Pre-school Education*. (1) The funds fall into two categories: those aimed at rewarding the local efforts in expanding resources for inclusive pre-school education, and those used to encourage the local efforts in improving the financial aids to young children. (2) MOF and the Ministry of Education (MOE) determine the respective size of these two funds by considering the scale of available resources and the requirements of pre-school education reform. (3) The allocation of funds is based on the factor method. (4) MOF and MOE set targets for the use of the funds and conduct performance evaluation when appropriate in light of the progress made in each province. (5) The local fiscal and educational authorities should have clear mandate, exercise strong supervision and enhance the effectiveness of the fund use.

## **18. MOF issued the circular on strengthening the administration of central cultural enterprises' funds under the state-owned capital operation budget**

On July 15, MOF issued the circular on strengthening the administration of central cultural enterprises' funds under the state-owned capital operation budget. (1) The newly established Central Cultural Enterprise Group should speed up the consolidation of its internal assets and finances, and present the capital budget proposal in the name of the Group; the budgeted funds will be disbursed to the Group's account. (2) The capital budget should be prepared in a scientific and reasonable way, with the details and standards of expenditure clearly presented. (3) The project

document of the capital budget should be compiled in accordance with relevant regulations, and the data should be truthful, complete and reliable. (4) The performance of the project budget's execution will be important reference for MOF as it determines next year's capital budget arrangement. (5) The internal control system of capital budget should be established and improved, and the head of enterprise shall have the overall accountability for the execution of capital budget projects and the use of funds. (6) The proceeds of state-owned capital should be handed over to the state in full and on time. (7) Measures should be actively taken to better manage the capital budget execution.

## 19. MOF issued several opinions on improving the policies on government-subsidized student loans

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On July 16, MOF issued several opinions on improving the policies on government-subsidized student loans. (1) Lending policies are improved to lessen the financial burden on students. All the interests will be subsidized by the state during the schooling years, the maximum loan tenor is extended from 14 years to 20 years, and the grace period for principle payment lengthens from 2 years to 3 years. (2) To ensure the sustainable development of student loans, timely and adequate interest subsidies and risk compensation funds are arranged, verification and review of loans are strengthened, and campaigns are organized to promote integrity and credibility among borrowers. (3) To better manage the loans, capacity building of the loan-processing agencies and personnel is strengthened, and programs are conducted to enhance the publicity of policies on government-subsidized student loans.

## 20. MOF issued the circular on strengthening review on central departments budget

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On July 20, MOF issued the circular on strengthening the review on central departments budget, which provides the following. (1) Rationalizing the duties of budget review. The central departments and MOF carry out review respectively in accordance with their purview. (2) The review scope should be defined to target at departmental budget on projects expenditure. (3) Review contents should be clarified. (4) The review procedures should be well managed. Departments should review the budgets of their own and their subordinates following the principle of "reviewing first, handing over to the treasury later". (5) The review method should be standardized. Based on the budget management level, departments are free to choose the mode of centralized review or decentralized review. (6) The fund for budget review should be guaranteed. The principle of "whoever entrusts is responsible for payment" will be abided by so that the entrusting parties bear the cost of budget review. No review institutions or experts are allowed to charge the reviewed parties.

## 21. Executive meeting of the State Council determined to put in place critical illness medical insurance for urban and rural residents nationwide to better safeguard the life health of poor people

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On July 22, Premier Li Keqiang chaired the executive meeting of the State Council which decided that: (1) a portion of fund from urban residents' basic medical insurance and the new

rural cooperative medical system will be used to set up a sound major-illness insurance scheme as of 2017; (2) the insurance will be run by commercial insurance agencies chosen by the government through bidding. Such agencies will be required to achieve a balanced budget and make a small profit, and the capital safety and payment capacity should be ensured; (3) the insurance will be closely linked with medical assistance. Medical insurance and charity aid will be provided to help patients who have difficulties to pay medical cost despite of the coverage by the insurance so as to effectively prevent catastrophic health expenditure.

## **22. MOF released a circular related to the fund management in the transitional period of the reform to the planning and management of central government financed scientific and technological projects**

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On July 23, MOF released the circular related to the fund management in the transitional period of the reform to the planning and management of central government financed scientific and technological projects, which provides the following. Firstly, central funds for science and technology will be consolidated. In the budget of early 2015, the funds have been consolidated through the ways of wiping out budget, standardizing expenditure scope and budget management channels. Apart from the approved follow-up fund, no new fund from the wiped out budget shall be allocated to new projects. The expenditure scope of special funds designated to support a particular industry or sector shall be standardized to no longer support the research

and development of science and technology. For the budget management channels that are to be standardized, the management methods can adopt the existing measures before the consolidation of management channels. Secondly, since 2016, the relevant financing channels shall not arrange new projects apart from the follow-up appropriation for ongoing projects upon strict review. The ongoing projects shall be managed in accordance with the previous management methods.

## **23. MOF issued a circular on the public disclosure of government procurement related information**

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On July 24, MOF issued a circular on the public disclosure of government procurement related information, which provides the following. First, the purchaser or his commissioned agency should disclose procurement projects related information, including procurement announcements, documents, budget, the results of procurement, etc. Second, fiscal authorities should disclose regulatory penalties on procurement projects, including complaints, monitoring and inspection actions made by the fiscal authorities, appraisal and performance evaluation on centralized procurement agencies, as well as illegal behavior and dishonest records. Third, relevant government agencies should disclose government procurement related information in accordance with laws, rules and regulations. Fourth, fiscal authorities at all levels, various government agencies and units should establish working mechanisms with clear division of responsibilities and ensure effective implementation of the duty of government procurement information disclosure. Fifth, fiscal



authorities at all levels should make government procurement information disclosure an important part of supervision and inspection.

#### **24. MOF issued a circular on taxes relating to the import of medical testing and analyzing instruments by research institutions**

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On July 27, MOF issued a circular on taxes relating to the import of medical testing and analyzing instruments by research institutions, which provides the following. First, the import of medical testing and analyzing instruments can still enjoy tariff exemption based on the *Interim Import Tax Exemption Provisions for Scientific Research and Teaching Instruments and Interim Import Tax Exemption Provisions for R&D Instruments*. Second, the scope of qualified importers of tariff exempted medical testing and analyzing instruments and accessories is expanded to non-medical colleges, professions and non-pharmaceutical scientific research as well as technology development institutions. Third, the function and quantity of medical testing and analyzing instruments and accessories imported by research institutions should be matching their research or teaching tasks. Fourth, MOF and relevant government authorities should conduct supervision or verification of import of tax-exempted medical testing and analyzing instruments by research institutions.

#### **25. The State Council issued a guideline on promoting steady growth of imports and exports**

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On July 27, the State Council issued a guideline on promoting steady growth of imports and exports, which provides the following. First, clean up and regulate the import and export related fees and charges. A nationwide special action is to be carried out on this regard. Second, maintain basic stability of the RMB exchange rate based on rational equilibrium. The market-based RMB exchange rate formation mechanism is to be further improved and the two-way floating range of the RMB exchange rate is to be expanded. Third, enhance export credit and insurance support. The scale of short-term export credit insurance is to be further expanded, so as to strengthen the support for small and micro enterprises and their exploration into emerging markets. Fourth, accelerate the development of new business models of foreign trade. Fifth, continue to promote import growth. Sixth, improve the level of trade facilitation, through further decentralization of administrative power and improvement in government service efficiency. Seventh, effectively improve financial services. Greater financing support should be provided to enterprises with good business performance.

#### **26. MOF issued the *Interim Measures on the Management of Special Funds for SMEs Development***

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On July 28, MOF issued the *Interim Measures on the Management of Special Funds for SMEs Development*, which provides the following. First, the special funds are used for earmarked purpose and should be managed as such to ensure regulated, safe and efficient use of the funds. Second, MOF is responsible for the

budget management and financing allocation of the special fund, and is to carry out budget monitoring and performance evaluation for the funds. Third, MOF is to work with relevant government agencies to make timely and appropriate adjustments to the priority areas supported by the special funds, and issue relevant working guidelines for the implementation. Fourth, the recipients of the fund should be classified in categories of government agencies, institutions and enterprises. Fifth, MOF is to work with other agencies to establish regular evaluation and withdraw mechanisms, carry out performance evaluation as needed, and strengthen the application of performance evaluation findings. Sixth, MOF is to work with other agencies to strengthen budget supervision of the funds and take promptly rectification as necessary.

## 27. The State Council executive meeting decided to promote tourism investment and consumer policy measures

On July 28, Premier Li Keqiang chaired a State Council executive meeting to design policy measures to promote tourism investment and consumption. First, improve the environment for tourism consumption. Efforts should be made to support the development of regional airports in the mid-west regions, roads connecting sightseeing sites, car parks, toilets and other tourism related facilities, and properly regulate the price and operation order of the tourism market. Second, develop featured rural tourism, support college graduates and migrant workers to start self-employing business in rural tourism. Third, tap new tourism consumption growth areas. Access

to and operation permits for new “Internet +” industries such as online vacation rentals and travel car rentals should be relaxed and expanded, and with-pay vacation should be encouraged. Fourth, increase government input and leverage private resources to encourage PPP and other investment modes in the development and operation of tourism projects. Financing channels for tourism enterprises should be broadened and financial institutions are encouraged to increase credit support.

## II. Facts & Figures

### 1. China's industrial profits rose by 0.6% in May

According to the data released on June 28 by the National Bureau of Statistics (NBS), the profits generated by industrial enterprises above designated size in May totaled 520.71 billion RMB, an increase of 0.6% year on year, which was 2 percentage points lower than that in April. Analysis shows that due to slack market demand for industrial products in May, the main business revenue of industrial enterprises above designated size rose by 0.5% year on year, down by 0.1 percentage point compared with April. Meanwhile, return on investment for those enterprises increased by 33.7% year on year, down by 12.7 percentage points over April. Total amount of investment income grew by 9.53 billion RMB, the growth amount dropped by 2.08 billion RMB over April. The data also shows that

in the first five months of this year, total profits of industrial enterprises fell by 0.8%, but the pace of declining was 0.5 percentage point lower than the previous four months.

## 2. The central budget revenue reached 6.449345 trillion RMB in 2014

According to the data released on June 28 by MOF, the central general public budget revenue was 6.449345 trillion RMB in 2014, 100.2% of the planned budget, 7.1% up from 2013. Adding the 100 billion RMB transferred from the central budget stabilization fund earlier this year, the total actual revenue was 6.549345 trillion RMB. The central budget expenditures stood at 7.416111 trillion RMB, 99% of the planned budget, an increase of 8.3% over 2013. Among the expenditure, the central government spending was 2.257007 trillion RMB, 100.3% of the budgeted figure, an increase of 10.2%. The tax rebates and transfer payments from central to local governments was 5.159104 trillion RMB, 99.5% of the planned budget, up by 7.4%. Adding the supplement central budget stabilization fund of 83.234 billion RMB, the total expenditure was 7.499345 trillion RMB. When the central revenue and expenditure were put to balance, there was a deficit of 950 billion RMB, in line with the budgeted figure. At the end of last year, the outstanding account of the government debt was 9.565545 trillion RMB, under the controlled ceiling of 10.070835 trillion RMB.

## 3. Lottery sales in China in May

According to the data released on June 30 by

MOF, the total domestic lottery sales was 32.107 billion RMB in May, an increase of 1.313 billion RMB year on year, an increase of 4.3%. Among the total sales, the welfare lottery sales was 18.053 billion RMB, an increase of 404 million RMB, up by 2.3%. The sports lottery sales stood at 14.055 billion RMB, an increase of 909 million RMB, up by 6.9%. From January to May, the total lottery sales was 159.554 billion RMB, an increase of 17.197 billion RMB and 12.1% growth year on year. Among them, the welfare lottery sales was 86.661 billion RMB, an increase of 4.973 billion RMB and 6.1% growth, and the sports lottery sales was 72.893 billion RMB, grew by 12.224 billion RMB, an increase of 20.1%.

## 4. Manufacturing PMI stood at 50.2% in June

According to the data released on July 1 by NBS, China's manufacturing PMI was 50.2% in June, on par with last month. In terms of various sizes of enterprises, the PMI of large enterprises was 50.8%, edged up by 0.1 percentage point on last month; the PMI of medium enterprises was 50.2%, down by 0.2 percentage point. For small business, the PMI was 47.5%, down by 0.4 percentage point, a contraction of two months in a row.

## 5. The central government allocated 2.38 billion RMB as medical subsidy to entitled groups

According to the data released by MOF on July 7, the central government allocated an extra

710 million RMB based on the previous 1.67 billion RMB, which totaled 2.38 billion RMB, to address the medical treatment difficulties of 4.408 million entitled groups. Since 2004, the central government started to allocate medical subsidy to the entitled groups. From 2004 to 2015, 100 million RMB was allocated each year. The figure increased to 1.53 billion RMB each year for 2006 and 2007, 2 billion RMB from 2008 to 2012 and 2.38 billion RMB since 2013.

## 6. CPI in June increased by 1.4%

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According to the data issued by NBS on July 9, in June, the Consumer Price Index (CPI) went up by 1.4% year on year. The prices grew by 1.4% in cities and 1.2% in rural areas. The food prices went up by 1.9%, and the non-food prices increased by 1.2%. The prices of consumer goods went up by 1.1% and the prices of services grew by 2.2%. In the first half of the year, the overall consumer prices were up by 1.3% over the same period of the previous year. In June, the consumer prices kept at the same level month on month. Of which, prices maintained the same level in cities and went up by 0.1% in rural areas. The food prices went down by 0.1%, and the non-food prices went up by 0.1%. The prices of consumer goods kept at the same level and the prices of services increased by 0.2%.

## 7. PPI in June declined by 4.8% year on year

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According to the data issued by NBS on July 9, in June 2015, the Producer Price Index (PPI) for

manufactured goods decreased by 0.4% month on month, and decreased by 4.8% year on year. The purchasing price index for manufactured goods decreased by 0.2% month on month, and decreased by 5.6% year on year. In the first half of the year, PPI decreased by 4.6% year on year, and the purchasing price index for manufactured goods went down by 5.5% year on year.

## 8. China's exports rose by 0.9% year on year in the first half of 2015

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The data released by the General Administration of Customs (GAC) on July 13 shows that China's imports and exports in the first half of 2015 totaled 11.53 trillion RMB, down by 6.9% year on year, among which, exports were 6.57 trillion RMB, up by 0.9% year on year; imports were 4.96 trillion RMB, down by 15.5% year on year. Trade surplus reached 1.61 trillion RMB, an increase of 1.5 times.

## 9. China's GDP grew by 7% year on year in the first half of 2015

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The data released by NBS on July 15 shows that China's GDP in the first half of 2015 amounted to 29.6868 trillion RMB, up by 7% in terms of comparable price. The GDP growth rate hit 7% year on year for both the first and the second quarter, and in the second quarter, it recorded an increase of 1.7% quarter on quarter. With regard to the value-added in different industries, it reached 2.0255 trillion RMB in the primary industry, up by 3.5% year on year; 12.9648 trillion RMB in the secondary industry, up by 6.1% year on year; and 14.6965

trillion RMB in the tertiary industry, up by 8.4% year on year.

## 10. China's fiscal revenue and expenditure in June

The data released by MOF on July 15 shows that national total revenue under the general public budget stood at 1.5335 trillion RMB in June, up by 13.9% year on year, among which, central government revenue was 645.4 billion RMB, up by 17.9% year on year; local government revenue was 888.1 billion RMB, up by 11.2% year on year. The tax revenue under the general public budget was 1.1976 trillion RMB, up by 10.8% year on year. National expenditure under the general public budget was 1.8814 trillion RMB, up by 13.9% year on year, among which, central government expenditure was 225.1 billion RMB, up by 11.6% year on year; local government expenditure was 1.6563 trillion RMB, up by 14.2% year on year.

## 11. The central government allocated 13.89 billion RMB for rural poverty alleviation and development

The data released by MOF on July 20 shows that the central government has recently allocated 13.89 billion RMB to support the poverty alleviation and development in rural areas. In 2015, the budget allocated 46.09 billion RMB to local governments as poverty alleviation subsidy, an increase of 8% compared with the previous

year and mainly includes 37.01 billion RMB as development fund, 4 billion RMB as ethnic minority development fund, 4.1 billion RMB as work-relief fund, 300 million RMB as three west fund<sup>2</sup>, 420 million RMB as poverty alleviation fund for state-owned poor forestry centers and 260 million RMB as poverty alleviation fund for state-owned poor farms.

## 12. The central government allocated 408 million RMB to support the breeding of improved varieties

The data released by MOF on July 21 shows that the central government recently allocated 408 million RMB of comprehensive agricultural development fund to support the breeding of improved varieties in 130 improved variety breeding bases of 30 provinces, autonomous regions and municipalities. The fund will be mainly used to support the pedigree seed propagation base, the stock breeding base, potato production base, grass seed breeding base, and horticultural crops and seedling fostering. With the support of the fund, the supply capacity of fine seeds will be further enhanced to effectively safeguard the seed use security and promote the national food security and the efficient supply of agricultural products.

## 13. Performance of SOEs from January to June

Data released by MOF on July 21 indicated that

2 Three West refers to the Hexi region of Gansu Province, 20 arid counties in the middle of Gansu Province and Xihai area of Ningxia Hui Autonomous Region.

in the first half of this year, the total operating revenues of state-owned enterprises (SOEs) amounted to 21.76898 trillion RMB, down by 5.8% year on year. In breakdown, the operating revenues of central SOEs amounted to 13.212 trillion RMB, down by 7.1% year on year; the operating revenues of local SOEs reached 8.55698 trillion RMB, down by 3.7% year on year. In the first half of the year, the total profit of SOEs amounted to 1.23329 trillion RMB, a drop of 0.1% year on year. In breakdown, the profit of central SOEs registered at 872.43 billion RMB, a decrease of 3.1% year on year; the profit of local SOEs went to 360.86 billion RMB, an increase of 8.2% year on year. The tax paid by SOEs was 1.87191 trillion RMB, an increase of 1.5% year on year, of which 1455.46 billion RMB was from central SOEs, up by 1.3% year on year, and 416.45 billion RMB was from local SOEs, up by 2% year on year.

#### **14. The central government allocated 209 million RMB to support demonstrative forestry ecology projects**

The data released by MOF on July 22 shows that the central government recently allocated 209 million RMB of comprehensive agricultural development fund to support the demonstrative forestry ecology projects in 169 counties of 23 provinces, autonomous regions and municipalities. The fund will be mainly used for artificial forestation, hillsides enclosure for afforestation, air seedling and afforestation and rebuilding of low-effect forestry. It is predicated that with this

3 1 mu equals to 666.66 square meters.

project, 500,000 mu<sup>3</sup> of soil erosion area can be put under control, 430,000 mu of new forestland can be created and 230,000 mu of desertificated land will be treated.

#### **15. The central government allocated 900 million RMB of special lottery public welfare fund to support poverty alleviation and development of old revolutionary base**

The data released by MOF on July 22 shows that the central government recently allocated 900 million RMB of special lottery public welfare fund to local governments for poverty alleviation and development of old revolutionary base. The fund will be mainly used to support the small-scale and productive infrastructure projects in the poor old revolutionary areas to improve the working and living standards of poor villages and help poor people develop production and increase revenue. In a bid to enhance fund utilization efficiency, the central government will delegate the duties of projects review and approval to local governments, clarify the scope and priority for the use of fund, and guide local governments to consolidate funds to address the prominent issues in the economic and social development of the poor old revolutionary areas. At the same time, the central finance will attach great importance to the fund supervision and projects guidance to ensure the fund safety and orderly implementation of projects.

#### **16. China's industrial enterprises**

## above designated size realized a total profit of 2.84418 trillion RMB in the first half of the year

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According to the data released by the NBS on July 28, in the first half of this year, China's industrial enterprises above designated size generated a total profit of 2.84418 trillion RMB, down by 0.7% compared with last year. In June, industrial enterprises above designated size realized a total profit of 588.57 billion RMB, down by 0.3% compared with the same period of last year. Among those enterprises, the state-holding enterprises realized a total profit of 598.02 billion RMB, down by 21.2%; the collectively-owned enterprises realized a total profit of 23.53 billion RMB, down by 0.1%; the joint-stock enterprises generated a total profit of 1.85526 trillion RMB, down by 1.7%; the foreign and Hong Kong, Macao and Taiwan-invested enterprises realized a total profit of 721.67 billion RMB, increased by 4.2%; and the total profit generated by the private enterprises was 977.13 billion RMB, an increase of 6.3%.

## 17. Small and micro enterprises enjoyed 48.6 billion RMB of tax incentives in the first half of this year

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According to the data published by the Economic Daily on July 28, tax revenues collected by tax agencies in the first half of this year amounted to 5.9373 trillion RMB (deducting export tax rebates), an increase of 6.3% compared with the same period of last year, basically on par with the economic growth. Meanwhile, structural tax relief policies made significant achievements. The

tax cuts for replacing business tax with value-added tax and tax preferences for small and micro enterprises were 110.2 billion RMB and 48.631 billion RMB respectively in the first half of the this year. In the first and second quarter of this year, tax revenue significant rose by 3.4% and 8.8% respectively. In terms of various industries, tax revenues from the secondary and tertiary industry grew by 3.1% and 6% respectively in the first half of the year. The growth and proportion of the tax revenue from the tertiary industry continued to significantly outpace those of the secondary industry.

## 18. Lottery sales in China in June

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According to the data released on July 29 by MOF, China's total lottery sales was 28.12371 billion RMB in June, down by 7.93 billion RMB, a drop of 22% compared with the same period of last year. Among the total sales, the welfare lottery sales was 16.183 billion RMB, down by 631 million RMB, or a decrease of 3.8%; the sports lottery sales was 11.941 billion RMB, down by 7.299 billion RMB, or a decrease of 37.9%. From January to June, the cumulative lottery sales was 187.678 billion RMB, an increase of 9.268 billion RMB, or 5.2% up over last year. Among the total sales, the welfare lottery sales reached 102.844 billion RMB, an increase of 4.343 billion RMB, or 4.4% of increase; the sports lottery sales was 84.834 billion RMB, an increase of 4.925 billion RMB, increasing by 6.2%.

## 19. A brief overview of China's government procurement in 2014

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According to the data released on July 30 by MOF, government procurement in 2014 amounted to 1.730534 trillion RMB, an increase of 92.424 billion RMB over last year, up by 5.6%, though the growth rate was down by 11.6%. The size of government procurement accounted for 11.4% and 2.7% of the national fiscal expenditure and GDP respectively. Among the government procurement, the engineering procurement was 1.014111 trillion RMB, accounting for 58.6% of the total procurement, an increase of 2.2% over the previous year, while the pace of growth was down by 16.3%. Procurement of goods amounted to 523.004 billion RMB, accounting for 30.2% of the total procurement, an increase of 6.3% over the previous year, while the pace of growth declined by 5.8%. Due to the reform of official car system, the national procurement of official vehicles reduced by 7.794 billion RMB, or a decrease of 27.6%. Procurement of service amounted to 193.425 billion RMB, an increase of 26.1%, accounting for 11.2% of the total procurement, increased by 1.8% over the previous year. Centralized bulk procurement totaled 200.131 billion RMB, accounting for 17.1% of the centralized procurement, which stood at 1.17345 trillion RMB.

## 20. The central government allocated 23.645 billion RMB of subsidies for agricultural equipment purchase

According to the data released on July 30 by MOF, the central government allocated 23.645 billion RMB of subsidies for purchases of agricultural equipment in 2015. Since such agricultural subsidies were implemented in 2004, the central government has been intensifying

its fiscal support on this regard. As of 2015, a total of 143.507 billion RMB of subsidies have been provided. Such arrangement has played a positive and facilitation role for the farmers to purchase and use farm machinery, to upgrade agricultural equipment, enhance the level of agricultural operations, and promote agricultural mechanization and industrial development of agricultural machinery.

### III . MOF Events

1. On June 28-29, Finance Minister Lou Jiwei met with Mr. Joe Hockey, the Treasurer of Australia, Mr. Johann Schneider-Ammann, Vice President of Switzerland and Head of Department of Economic Affairs, and Mr. Ishaq Dar, Finance Minister of Pakistan who came to China for the signing ceremony of the AoA of the AIIB and Special Ministerial Meeting.

2. The signing ceremony of the AIIB Agreement was held on June 29 in Beijing. The finance ministers or their authorized representatives from 57 perspective founding members of the AIIB attended the signing ceremony. The 50 countries which have completed their domestic approval process signed the Agreement. Finance Minister Lou Jiwei signed the Agreement as China's authorized representative and delivered a speech at the ceremony.



3. On June 29, Finance Minister Lou Jiwei hosted a special finance ministers' meeting for the AIIB members. The finance ministers or their authorized representatives from 57 perspective founding members of the AIIB and Mr. Jin Liqun, the Secretary-General of the interim multilateral secretariat attended the meeting. The representative of Hong Kong SAR government attended the meeting as a part of the Chinese delegation.

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4. On June 29, Vice Finance Minister Shi Yaobin met with Mr. Jim O'Neill, Treasury Minister of the U.K. who came to China for the signing ceremony of the AoA of the AIIB and Special Ministerial Meeting.

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5. On June 30, the disciplinary head of MOF Liu Jianhua had a bilateral meeting with Haier Mariam, the Ethiopian Prime Minister, during the African Investment Forum held in the Ethiopian capital Addis Ababa. The two sides exchanged views on further expanding and deepening mutually beneficial cooperation.

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6. On July 1, Vice Finance Minister Shi Yaobin met with Dr. Yoichi Nemoto, the Director of ASEAN+3 Macroeconomic Research Office (AMRO).

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7. On July 6, Finance Minister Lou Jiwei attended and co-chaired with Mr. Anton Siluanov, Finance Minister of Russia, the Sixth China-Russia Financial Ministerial Dialogue in Moscow. Vice Finance Minister Shi Yaobin also took part in the

Dialogue.

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8. On July 7, Finance Minister Lou Jiwei attended the Finance Ministers and Central Governors' Meeting of BRICS in Moscow. Vice Finance Minister Shi Yaobin accompanied to the meeting.

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9. On July 7, Finance Minister Lou Jiwei and Vice Finance Minister Shi Yaobin attended the first Board of Governors Meeting as the Governor and Deputy Governor respectively of the NDB in Moscow.

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10. On July 9, Vice Finance Minister Shi Yaobin signed the *Third Amendment to the Third Protocol for Financial Cooperation between the Government of China and the Government of Israel* with Ms. Michal Abadi-Boiangiu, the Accountant General of the Ministry of Finance of Israel, in Tel Aviv.

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11. On July 13-15, Finance Minister Lou Jiwei, as the representative of President Xi Jinping, attended the Third UN International Conference on Financing for Development in Addis Ababa, Ethiopia and addressed the General Debate Session. On the sidelines of the conference, Minister Lou met with Mr. Jacob Lew, U.S. Treasury Secretary, Mr. Hailemariam Desalegn, Prime Minister of Ethiopia, Mr. Ban Ki-moon, UN Secretary-General, and Mr. Nwanze, President of IFAD.

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12. On July 16, Finance Minister Lou Jiwei

met with Mr. Jim Yong Kim, President of the World Bank and signed the Agreement on the Management of China-World Bank Partnership Fund.

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13. On July 20-21, Finance Minister Lou Jiwei attended the opening ceremony events of the NDB and jointly launched the NDB together with Mr. Yang Xiong, the mayor of Shanghai and Mr. Kamath, the President of the NDB, which signified the official opening of the NDB.

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14. On July 20-21, Vice Finance Minister Shi Yaobin chaired the opening ceremony of the NDB and the International Seminar on the NDB in Shanghai.

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15. On July 21, Finance Minister Lou Jiwei went to Shanghai National Accounting Institute to conduct research and give guidance. Deputy Finance Minister Shi Yaobin and Assistant Finance Minister Dai Bohua accompanied this trip.

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16. On July 22, Vice Finance Minister Liu Kun attended the National Finance Working Conference and delivered a speech.

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17. On July 24, Vice Finance Minister Yu Weiping met with Masamichi Kono, President of the Oversight Committee of the International Financial Reporting Standards Foundation.

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18. On July 29, Finance Minister Lou Jiwei attended a national video conference in Beijing on fiscal and financial work and delivered a speech. Vice Finance Minister Zhang Shaochun chaired the conference.

## IV. Local Finance

### 1. Fiscal authorities of Zhejiang Province took multiple initiatives to promote modern agricultural production

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On June 30, Finance Department of Zhejiang Province announced multiple measures to support modern agriculture through combining various fiscal resources and inviting private capital investment, in order to increase grain production and farmers' income. First, highlight the development of competitive industries. Based on sector development plans for agriculture, forestry, water conservancy and taking local conditions into account, the industrial layout and regional planning is to be further optimized. Second, improve fiscal support for industrial development. In the past, the support was placed on extensive operation model featuring production quantity and relied on resource consumption. Further on, the focus will be placed on the intensive model which emphasizes both quality and quantity, competitiveness, scientific innovation in agriculture and sustainable development. The aim is to embark on a modern

agricultural development path featuring efficiency production, safe products, resource saving and environment protection. Third, support moderate scale of operation. An important aspect of modern agricultural production is the development of various forms and appropriate scale of production, and it will become a major focus of fiscal support. Incentives are to be given to innovative farming operation mechanisms, as well as to the intensive production and scale of economy for competitive industries. Efforts will be made to promote effective connection between modern agricultural projects and new types of business entities, improve profit-sharing mechanisms between new business entities and farmers, encourage and guide the orderly transfer of rural land contract and management rights, so as to further enhance moderate sizes of agricultural production. Fourth, strengthen policy coordination to support agricultural production. Efforts will be made to support competitive leading industries and enhance coordination among various projects. At the same time, the province will continue to coordinate funds with policies of supporting national demonstration zone for modern agricultural, woody oil industry development, vegetable production, water-saving and grain production efforts, as well as high-standard farmland development.

## **2. Fiscal authorities of Jiangsu Province enhanced support for vocational education**

According to the news released on July 2 by the Finance Department of Jiangsu Province, fiscal authorities at various levels in Jiangsu have increased financial support to vocational

education during the Twelfth Five-Year Plan period, to give full play to the supporting role of fiscal finance. In 2013, fiscal input to vocational education reached 14.667 billion RMB, an increase of 4.883 billion RMB compared with 2010, up by 49.9%. In 2014, vocational education expenditure of the province reached 15.526 billion RMB. First, support key vocational colleges and featured professional programs. Since 2012, the provincial fiscal authorities have arranged 250 million RMB of special funds to support 202 professional programs in provincial priority vocational high schools, 269 featured programs in vocational middle schools, and 108 professional programs of 5 year vocational education. Efforts were also made to promote curriculum reform and systematic design of vocational education. Second, encourage private capital to invest in vocational education. The provincial fiscal department issued guidance to encourage enterprises to participate in or take the lead in vocational program initiatives. Tax incentives were stepped up based on the number of students trained or teaching staff. Furthermore, tax exemptions were combined with fiscal subsidies to encourage enterprises to participate in vocational education through various forms of investment. Third, promote resources and facility sharing for vocational education. The provincial fiscal authorities provided strong support for the construction of vocational training institutions by allocating provincial matching funds for central training programs. Since 2011, a total of 200 million RMB of special funds were earmarked.

## **3. Guangxi Zhuang Autonomous Region fully supports the implemen-**

## tation of policies for employment and entrepreneurship

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According to the news released on July 7 by the Finance Department of Guangxi Zhuang Autonomous Region, the department has been earnestly implementing the decisions and plans of the central and autonomous region government for promoting employment and entrepreneurship under the new circumstance and been providing full support to the implementation of policies and measures for vigorously promoting mass entrepreneurship and individual innovation. Firstly, the government has provided social insurance subsidy to the qualified enterprises that create new jobs. Secondly, the government has given appropriate housing allowances to the designated mass innovation space. The region has encouraged the development of innovation space through various forms and provided housing and Internet allowances to innovation space in the identified innovation incubator bases. Thirdly, subsidy and discounted loans have been provided to the enterprises that have moved to the incubator bases and created new jobs. Fourthly, the government has supported the expansion of tuition fee compensation policy for the university graduates who work in rural grassroots. Fifthly, the monthly subsidy for interns has been raised from 750 RMB per person to 900 RMB per person. If the company continues to employ more than 50% of new interns after the internship, the subsidy can be further increased to 1200 RMB per person. Sixthly, the government has supported and encouraged the establishment of Demonstrative Farmers Entrepreneurship Park in each city, which will be subsidized by autonomous region government with special fund for farmers' entrepreneurship. Seventhly, the government has

supported the farmer skill competitions to enhance the entrepreneurial skills and employment quality of farmers.

## 4. Qinghai Province innovates fiscal investment to achieve equalization of public service

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According to the news released on July 6 by the Finance Department of Qinghai Province, since last year, the province has carried out in-depth study to introduce the Implementation Methods on the Government Procurement of Old Age Service and the Guidance List and has run the pilots in the areas of government procurement of old age and handicapped service, the training of urban and rural labor force skills and the coordination regulation on food and drug safety. Firstly, the province has steadily promoted the pilots of government procurement of old age service, and clarified the projects, methods, procedures and payment standards of the procurement. Secondly, the province has comprehensively carried out skill training for urban and rural labor forces. Thirdly, the province has actively promoted the pilots of government procurement of handicapped service. The procurement of service in six categories including the caring of the aged, rehabilitation, skill training, culture, legal aid and barrier free reconstruction is supported by the province. Fourthly, the province has actively explored the government procurement of food and drug coordinated regulation. The pilots of government procurement are smoothly implemented with initial outcomes, which can be reflected in the following ways: first, significantly transforming the ways of fiscal investment. With government

procurement of service, various players such as government, market and society can be reasonably positioned with benign interaction, while the private sector can be encouraged and guided to participate in the public service. Second, facilitating the changes of government functions. Government procurement of service changed the practice that the government takes on all things and can enable government departments to focus their time and allocate financial resources on their duties. Third, stimulating the development of social organization and service sector. Fourth, promoting the equalization of basic public service. While improving the quality of public service, the province effectively addressed the efficiency of the government supply of public service.

### **5. Sichuan Province launches a province-wide poverty reduction plan for the poor communities resettled after reservoir construction**

According to the news released by the Finance Department of Sichuan Province on July 15, Sichuan is launching a province-wide poverty reduction plan for poor communities resettled after reservoir construction, aiming to basically lift them out of poverty in 3 years. The specific measures include: (1) increase money input. It is expected that the provincial fiscal authorities will invest a total of 3 billion RMB from 2015 to 2017, with 1 billion RMB for each year. (2) innovate management model. Funds will be allocated in a quota-based and performance-linked way, and the counties (cities and districts) will be delegated with more mandate and power in identifying their own projects

and in determining the prioritization of project implementation for each year. (3) working mechanisms will be improved to implement targeted measures; consolidation of funds for agricultural development, poverty alleviation, and new countryside construction will be strengthened; private projects initiated by the villagers will be supported by the government; post-project management will be put in place; and quantified benefits will be brought to the poor people to help raise their property income.

### **6. Jiangsu Province progresses with fiscal and tax reform**

According to the news released by the Finance Department of Jiangsu Province on July 16, Jiangsu has been progressing with fiscal and tax reform since this year. (1) It continues to improve its fiscal system. 4.57 billion RMB of rewards and subsidies, which are to be included in the budget of cities and counties, have been disbursed to them in the first half of 2015 to build up their fiscal strength. General transfer payment continues to increase, and the possibility of early payment is explored. Special funds of provincial government departments are further slashed by 1/3 over 2014. (2) It studies the sharing of government duties. The duties over transport are rationalized between provincial and county (or city) governments, as the cities and counties now have clear obligations on maintaining and spending on rural roads, and 560 million RMB of funds have been disbursed to them for such purposes. (3) It experiments with new models of special funds. 3 billion RMB has been raised to create the Provincial Fund for Railway Development; Modern Agricultural Industry Fund, which consists of risk

compensation fund, credit investment fund and equity investment fund, has also been established. (4) It accelerates tax reform. The administration of tax incentives is rigorously enforced in accordance with state requirements, and newly introduced preferential policies are strictly monitored. The tax cut and exemption policies, which are rolled out by the state to boost the development of small and micro enterprises and mainly apply to the business income tax, business tax, VAT and stamp duty, will be implemented in a timely and effective way.

## 7. Chongqing Municipality implements proactive fiscal policy to effectively serve growth stability

According to the news released by the Finance Bureau of Chongqing Municipality on July 22, the city has been following the arrangement of the central government and steadily introduced a series of fiscal adjustment policies such as increasing expenditure, regulating tax and reducing fee charges to expedite the projects plan, fund disbursement, policy commitment and changes of the driving forces for economic development. In the first half year, the city allocated 166.78 billion RMB of budgeted expenditure, up by 19.6% and 0.4% higher than last year. The scale and speed of expenditure have notably accelerated. Firstly, increasing efficient investment and creating an investment pattern of which about 50% is on industrial and commercial sector, around 25% is on infrastructure and 25% is on real estate sector. Secondly, reinforcing the efforts to regulate tax and reduce fee charges to stimulate economy and avoid the tax low land. Thirdly, boosting social demand by upgrading consumption structure

and optimizing industrial structure. Fourthly, promoting the steady growth of foreign trade. The city actively participated in the Belt and Road Initiative and the development of Yangtze River Delta Economic Zone. 920 million RMB of special fund for business development has been set up and the bearing mechanism in export rebate has been improved and implemented to support Chongqing enterprises to go global. Fifthly, speeding up transformation and upgrade of economy, fostering emerging industries, consolidating 2.6 billion RMB of funds for industrial rejuvenation, private economy, business development and small and micro enterprises, and creating a fund of 80 billion RMB to serve the development of emerging industries. Sixthly, unleashing the innovation driving force to amend the mechanism and system that hinder innovation. Seventhly, improving city-county fiscal relationship and fully mobilizing the enthusiasm of the city and county governments to maintain stable growth.

## 8. Yueyang City of Hunan Province makes steady efforts to promote PPP as a pole of economic growth

According to the news released by the Finance Department of Hunan Province on July 23, since this year, Yueyang City of Hunan Province has been making overall plan to steadily promote the use of PPP model as a new pole of economic growth. Firstly, giving priority to the establishment of mechanisms and the design of working plan. The Municipal Party Committee and the government attach great importance to PPP. The municipal government set up a leading group for PPP projects with the PPP center launched by the Finance Bureau of Yueyang City.

A coordination mechanism has been developed to coordinate the management over PPP citywide. The systems and mechanisms covering the areas of market access, government procurement, budget management, risk sharing, process management, performance evaluation and dispute resolution have been improved, and the process for PPP projects application and review has been formulated to clarify the operational rules of PPP projects and thus ensuring there are rules to follow. At the same time, intermediary agencies for PPP projects are open to the society and selected through government procurement process. Secondly, laying emphasis on publicity. The paper media, TV and network among others have been given full play to vigorously publicize the concept and policy of PPP to enhance the understanding and consensus of the public about PPP. Thirdly, focusing on projects implementation. The PPP projects pool for 2015 has been set up with 20 projects of a total investment of 33.22 billion RMB. The medium and long term project pool will also be established and the city will actively apply the provincial level demonstrative projects and expedite the implementation of pilot projects.

## 9. Finance Department of Shanxi Province: financial support for the development of SMEs

On July 27, according to the news released by the Finance Department of Shanxi Province, in early July, the venture capital fund for SMEs, which was sponsored by and under the guidance of Shanxi Finance Department, has supported two companies to be listed in the newly established commissioned stock-transfer platform, which is a new approach of fiscal support for SMEs

development. First, it is a shift from “blood transfusion” to “blood generation” mode of fiscal support. By leveraging private investment, the multiplier effect of fiscal input was amplified, which was an important part of the initiative of financial revitalization in Shanxi. Through the recent implementation of SMEs venture capital funds, enterprises got financial support to access the equity investment platform. The previous “blood transfusion” mode may provide temporary solution, but the venture capital funds can bring long-term investment while enhancing the enterprises’ own financing capacity. Second, the fund is to guide investment flows through market force and boost economic restructuring. As Shanxi’s first policy guidance fund, the operation of the venture capital fund for SMEs has been adhering to market principles since its establishment. The project selection, investment, management and exit of the fund are operated by professional teams, in order to ensure profitable operation of the fund and rational exit when necessary. Through accumulative and rolling development, the fund would be able to serve more SMEs. To find good and viable projects to invest, the management company of the fund has been researching and screening enterprises since 2013 to build up a project pool, which currently covers 11 municipal-owned enterprises and 867 private firms. Meanwhile, the fund management company joined hands with Shanxi Securities and held over 300 special training programs in the province, in a bid to facilitate enterprises’ connection with the capital markets. So far, the fund has locked down nearly 50 potential SMEs, among which 44 projects have completed the due diligence process, 33 projects have been approved, and five projects have received investment.

## 10. Shandong Province actively promoted information disclosure of special funds

According to the news released on July 29 by the Finance Department of Shandong Province, the province formulated and published the *Interim Measures for Information Disclosure on Provincial Special Funds*. The Measures focused on resolving the issues of incomplete, unclear and inconsistent information disclosure of special funds in the province, and safeguarding the public's right to know, to participate in and supervise the operation of the fund. The Measures provides the following: first, set clear scope for information disclosure. The principle is that most information relating to the special funds should be disclosed except for exceptions such as classified information. Second, the scope of disclosure is to be expanded. Based on management process, the whole chain of fund management should be disclosed, including public directory of the fund, management systems, reporting guidelines, allocation formulas and factors, allocation results, performance evaluation findings, etc., so that relevant parties can have full and comprehensive access to the information of special funds. Third, rationalize and clarify channels for public disclosure. Relevant authorities in charge of certain special fund, including fiscal and management authorities, should take the responsibility of disclosing relevant information. The main channels for disclosure are the official websites of management or supervision agencies. Relevant information can also be published through document notification, administrative micro-blogging, public announcement, etc., to effectively improve the relevance and timeliness of disclosure. Fourth, the disclosure procedure should be strengthened. The information for funding

directories, management system and performance evaluation findings should be published within 20 working days after it becomes available. Guidelines for the fund application should be made public on the day of its issuance by the provincial authority. Fund allocation results should be published within 5 working days after the allocation was determined by relevant provincial or city-level authorities or was issued through official document. For the funds allocated to provincial departments, the information should be published together with the departmental budget.

## V. Remarks & Opinions

### 1. Li Keqiang: engineering stable and solid economic performance with more targeted and effective measures, and upgrading the economy by striking a right balance between stable growth and structural reform

Recently, Premier Li Keqiang chaired and addressed a symposium. According to Premier Li, to assess the state of economy in a scientific way, it is important to not only recognize that the world economic recovery is fraught with twists and turns and faced with growing uncertainty, the implications of which merit high attention, but also note that the Chinese economic structure is improving, growth engine is shifting, and the trends in different regions



and sectors are diverging. Although the years-old structural problems are further surfacing, the prospects of solid growth in the long term remain unchanged, and China's economy still has great resilience, potential and room for maneuver. As the economy has both the growth momentum and downward pressure, we need to continue to follow the requirements of the Central Economic Work Conference, implement the plans in the Government Work Report, take both the short-term and long-term views, keep the macro control in the right direction, and follow proactive fiscal policy and prudent monetary policy; we also need to integrate innovative macro control with structural reform, conduct targeted control and discretionary control in a more focused and effective way, avert and diffuse risks, ensure a reasonable range of economic performance, meet multiple targets in growth, price level, employment, income and environmental protection, and create conditions for the healthy and stable functioning of all sorts of markets. It is imperative to push forward with deregulation, provide better public services, and allow the market force to play a decisive role. The upgrading of traditional industries can be advanced, while the potential of new industries and business models can also be unleashed, giving impetus to the stable progress of economic performance and structural reform. The ultimate solution to the upgrading of China's economy lies in reform and innovation. As businesses are market entities as well as actors of innovation, we need to continue with the innovation-driven strategy and help them seize the opportunities brought by initiatives such as "Made in China 2025", "Internet +" Action, "the Belt and Road" and International Production Capacity Cooperation. Businesses should also

embrace market, better meet customers' needs and enhance their core competitiveness and branding. Mass entrepreneurship and individual innovation will be championed, and we will support innovative enterprises, particularly the micro and small ones, provide them with all types of resources for innovation, and allow them to access more tailored financial products and services. We believe, with the wings of innovation, Chinese enterprise will surely soar to a new height.

## **2. Lou Jiwei: the New Development Bank should focus on innovation and become a new type of multilateral development institution in the 21<sup>st</sup> century**

According to a recent speech by Finance Minister Lou Jiwei, as a new type of development partner, the New Development Bank should draw lessons and experience from existing multilateral development banks to avoid past mistakes, reduce costs and enhance efficiency through innovation, and better cater to the dynamic needs of clients in different stages of development and the changing world economic landscape. To be more specific, the Bank should: first, make innovation to the concept of development. The Bank should seek common ground while shelving differences, adhere to the principles of openness, tolerance and mutual benefit, support countries in exploring development approaches suitable to their own national conditions, and promote diversity in development philosophies and learn from past experience and lessons. Second, explore innovative service models. The Bank should actively provide tailor-made products and services

for developing countries, to achieve leapfrog economic development and common prosperity by providing necessary financial support and know-how. Third, make innovation in organizational structure. The Bank should design a streamlined and a flat organizational structure, ensure flexible and efficient business operation processes, and continuously improve decision-making and operational efficiency. Fourth, make innovation in financial instruments. The Bank should constantly expand and diversify investment and financing channels, lower financing costs, and actively and steadily promote wider use of PPP model. Fifth, explore innovative international practices. Development is a dynamic process, and there is no so-called “best practices”. The Bank should learn from existing multilateral development institutions, strive to make innovation based on past good practices, and pursue better international practices.

### **3. Liu Kun: striving to achieve new progress in public finance management and economic development**

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On July 22, Vice Finance Minister Liu Kun delivered a speech on the National Finance and Economy Working Conference, in which he stated that the domestic and external environment of China’s economy are undergoing profound changes under the current circumstances, while the fiscal and economic work are also facing brand new landscape as the economy enters the stage of “new normal”. The constant deepening of fiscal and taxation system reform proposed new requirement to the economic growth. At the same time, the adjustment of internal department

structures of MOF and their relevant duties brought new tasks. The following four principles should be followed. Firstly, focusing on the present tasks with a long-term perspective. The economic development tasks should be deeply engaged in the top-level design of related policies to reflect the requirement of fiscal work. In particular, the formulation of 13<sup>th</sup> Five-Year Plan shall be taken as an opportunity to enhance the analysis and understanding on the trend and critical issues of the areas such as investment and consumption, industrial development, energy revolution, transportation infrastructure, food security and eco-environment protection. Secondly, fund guarantee shall be used for the establishment of mechanisms. The fiscal fund shall be invested in a gradual way to make ends meet and mainly address the issues of mechanism fragmentation in relevant areas, in other words, the fund should be used for the establishment of mechanisms. Thirdly, liquidizing stock fund and making good use of new fund. The stock fund and the new fund for economic development should be given comprehensive consideration to release the efficient role of proactive fiscal policy and support major tasks. The stock special fund of local governments accumulated for many years should be thoroughly investigated and checked to propose solutions by categories. Fourthly, innovating policies and enhancing management. While promoting policy innovation, the management should be further enhanced. The policy formulation should be open, transparent and solicit opinions from the public to enhance the government credibility. The systems and measures should be improved to ensure the fund allocation is standard, transparent and efficient to restrain discretionary power. The performance evaluation and risk prevention systems should be built to

advance tracing and evaluation. Vice Finance Minister Liu emphasized that six aspects of work should be promoted in the next step: implementing proactive fiscal policy and stabilizing investment and expanding consumption; supporting industrial upgrade and SMEs development; earnestly enhancing eco-environmental protection; facilitating the development of comprehensive transportation network; promoting subsidy policy reform for grain and major agricultural products; and enhancing internal control and personnel development.

#### **4. Hu Jinglin: improve the current system and adopt innovative management to boost fiscal spending reform**

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In one of his recent speeches, Vice Finance Minister Hu Jinglin emphasized the need to understand the new requirements on rule of law for fiscal programs. First, based on the rational division of jurisdictions and spending responsibilities between the central and local governments, a financial guarantee mechanism for legislative related tasks with clear defined responsibility, scientific management and efficient operation should be established. Second, serious efforts were still required to fully implement the official car system reform. To comprehensively implement the rule of law, fiscal related work should take the lead and constantly improve the level of fiscal administration based on law. In terms of the budget, the binding authority of the budget should be enhanced. MOF and other related government agencies should take the budget seriously and clarify the notion that “a budget is a law”, so as to resolve the problems

such as ambiguous draft budget proposals in the beginning of the year, too frequent changes to the budget during the year, and over-stocking of fiscal funds at the end of the year. Meanwhile, while facing daunting challenges in implementing key national strategies and policy innovation, there is no doubt that major national policy decisions need financial safeguard, especially high-quality financial advice to the top level. To set up modern budget system, we need to adopt innovative budget management approaches. To deal with spending pressures, it is necessary to find solutions through transforming government functions, adjusting and optimizing the expenditure structure, establishing new financing safeguard mechanisms, and strengthening budget management, in order to enhance expenditure efficiency, and make better use of the in-stock funds.

#### **5. Xu Hongcai: enhancing awareness to advance fiscal and taxation system reform**

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In one of his recent remarks, Assistant Finance Minister Xu Hongcai mentioned that while deepening fiscal and taxation system reform, the staff of the finance departments should enhance awareness in the following four aspects to achieve the progress that can stand up to the test of practice, history and people. Firstly, the awareness of taking overall interests into consideration. The staff of the finance departments should attach great importance to and be good at deliberating issues from the big picture, and considering, managing and serving the overall interests. The finance staff should also be equipped with the ability of observing, analyzing and

handling fiscal and economic issues. Secondly, the awareness of shouldering responsibilities. As China's economy entered the state of "new normal" and thus laying great pressure on the medium and long term finance, the staff of the finance departments should be willing to take responsibilities and unswervingly promote reforms. Thirdly, the awareness of study. Staff in the finance departments should deepen study on the political theory to fortify ideal and belief; on the economy, finance, politics, philosophy, science and technology and history among others to think about public finance out of the box and enhance the capacity of comprehensive

analysis and scientific decision making; on the international fiscal management experience and rules to foster international fiscal and economic vision; and on the focal issues at home and abroad to undertake fiscal tasks in a forward-looking and timely manner. Fourthly, the awareness of rules. Xu emphasized that the establishment of modern fiscal system cannot be isolated from the set up of rules and institutional systems. In this connection, the rules should be firmly borne in mind and adhered to. The finance staff should set the model of obeying rules and procedures to boost the standardization and institutionalization of fiscal work.